



### Board of Directors

- ❖ Sunil Agrawal - Chairman
- ❖ Suresh Punjabi - Director
- ❖ Rahimullah - Managing Director
- ❖ Nirmal Kumar Bardiya - Director
- ❖ Anandi Lal Roongta - Director
- ❖ Mitha Lal Mehta - Director
- ❖ Surendra Singh Bhandari - Director
- ❖ Pulak Chandan Prasad - Director
- ❖ Sanjeev Agrawal - Director
- ❖ Ikramullah - Director

### Company Secretary

- ❖ Mukesh Khetan

### Statutory Auditors

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

### Registrar & Share Transfer Agents

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

### Bankers

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

### Registered Office

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

### Corporate Office

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

## **Our Vision**

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

## **Our Mission**

Mission B14X

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.

I will keep my word.

I will be respectful to all.

I will always help my team.

I will keep an open mind and improve everyday.

## **CONTENTS**

1. Chairman's Message	3
2. Board's Profile	4-5
3. Director's Report	6-10
4. Management Discussion & Analysis	11-15
5. Corporate Governance Report & Other Declaration	16-26
6. Financial Statements - Standalone	27-52
7. Financial Statements - Consolidated	63-69

## CHAIRMAN'S MESSAGE

Dear Shareholders,

Our Father of Nation, Mahatma Gandhi said, "a small body of determined spirits fired by an unquenchable faith in their mission can alter the course of history".

Very true! Yet another eventful year for the Company, with newer areas explored. Although, financially, this year was tough for us, but still we grew stronger, and it gave us newer dimensions to look at things.

The global economy experienced several critical challenges in terms of large and continuing global imbalances on account of rising oil prices, rising gold prices, severe credit squeeze, heightened global economic and political issues etc. This has led the company to be more focused on its core areas. Your Company rationalized the operations at various locations including US and Bangkok. Our TV Channels and Online Operations in UK and Germany are performing well and are expected to do better this year. Our 19 stores at various locations of US, Mexico, and Caribbean Islands are also doing well.

The coming year will be challenging. We will be focused, committed to our mission and on our feet to achieve our goal. Difficult times also provide opportunities for those who can grab them. We will continue in our pursuit of delivering value to our customers through innovation and distinct business models

What the human mind can conceive and believe, it can definitely achieve. The secret of success of an enterprise is steadfast constancy of purpose. The challenge before Vaibhav is to capture economies with scale and scope, by judiciously identifying them. We cannot afford to manage from the present to the future. We will have to manage the present from the future - a sort of working back from the desired end-states. Our success will be based on our ability to balance between the need for continuous

improvement in all ongoing operations and the need for gainful growth. We have to ensure that Vaibhav remains an agile yet robust firm even during fragile times.

The coming year would be the year of consolidation. The Company is planning to consolidate operations across the group. The Company will be focused on its core competencies. TV Market has emerged as one such kind of competency with being end-to-end vertically integrated and bringing in value and scope for the customers and company's rapid growth.

Vaibhav has always and will always create value for its stakeholders. It has always strived to build committed relations with all its stakeholders.

We are relentless in our pursuit of delivering highest quality product to our customers. This has helped us in improving relations with our existing customers and has also helped us to start new relationships. Our approach of taking the responsibility to create value for our customers through various service offerings has helped us create partnerships that have long term potential.

I would like to thank our shareholders, bankers and all other stakeholders for reposing their confidence in us. We would solicit their support and best wishes to steer the Company ahead, in the years to come.

I would also like to thank my co-workers who are the company's most valuable assets and believe that it is their dedication and commitment that will help us achieve our vision.

Regards,

**Sunil Agrawal,**  
Chairman

## BOARD PROFILES



**Mr. SUNIL AGRAWAL**, Chairman

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



**Mr. SURESH PUNJABI**, Director

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



**Mr. RAHIMULLAH**, Managing Director

Beginning his career in his emerald trading and export business, he has gained considerable experience and knowledge in this field, and has travelled extensively in Africa, Europe and the Far East to source rough stones. He brings with him 34 years of industry experience. His dedication, vision and acumen have been responsible for the company's impressive growth.



**Mr. NIRMAL KUMAR BARDIYA**, Director

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



**Mr. ANANDI LAL ROONGTA**, Director

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



**Mr. M.L. MEHTA**, Director

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



**Mr. SURENDRA SINGH BHANDARI**, Director

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



**Mr. PULAK CHANDAN PRASAD**, Director

He is the Managing Director and Founder of Nalanda India Fund Limited, Mauritius. He has had eight and a half years of investing experience in India with Warburg Pincus, a leading global private equity firm, where he was Managing Director and Co-Head of India. Before Warburg Pincus, he spent six years at McKinsey in India, South Africa and the US. He joined McKinsey in 1992 after passing out from IIM, Ahmedabad. He also has an engineering degree from IIT, Delhi.



**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.

## DIRECTOR'S REPORT

### Dear Shareholders

Your directors present the 19<sup>th</sup> Annual Report on the Company's operations and performance together with the audited financial statements for the year ended 31<sup>st</sup> March 2008.

### FINANCIAL HIGHLIGHTS:

(Rupees in Lacs)

Particulars	Standalone	
	2007-08	2006-07
Sales and Other Income	31,398.47	28,269.59
Less : Cost of Sales	28,904.68	25,144.59
Operating Profit/PBDIT	2,493.79	3,125.00
Less : Interest	827.77	368.63
Less : Depreciation & Amortization	175.96	186.53
Profit Before Taxes	1,490.06	2,569.84
Less : Provision for Taxes (Including FBT)	11.78	140.82
Deferred Tax charged	(26.09)	0.45
Net Profit after Tax but before Extra-ordinary Items	1,504.37	2,428.57
Less : Extra- ordinary Items – (Diminution in the value of Investments)	19,911.17	–
Profit after Tax and Extra-ordinary Items	(18,406.80)	2,428.57
Add: Balance brought forward from the previous year	9,257.21	7,011.47
<b>Total Profits available for Appropriations</b>	<b>(9,149.59)</b>	<b>9,440.04</b>
Appropriations :		
Dividend on Preference Share Capital	–	18.33
Proposed Dividend on Equity Shares	–	137.94
Tax on Dividend	–	26.56
General Reserve	–	–
<b>Total</b>	<b>–</b>	<b>182.83</b>
<b>Balance to be carried forward</b>	<b>(9,149.59)</b>	<b>9257.21</b>

### DIVIDEND:

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

### SUBSIDIARIES:

Your Company has 8 subsidiaries and 10 step down subsidiaries, which are spread across the world covering 5 continents & 14 countries. These subsidiaries are engaged in manufacturing as well as marketing of colored gemstones, diamonds, studded and plain gold, platinum and silver Jewellery. During the year, your Company has closed STS Jewel Gem China Limited, China and 2 Umbrellas. Com Inc., USA, due to minimal operations in these companies.

### RETAIL OUTLETS:

In furtherance of our objective and in order to cater the demand of high-end customers at major holiday destinations of the world like Mexico, Alaska, Caribbean Island, your Company is operating 19 Retail Stores at these destinations. This retail drive has helped your Company to enhance its brand value and come closer to the customers. The Company's retail stores are widely recommended by the cruise liners, as one of the best place to shop high-end jewelry. During the year, the sales through these Retail Stores have grown by 39% over the last year.

### ON-LINE TV CHANNEL:

Your Company's Jewellery TV Shopping Channels in UK and Germany have performed satisfactorily. Your Company has presence in 17 million households in UK. Your Company has enhanced its presence in Germany by adding 4.2 million households, taking the total reach of this Channel to 12 million households. Looking into the size of the market and growing market share of this segment, your Company has started its 24 hour TV Shopping Channel in USA in April, 07 through its wholly owned subsidiary-The Jewelry Channel Inc., USA (TJC, USA). TJC, USA has, as on date, presence in 28 million households.

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

United Kingdom: [www.tjc.co.uk](http://www.tjc.co.uk),

Germany: [www.derschmuckkanal.de](http://www.derschmuckkanal.de),

United States of America: [www.tjc.tv](http://www.tjc.tv)

### MANUFACTURING OPERATIONS:

During the year, your Company has consolidated its manufacturing capacity by scaling down its existing manufacturing operation at Bangkok. Now, your Company operates a compact manufacturing facility at Bangkok, which is cost efficient and market driven. Your Company has started focusing more on the manufacturing/outsourcing in India and China, to support its increased marketing activities.

### **INCREASE IN SHARE CAPITAL: Issue of GDR/Convertible Warrants**

During the year, on 12<sup>th</sup> October 2007, your Company has issued fresh equity aggregating to Rs 9454.38 lacs through the issue of 4,11,060 Global Depositories Receipt (GDR) on private placement basis to Nalanda India Fund Limited (NIFL), Mauritius. The GDRs were issued at a price of Rs. 2300 per GDR, each GDR convertible into 10 equity shares of Rs 10 each at a premium of Rs 220 per share. These GDRs aggregate about 12.97% of the post issue share capital of the company.

On the same date, your Company had also issued 3,53,320 Convertible Warrants (convertible into equity shares) at a price of Rs 2300 per warrant aggregating, Rs 8126.36 lacs, equally to one of the Promoter Company and NIFL. 10% of the said amount has been received upfront. Each warrant is convertible into 10 equity shares of Rs 10 each at a premium of Rs 220 per share, within a period of 18 months from the date of allotment, on payment of the balance amount.

### **EMPLOYEE STOCK OPTION PLAN 2006:**

During the year, the compensation committee in their meeting held on 27th July 2007, granted 12,000 stock options to its employees under the Employees Stock Option Scheme 2006 (VGL ESOP 2006). The details of the options granted are set out in Annexure I to the Directors' Report.

### **AWARDS AND RECOGNITION:**

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

### **DIRECTORS:**

During the year, on 12<sup>th</sup> October 2007, your Company has appointed Mr. Pulak Chandan Prasad as an additional director to remain as a Director up to the date of the ensuing Annual General Meeting. Mr. Pulak Prasad is the Managing Director and Founder of Nalanda India Fund Limited, Mauritius. He has had eight and a half years of investing experience in India with Warburg Pincus, a leading global private equity firm, where he was Managing Director and Co-Head of India. Before Warburg Pincus, he spent six years at McKinsey in India, South Africa and the US. He joined McKinsey in 1992, after passing out from IIM, Ahmedabad. He also has an engineering degree from IIT, Delhi.

As per Article 61 of Articles of Association of the Company, Shri Nirmal Kumar Baradiya, and Shri Sanjeev Agrawal, retires 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 31<sup>st</sup> March 2009 on remuneration to be decided by the Board of Directors of your Company.

### **CONSOLIDATED FINANCIAL STATEMENTS:**

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

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

As per section 212 of the Companies Act, 1956, your Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries with its annual financial statements. Since the audited consolidated financial statements are presented in the Annual Report, your Company had made an application to the Central Government seeking exemption from attaching the Reports and Accounts of its subsidiary companies with the Balance Sheet. The approval for the same has been received. Further, we believe that the consolidated accounts present a full and fair picture of the state of affairs of the Company as a whole and are accepted globally. Accordingly, the Annual Report does not include the financial statements of the subsidiaries. However, as per the terms of the exemption by the Central Government, a statement containing brief financial details of the Company's subsidiaries for the year ended 31<sup>st</sup> March 2008 is included in the Annual Report. Moreover, the accounts of the subsidiary companies will be made available for inspection to any member of the company at its registered office on any working day during business hours.



### **OUTLOOK:**

During 2007-2008, the Indian economy is expected to register a GDP growth of 8.7%\*, helped by strong growth in its manufacturing and service sectors. The Indian Gems & Jewellery industry had also witnessed a growth of 22.27%\*\* in the total exports from India during the financial year 2007-08.

The Indian government has also provided an impetus to the booming Gems & Jewellery industry with favorable foreign trade policy for this sector. During the year, Government took following policy initiatives\*\*:

- Lowered the import duty on platinum from US\$ 13.82 per 10 gms to US\$ 5.03.
- The import duty on cut and polished gemstones and rough synthetic stones has been completely scrapped\*\*\*.
- The import of consumables for metals other than gold and platinum has also been made duty-free up to 2% of FOB value of exports.
- For rejected jewellery, a duty free import entitlement of up to 2% of FOB value of exports is allowed.
- Increased duty-free import of commercial samples of jewellery is allowed up to Rs 3, 00,000.
- Import of gold of 18 carat and above have been allowed under the replenishment scheme.
- Import duty on some categories of gems and jewellery has also been reduced in the 2008-09 budgets. These include duty on Rough Cubic Zirconia from 10% to 5% and on Rough Corals from 10% to 5%.

\* Source: <http://www.rbi.org.in>

\*\* Source: <http://www.indiainbusiness.nic.in/>

\*\*\*Source: Custom Notification No. 56/2008

The continued encouragement provided by the Government of India to the domestic gems and jewelry industry is expected to drive performance in the future also.

### **INTERNAL CONTROL AND AUDIT:**

Your Company has an 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 audit team independently reviews the internal and financial controls, business processes and the financial transactions and a report is placed to the Audit Committee and appropriate corrective action is being taken. The internal control procedures are well documented and are applied across the entire operations of your Company.

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

### **HUMAN RESOURCE DEVELOPMENT:**

Your Company takes pride in its highly motivated and trained human resource, which has contributed its best for the Company to achieve newer heights. The total Manpower of the company as on 31<sup>st</sup> March 2008 was **1320**.

Training and Development are being given paramount importance and during the year 2007-08, a total of **557** employees were imparted In-House Training and **34** employees were deputed for Outside Training Programmes.

### **SOCIAL RESPONSIBILITY:**

Like as always, this year also, your Company, being very well aware of its social responsibility has strived to discharge some of its concern towards the society. During the year, your Company has organized a voluntary **Blood Donation Camp** in the presence of Doctors and Medical practitioners on 20<sup>th</sup> March 2008 at its registered office for the participation of all its employees and workers. A total of **145** employees participated in the camp.

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

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

#### **A. Conservation of Energy**

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

#### **B. Technological Absorption**

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

#### **C. Foreign Exchange Earnings and Outgo**

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



	Rs. in Lacs	
	2007-08	2006-07
Earnings	28,427.02	26,419.84
Outgo	16,233.80	12,502.25

**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 31<sup>st</sup>, 2008; 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:**

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

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

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

For and on behalf of the Board of Directors

Place : Jaipur  
Date : 30<sup>th</sup> June 2008

**Sunil Agrawal**  
Chairman

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

Para Ref in SEBI Guidelines	Item of Disclosure	Remarks																				
12.1(a)	Options Granted	Total 3,20,800, including 12,000 options reissued during the year, out of the lapsed option, on 27 <sup>th</sup> July 2007 at an exercise price of Rs. 202 each.																				
12.1(b)	The pricing formula	Based on the SEBI pricing formula for preferential allotment, the price for the options granted during the year on 27 <sup>th</sup> July 2007 was arrived at Rs. 222.22 and the market price on NSE was Rs 190.25, as on 26 <sup>th</sup> July, 2007, a day before the grant date of Options. However, the Compensation Committee, in their meeting held on 27 <sup>th</sup> July 2007, decided the option price to be Rs 202 each, based on the powers conferred upon the board by the shareholders in their EGM held on 30 <sup>th</sup> November 2006 to determine the Options price.																				
12.1(c)	Options Vested	49,233																				
12.1(d)	Options exercised	NIL																				
12.1(e)	Total number of shares arising as a result of exercise of option	Not Applicable																				
12.1(f)	Options lapsed (reissuable)	62,635																				
12.1(g)	Variation of terms of options	NIL.																				
12.1(h)	Money realized by exercise of options	Not Applicable																				
12.1(i)	Total number of options in force	2,58,165																				
12.1(j)	Employee wise details of options granted:	Senior Management Personnel																				
	(i) Senior Managerial 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>3,852</td> </tr> <tr> <td>6. Mr. Ruhail Sumbli</td> <td>13,481</td> </tr> <tr> <td>7. Mr. Sri Burugapalli</td> <td>12,000</td> </tr> <tr> <td>8. Mr. Neeraj Jain</td> <td>9,993</td> </tr> <tr> <td>9. 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	3,852	6. Mr. Ruhail Sumbli	13,481	7. Mr. Sri Burugapalli	12,000	8. Mr. Neeraj Jain	9,993	9. Mr. Olaf Kliem	6,744
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	3,852																					
6. Mr. Ruhail Sumbli	13,481																					
7. Mr. Sri Burugapalli	12,000																					
8. Mr. Neeraj Jain	9,993																					
9. Mr. Olaf Kliem	6,744																					
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil																				
	(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil																				
12.1(k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'	As disclosed in the Financial Statements of the Company																				

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY STRUCTURE AND DEVELOPMENTS

Gems and Jewellery sector is an important emerging sector in the Indian economy. Ranked among the fastest growing sectors, it is also a leading sector for foreign exchange generation.

It is considered to be one of the most creative and artistic industry. India has been significantly recognized for its novelty in the field of cutting of gemstones and crafting of beautiful and fine jewellery.

The biggest advantage that Indian Jewellery has, is its low cost of manufacturing. Alongwith this, the liberalized trade policies and lower tariffs have led India to shift its focus from domestic economy to global markets. These measures have exquisitely improved India's export market over the past 15 years, particularly for diamonds and jewellery.

Exports of the commodity group 'Gems and Jewellery' include:

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

### INDIAN GEMS & JEWELLERY SECTOR: OVERVIEW

The buoyancy in the economy, growing consumer aspiration in the urban India and a flurry of new products has provided a strong foundation for the growth of Indian Gems and Jewellery industry in recent past. Some of the main highlights for the previous financial year 2007-08 are as follows:

- The net exports of gems and jewellery stood at US\$ 20322.57 million (provisional) for the financial year April 2007-March 2008. The Gems & Jewellery Sector witnessed a growth of 22.27 per cent during the financial year 2007-08 as compared to the last year.
- In Gems & Jewellery, the colored gemstones segment accounts for exports worth US\$ 276.42 million (provisional) for the financial year April 2007-March 2008. This segment grew by 12.5% as compared to financial year i.e 2006-2007.
- The export of Gold Jewellery rosed by 8.07% with total exports amounting to USD 5622.41 million for the financial year 2007-08.
- Gems & Jewellery exports from India itself accounts for nearly 13.41% of the total Indian exports.

Sources: <http://www.gjpec.org/>

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

### COMPANY OVERVIEW:

Vaibhav Gems Limited is a professionally managed, end-to-end vertically integrated gems and jewellery business organization. It is one of the eight world-wide 'sight' holders in Tanzanite and is the leader in processing other popular gemstones such as Fire Opal, Apatite and Emerald. Procuring directly from the sources, it has close relationship with gemstone mine owners in Tanzania, Thailand, Mexico, China, South Africa, Madagascar, Brazil and Zambia to name a few. To capatalize on the opportunities present in the electronic retail segment, Vaibhav Gems has strategically forayed into television marketing channels in UK, Germany and USA. The Company operates 19 jewellery retail departmental stores at holiday destinations, like Alaska, Mexico and Carribean.

### STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT ANALYSIS)

#### Strengths

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

#### Weaknesses

- Concentration on USA and European market.
- Exposure to foreign exchange and raw material price fluctuations.
- Dependency on the international market for raw material.

#### Opportunities

- Worldwide market of USD 210 billion.
- Improve direct sale to end customers either through own stores or through organised channels like departmental stores and TV channels.
- High potential Retail Jewellery marketing model.
- Strengthened manufacturing base and the existence of product development and marketing teams.

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

#### **Threats**

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

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

#### **DESIGNING & TECHNOLOGY**

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

#### **QUALITY & STANDARDS**

In our business, where the ultimate product is having a very large value, it is very essential to preserve the genuineness and originality of the product at each stage of development. For this, the Company has constantly upgraded its manufacturing process and has taken a series of initiatives to improve the quality of its products. The whole production process of the Company is under a strict quality control procedure to ensure

standardized product manufacturing and designing. The global acceptance of the company's products itself illuminate the subsistence of international quality standards. During the year, the Company is bestowed with the prestigious ISO 9000: 2001 certification which is a hallmark as well as representative of the quality product manufacturing by the company.

#### **FINANCIAL REVIEW**

##### **Financial Performance**

The Company's consolidated turnover for the year 2007-08 has increased by 46.54 % from Rs 519.15 crores in 2006-07 to Rs. 760.78 crores in 2007-08. The consolidated net losses after tax and extra-ordinary item stood at Rs. 255.68 crores for the year ending 31<sup>st</sup> March 2008.

The Company's standalone turnover for the financial year 2007-08 increased by 11.43% per cent from Rs. 278.17 crores in 2006-07 to Rs. 309.96 crores. The profits before depreciation, interests and taxes (PBDIT) for the year reduced by 20.20% as compared to the previous year. The net profit after taxes (PAT) before extra-ordinary items for the year 2007-08 stood at Rs. 15.04 crores, showing a decline of 38.06% as compared to the previous year. However, the standalone net losses after taxes and extraordinary items of the company stood at Rs. 184.07 crores as on 31 March 2008. In view of the losses incurred by the subsidiaries, the Company has accounted for diminution in the value of some of its investments in subsidiaries to the extent of Rs 199.11 Crore.

##### **Share Capital**

The Company's share capital consists of both equity shares as well as preference shares. The paid up equity share capital of the Company stood at Rs. 316,984,730 divided into 31,698,473 equity shares of Rs. 10 each. The preference share capital of the Company is Rs. 440,000,000 divided into 4,400,000 1% Non-Convertible Redeemable Cumulative Preference Shares of Rs. 100 each.

During the year 2007-08, the Company has issued 411,060 Global Depository Receipts (GDR's) underlying 4,110,600 equity shares of Rs. 10 each at a premium of 220 per share aggregating 9,458.38 lacs, on private placement basis to Nalanda India Fund Limited (NIFL). These GDRs aggregate about 12.97% of the post issue share capital of the Company.

During the year, the Company had also issued 353,320 Convertible Warrants (convertible into equity shares) at Rs. 2,300 per warrant aggregating, Rs. 8,126.36 Lacs, equally, to one of the promoter company and NIFL. 10% of the said amount has been received upfront. Each warrant is convertible

into 10 equity shares of Rs 10 each at a premium of Rs 220 per share, within a period of 18 months from the date of allotment on payment of the balance amount.

#### **HUMAN RESOURCE: THE BIGGEST COMPETITIVE EDGE**

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

The Company emerged as one of the most favoured workplaces in the gems and jewellery industry, employing manpower of 1320.

The Company's recruitment policy is planned well in advance to fulfill the corporate requirement of well-rounded experienced industry professionals and management professionals. The Company's product design and development team are recruited from premier national design institutes while the management staffs are recruited after a benchmarked recruitment process from best business schools. Thereafter, these candidates are put through holistic induction and on-the-job-training programmes to prepare them for taking the challenging assignments and ensuring growth.

The Company's performance management system, along with the compensation structure, suitably reward the deserving and identifies areas of improvement, continuously aligning individual aspirations with the organization's growth agenda.

#### **INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

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

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

Extensive internal audits, regular reviews by management, and well-documented policies and guidelines supplement the system to ensure reliability of financial and all other records in order to prepare accurate financial statements and other data. Internal audit panel findings are deliberated over at the meeting of the management and suitable action is taken to address shortcomings and incorporate suggestions.

#### **MANAGEMENT OUTLOOK**

During the current financial year, the Company had financial losses which were expected to a certain extent due to venturing into high fixed cost newer ventures. However, the rising gold prices, depreciation of rupee, global economic slowdown etc. also had their respective impact on the profitability of the Company. The coming year would be the year of consolidation. The Company is planning to consolidate its existing ventures and rationalize all kind of operations across the group. The Company will focus on its core competencies and expect a turnaround in near future.

## RISK MANAGEMENT

### RISK REVIEW

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

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 was derived from USA, an excessive dependence on a single market.

##### Risk mitigation

USA is the largest jewellery consumer in the world, home to the largest fashion-conscious customers. The company has been present in the US markets for the 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. Vaibhav has also established retail outlets in the high-end 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, among others; where jewellery is complementary to clothing.

- ❑ Offers designs and products at different price points to maximize the off take during the non-peak season as well.
- ❑ 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 jeopardize cash flow.

##### Risk mitigation

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



**6. RAW MATERIALS RISK**

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

Coloured gemstones: Gemstones pricing and availability.

**Risk mitigation**

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

**7. PRODUCT OBSOLESCENCE RISK**

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

**Risk mitigation**

- Vaibhav Gems possesses five design centres across the world to accelerate the rollout of approximately 10,000 new designs every year.
- Employs 130 product development team members, 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 to counter competition. We have successfully achieved this by:

- making the company one of the best end-to-ends vertically integrated player
- expanding our reach to newer countries
- going directly to the end customer through 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.

## CORPORATE GOVERNMENT REPORT

### 1. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

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

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

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

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

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

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

The company has been striving for excellence through adoption of best governance and disclosure practices over the last few years. The company has been making proper disclosures on the Board composition and functioning, management thoughts on business performance and outlook as well as the significant risks and protective measures taken by the company. The company also complies with all the mandatory as well as non-mandatory requirements relating to disclosure with respect to Corporate Governance as stipulated under clause 49 of the listing agreements with stock exchanges.

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

### 2. BOARD OF DIRECTORS

#### Composition

The composition of the Board of Directors of the Company represents an appropriate mix of executive and non-executive directors to ensure the independence of the board, and to separate the board functions of governance and management.

#### Number of Board Meetings held and the dates on which held

During the Financial Year ended on 31<sup>st</sup> March 2008 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 30<sup>th</sup> June 2007, 27<sup>th</sup> July 2007, 30<sup>th</sup> August 2007, 27<sup>th</sup> September 2007, 12<sup>th</sup> October 2007, 31<sup>st</sup> October 2007, and 31<sup>st</sup> January 2008.

**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	7	Yes	2	1	Nil
Mr. Ikramullah	Non Independent Non-Executive Director	Nil	No	1	1	Nil
Mr. Sanjeev Agrawal	Non-Independent Non-Executive Director	Nil	No	3	2	Nil
Mr. Anandi Lal Roongta	Independent Non-Executive Director	6	Yes	2	2	1
Mr. M.L. Mehta	Independent Non-Executive Director	6	Yes	Nil	1	Nil
Mr. S. S. Bhandari	Independent Non-Executive Director	7	Yes	3	4	2
Mr. Nirmal Kumar Bardiya	Independent Non-Executive Director	5	No	8	1	Nil
Mr. Pulak Prasad*	Non Independent Non-Executive Director	1	No	3	Nil	Nil

• \*Appointed as an additional director of the Company w.e.f. 12<sup>th</sup> October 2007

• \*\*Committees include Audit Committees and Shareholder's/Investors Grievance Committees.

**3. COMMITTEES OF THE BOARD****AUDIT COMMITTEE****Terms of Reference**

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

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

control systems and reviewing the Company's financial and risk management policies.

- Reviewing the reports furnished by the internal auditors and statutory auditors and ensures suitable follow up thereon.

**Composition, Meetings & Attendance**

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

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. S. S. Bhandari	Chairman	6
Mr. Anandi Lal Roongta	Member	6
Mr. M.L. Mehta	Member	5
Mr. Nirmal Kumar Bardiya	Member	5
Mr. Sanjeev Agrawal	Member	Nil

The committee held its meetings on 30<sup>th</sup> June 2007, 27<sup>th</sup> July 2007, 22<sup>nd</sup> October 2007, 31<sup>st</sup> October 2007, 25<sup>th</sup> January 2008, and 31<sup>st</sup> January 2008.

## REMUNERATION AND COMPENSATION COMMITTEE

### Terms of Reference

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

### Composition, Meetings & Attendance

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

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

During the year, the committee held only one meeting as on 27<sup>th</sup> July 2007.

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 30<sup>th</sup> June 2007.

## Remuneration of Directors during 2007-2008

Name of Director	Sitting Fees	Remuneration	Total	Terms	Shares held as on 31.3.08
Sunil Agrawal	Nil	NA	Nil	Not liable to retire by rotation	28,140
Anandi Lal Roongta	1,05,000	NA	1,05,000	Retirement by rotation	1,787
M.L. Mehta	1,00,000	NA	1,00,000	Retirement by rotation	Nil
N.K. Bardiya	85,000	NA	1,00,000	Retirement by rotation	Nil
Sanjeev Agrawal	Nil	NA	Nil	Retirement by rotation	8,320
S. S. Bhandari	1,10,000	NA	1,10,000	Retirement by rotation	Nil
Suresh Punjabi	Nil	NA	Nil	Retirement by rotation	20,900
Rahimullah	NA	69,83,333	69,83,333	Contractual	54,600
Ikramullah	Nil	NA	Nil	Retirement by rotation	62,800

**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	-	-	-	-
Non receipt of Annual Report	-	-	-	-
Non receipt of securities relating to transfer of shares	-	1	1	-
Correspondence/Query relating to NSDL operations	-	-	-	-
Correction of name on securities	-	-	-	-
Other Requests General Query	-	5	5	-
<b>TOTAL</b>	<b>-</b>	<b>6</b>	<b>6</b>	<b>-</b>

**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
2004-05	20 <sup>th</sup> September 2005	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2005-06	30 <sup>th</sup> September 2006	04:00 P.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2006-07	27 <sup>th</sup> September 2007	10:00 A.M.	E-68, EPIP, Sitapura, Jaipur-302022

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

Year	Date	Time	Venue
2006-07	27 <sup>th</sup> September 2007	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) 30th September, 2005	No special resolution was passed in the AGM held on 30th September 2005.
B) 30th September, 2006	<ol style="list-style-type: none"> <li>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.</li> <li>To consider issue of 44,00,000 1% Non-Convertible Redeemable Cumulative Preference Shares on Preferential basis.</li> <li>To revise remuneration of Shri Rahimullah, Managing Director.</li> <li>To confirm appointment of Mr. Rizwanullah, Son of Managing Director holding office or place of profit in the wholly owned subsidiary of Company.</li> <li>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.</li> <li>To consider Employee Stock Option Scheme.</li> </ol>
C) 27th September, 2007	No special resolution was passed in the AGM held on 27 <sup>th</sup> September 2007.

#### **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 its meeting held on 27th October 2005, has adopted the Code of Conduct for Directors and Senior Management Personnel. A copy of the Code has been put on the Company's website : [www.vaibhavgems.com](http://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 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](http://www.vaibhavgems.com)

#### **12. MEANS OF COMMUNICATION**

- (a) All financial results are immediately sent to stock exchanges after being taken on record by the Board.
- (b) Results are also sent to the shareholders and published in leading local & National newspapers such as Rajasthan Patrika, Dainik Bhaskar, Business Standard and/or Economic Times. The said results are also displayed at company's web site at [www.vaibhavgems.com](http://www.vaibhavgems.com) and uploaded at [sebi.edifar.nic.in](http://sebi.edifar.nic.in). as stipulated in Clause 51 of the listing agreement.
- (c) Press releases are published at leading newspapers and displayed at [www.vaibhavgems.com](http://www.vaibhavgems.com).



## GENERAL INFORMATION TO SHAREHOLDERS AND INVESTORS

### a) Annual General Meeting:

Date and time : 30th September 2008

Venue : K-6B, Fateh Tiba, Adarsh Nagar, Jaipur

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

Financial reporting for the quarter

Ending 30<sup>th</sup> June, 2008 - End of July, 2008

Ending 30<sup>th</sup> September, 2008 - End of October, 2008

Ending 31<sup>st</sup> December, 2008 - End of January, 2008

Ending 31<sup>st</sup> March, 2009 - End of April, 2009

### c) Book Close Date : 23<sup>rd</sup> to 27<sup>th</sup> September, 2008

### d) Dividend Payment Date : NA

### e) Stock Exchanges where listed and Stock code:

#### Listing of Equity Shares on Stock Exchanges at:

#### Mumbai Stock Exchange Limited (BSE)

Phiroze Jee Jee Bhoj Towers, Dalal Street,  
Mumbai- 400001

**Stock Code :** 532156

#### National Stock Exchange of India Limited (NSE)

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

**Stock Code :** VAIBHAVGEM

**ISIN Code No. :** INE884A01019

#### Listing of Global Depository Receipts at Luxembourg Stock Exchange

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

**Common Code :** 023953692 for both Euroclear and Clearstream

**ISIN Code :** US9187661064

### f) Listing Fees to Stock Exchanges

The company has paid listing fees in respect of financial year 2008-2009 to the Mumbai Stock Exchange Limited, National Stock Exchange of India Limited & Luxembourg Stock Exchange.

### g) Custodial Fees to Depository

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

### h) Share Price Data

Month	VGL Price at BSE		VGL Price at NSE	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2007	265.50	225.00	274.00	220.05
May 2007	260.10	180.00	239.00	197.00
June 2007	213.00	155.65	212.90	157.00
July 2007	205.00	175.50	204.00	175.00
August 2007	222.35	162.50	220.75	163.00
September 2007	235.00	181.00	244.40	173.40
October 2007	210.00	153.00	210.00	147.00
November 2007	189.00	145.25	204.95	157.15
December 2007	199.00	158.50	199.00	159.05
January 2008	205.00	109.00	203.00	105.05
February 2008	130.00	94.05	129.00	95.75
March 2008	100.25	49.35	101.00	49.40

### i) Registrar & Share Transfer Agent:

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

### j) Secretarial Audit for reconciliation of capital

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

### k) Share Transfer System

All transfers of shares held in physical form are dealt by Karvy Computershare (P) Limited, Hyderabad, our Registrar and Share Transfer Agents. Presently the share transfers received in physical form are processed and registered

within 30 days from the date of receipt subject to the documents being valid and complete in all respects.

Depositories control share transfers in Demat Mode.

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

## l) Shareholding

### i. Distribution of Shareholding as on March 31, 2008

No. of equity Shareholding	Number of Shares	% of Share-holding	No. of Share-holders	% of Share-holders
1 to 1000	6,09,117	1.92	3,971	93.92
1001 to 5000	4,32,913	1.37	196	4.64
5001 to 10000	1,23,641	0.39	17	0.40
10001 and above	3,05,32,802	96.32	44	1.04
<b>Total</b>	<b>3,16,98,473</b>	<b>100.00</b>	<b>4,228</b>	<b>100.00</b>

### ii. Categories of Shareholders as on March 31, 2008

Category	No. of shares	% holding
Indian Promoters	27,75,727	8.76%
Foreign Promoters	15,62,840	4.93%
Banks	Nil	Nil
FIIIs	33,51,681	10.57%
Private Corporate Bodies	9,18,552	2.90%
Indian Public	11,42,914	3.61%
NRIIs	1,54,650	0.49%
Others		
(i) Clearing Members	17,980	0.06%
(ii) Foreign Company - Cortland Invest. Ltd.	89,13,529	28.12%
(iii) Shares underlying GDR*	1,28,60,600	40.57%
<b>Total</b>	<b>3,16,98,473</b>	<b>100.00%</b>

\*see clause no. (o) below.

## m) Dematerialization of shares and liquidity

As directed by SEBI, shares of the company can only be traded in Demat Form. As on March 31, 2008, 99.56% of the total shares of the Company have been dematerialized.

We request shareholders, who still continue to hold shares in physical form, to dematerialize their shares at the earliest and avail of the various benefits of dealing in

securities in electronic/dematerialized form. If you need any further information/clarification/assistance in this regard please do contact Corporate Secretarial Department.

## n) ECS Mandate

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

## o) Outstanding GDRs/ADRs/Warrants or any Convertible instruments

As on 31<sup>st</sup> March 2008, 1,286,060 Global Depository Receipt (GDR) against 12,860,600 Equity Shares @ 10/- each of the company are outstanding. The outstanding GDR are backed up by underlying equity shares, which are part of the existing paid up capital. Further, as on 31<sup>st</sup> March 2008, 353,320 warrants are pending for conversion within 18 months from the date of allotment i.e. 12<sup>th</sup> October 2007. Each warrant is convertible into 10 equity shares of Rs 10 each at premium of Rs 220 per equity share.

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

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

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

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

## r) Plant Locations

The Company plants are located at the following addresses:

- K-6B, Fateh Tiba, Adarsh Nagar Road, Jaipur-302 004
- E-68, EPIP, Sitapura, Jaipur-302 022
- Unit No. 186-A, SDF, VI, SEEPZ, Mumbai

## s) Branch Office

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

## t) Investors Correspondence

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

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

**Phone :** 91-141-2770648, **Fax :** 91-141-2770510

**Email :** mukesh.khetan@vaibhavgems.com

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

**Address :** Karvy Computershare (P) Limited,  
17-24 Vittal Rao Nagar,  
Madhapur, Hyderabad-500 081.

Andhra Pradesh, India

**Phone:** 040-23420815/23420828

**Fax:** 040-23420814/23420857

**Email:** sreedharamurthy@karvy.com;ussingh@karvy.com

**u) Transfer of unclaimed amount to Investor Education and Protection Fund**

The company has credited unclaimed dividend amount of Rs.19, 250/- in February 2008 to Investors Education and Protection Fund pursuant to Section 205C of the Companies Act, 1956 and the Investor Education and Protection Fund (awareness and protection of Investors) Rules, 2001 after giving advance intimation to shareholders.

**v) Other useful information to shareholders**

- Shareholders/Beneficial Owners are requested to quote their Folio No./DP & Client ID Nos., as the case may be, in all correspondence with the RTA/Company.
- Shareholders holding shares in physical form are requested to notify to the RTA/Company, change in their address/Pin Code number and Bank Account details promptly by written request under the signatures of sole/first joint holder. Beneficial Owners of shares in demat form are requested to send their instructions regarding change of name, change of address, bank details, nomination, power of attorney, etc. directly to their DP as the same are maintained by the DPs.
- To prevent fraudulent encashment of dividend instruments, members are requested to provide their Bank Account Details (if not provided earlier) to the Company (if shares are held in physical form) or to DP (if shares are held in D-mat form), as the case may be.

- Non-resident members are requested to immediately notify change in their residential status on return to India for permanent settlement and particulars of their NRE Bank Account with a bank in India, if not furnished earlier.
- In case of loss/misplacement of shares, investors should immediately lodge a FIR/Complaint with the police and inform to RTA/Company along with original or certified copy of FIR/acknowledged copy of the complaint.
- For expeditious transfer of shares, shareholders should fill in complete and correct particulars in the transfer deed.
- Shareholders are requested to keep record of their specimen signature before lodgement of shares with the RTA/Company to obviate possibility of difference in signature at a later date.
- Shareholders(s) of the Company who have multiple accounts in identical name(s) or holding more than one Share Certificates in the same name under different Ledger Folio(s) are requested to apply for consolidation of such Folio(s) and send the relevant Share Certificates to the Company/RTA.
- Section 109A of the Companies Act, 1956 extends nomination facility to individuals holding shares in physical form in companies. Shareholders, in particular those holding shares in single name, may avail of the above facility by furnishing the particulars of their nominations in the prescribed Nomination Form.
- Shareholders are requested to give us their valuable suggestions for improvement of our investor services.
- Shareholders are requested to quote their e-mail Ids, telephone/fax numbers for prompt reply to their communication.

## AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To,  
The Members  
VAIBHAV GEMS LIMITED  
Jaipur

We have examined the compliance of conditions of Corporate Governance by VAIBHAV GEMS LIMITED, for the year ended 31st March 2008, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

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

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

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

For **Haribhakti & Co.**  
Chartered Accountants

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

**Chetan Desai**  
Partner

**Sandeep Mundra**  
Partner

Place : Jaipur  
Date : 30<sup>th</sup> June 2008

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

To,  
The Board of Directors  
Vaibhav Gems Limited  
Jaipur

We hereby certify that for the financial year ending 2007-2008, 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 2007-2008 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

Place: Jaipur  
Date: 30<sup>th</sup> June 2008

## **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, 2008, 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, 2008.

Place: Jaipur  
Date: 30<sup>th</sup> June 2008

**Rahimullah**  
Managing Director



## AUDITORS' REPORT

To  
The Members  
Vaibhav Gems Limited

1. We have audited the attached balance sheet of VAIBHAV GEMS LIMITED (the 'Company') as at March 31, 2008, 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;
  - e. on the basis of written representation received from the directors, as on March 31, 2008, 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, 2008 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, 2008;
    - ii. in case of Profit and Loss Account, of the losses of the Company for the year ended on that date; and
    - iii. in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**For Haribhakti & Co.**  
Chartered Accountants

**Chetan Desai**  
Partner  
Membership No.17000

Place : Jaipur  
Date : 30<sup>th</sup> June 2008

**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. 9952.53 lacs and the year-end balance of loan granted to such subsidiaries was Rs. 9952.53 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.
- d. The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Act.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with size of the Company and the nature of its business, for the purchase of inventories and fixed assets and for the sale of goods and services. We have not observed any continuing failure to correct major weaknesses in internal control.
- (v) a. According to the information and explanations given to us, we are of the opinion that the particulars of contract or arrangement referred in Section 301 of the Act have been entered into the register maintained under section 301 of the Act.
- b. As informed and according to information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and exceeding the value of rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) In our opinion and according to information and explanations given to us, the Company during the year has not accepted any deposits from the public to which the provisions of Section 58A and 58AA or any other relevant provisions of the Act are applicable. No order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal in this regard.

- (vii) In our opinion, the Company has an internal audit system commensurate with the size of the Company and nature of its business.
- (viii) a. The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and any other material statutory dues applicable to it.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid statutory dues were in arrears as at the last day of the financial year for a period of more than six months from the date they became payable.
- c. According to the information and explanations given to us, there are no dues of sales tax, Income tax, Custom duty, excise duty, service tax and cess which have not been deposited on account of any dispute.
- (ix) In our opinion, the accumulated losses of the Company as on March 31, 2008 are not more than fifty percent of its net worth. The Company has not 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) In our opinion and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were raised.
- (xiv) According to the information and explanations given to us and on overall examination of the balance sheet of the Company as at March 31, 2008, 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 warrants to a body corporate covered in the register maintained under Section 301 of the Act. In our opinion the price at which the warrants 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) Clause (xix) and Clause (xx)

For **Haribhakti & Co.**  
Chartered Accountants

**Chetan Desai**  
Partner  
Membership No. 17000  
Place: Jaipur  
Date: 30<sup>th</sup> June 2008

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

**Sandeep Mundra**  
Partner  
Membership No. 75482

**BALANCE SHEET** as at 31<sup>st</sup> March, 2008

Amount in Rupees

Particulars	Schedule	As at	
		31st March, 2008	31st March, 2007
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Share Capital	I	75,69,84,730	71,58,78,730
Share Warrants (Refer Note No. 9)		8,12,63,600	–
Reserves and Surplus	II	5,86,33,13,585	6,00,17,28,113
		<b>6,70,15,61,915</b>	<b>6,71,76,06,843</b>
<b>Loan Funds</b>			
Secured Loans	III	1,68,93,26,151	63,66,10,871
<b>Deferred Tax Liability (Net)</b>		–	29,90,930
<b>Total</b>		<b>8,39,08,88,066</b>	<b>7,35,72,08,644</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	IV	24,30,47,679	23,67,75,167
Less : Depreciation		10,57,58,832	8,83,75,482
		<b>13,72,88,847</b>	<b>14,83,99,685</b>
<b>Investments</b>	V	<b>3,75,98,29,602</b>	<b>5,27,09,46,303</b>
<b>Deferred Tax Asset (Net)</b>		<b>49,49,117</b>	–
<b>Current Assets, Loans and Advances</b>			
Inventories	VI	82,96,32,841	61,35,98,083
Sundry Debtors	VII	1,64,41,21,675	1,11,44,15,266
Cash and Bank Balances	VIII	27,18,82,372	15,32,16,482
Interest Accrued on Bank Deposits		38,15,766	1,01,375
Loans and Advances	IX	1,05,07,77,641	25,70,22,130
		<b>3,80,02,30,295</b>	<b>2,13,83,53,336</b>
<b>Less : Current Liabilities and Provisions</b>			
Current Liabilities	X	12,36,15,506	17,71,07,048
Provisions	XI	2,31,05,668	2,33,83,632
		<b>14,67,21,174</b>	<b>20,04,90,680</b>
<b>Net Current Assets</b>		<b>3,65,35,09,121</b>	<b>1,93,78,62,656</b>
<b>Profit and Loss Account</b>			
Debit Balance in Profit & Loss Account		91,49,58,635	–
Less : General Reserve deducted as per contra		7,96,47,256	–
		<b>83,53,11,379</b>	–
<b>Total</b>		<b>8,39,08,88,066</b>	<b>7,35,72,08,644</b>
Significant Accounting Policies and Notes to Accounts	XX		

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**  
Chartered AccountantsFor **B. KHOSLA & CO.**  
Chartered Accountants**RAHIMULLAH**  
Managing Director**CHETAN DESAI**  
Partner  
Jaipur, 30<sup>th</sup> June, 2008**SANDEEP MUNDRA**  
Partner**MUKESH KHETAN**  
Company Secretary**NIRMAL KUMAR BARDIYA**  
Director

## PROFIT AND LOSS ACCOUNT for the year ended 31<sup>st</sup> March, 2008

Amount in Rupees

Particulars	Schedule	Year ended 31st March 2008	Year ended 31st March 2007
<b>INCOME</b>			
Sales	XII	3,09,95,88,081	2,78,16,95,516
Other Income	XIII	4,02,58,680	4,27,83,789
<b>Total</b>		<b>3,13,98,46,761</b>	<b>2,82,44,79,305</b>
<b>EXPENDITURE</b>			
Material Cost	XIV	2,51,36,11,695	2,12,64,60,605
Manufacturing Expenses	XV	10,50,85,935	14,58,57,602
Employees Costs	XVI	18,80,11,246	15,46,96,469
Administrative & Selling Expenses	XVII	7,45,88,554	7,63,05,029
Financial Expenses	XVIII	9,19,48,028	4,55,22,964
Depreciation	IV	1,75,95,707	1,86,52,540
<b>Total</b>		<b>2,99,08,41,165</b>	<b>2,56,74,95,209</b>
<b>Profit Before Tax</b>		<b>14,90,05,596</b>	<b>25,69,84,096</b>
Less: Provision For Taxation			
– Current Tax		–	1,08,83,000
– Earlier Years Tax		(5,72,186)	18,48,991
– Deferred Tax Charges/(Credits)		(26,09,191)	45,287
– Fringe Benefit Tax		17,50,000	13,50,000
<b>Profit After Tax Before Extra Ordinary Item</b>		<b>15,04,36,973</b>	<b>24,28,56,818</b>
Less: Extra Ordinary Item - Diminution in Value of Investment		1,99,11,16,701	–
<b>Profit After Tax After Extra Ordinary Item</b>		<b>(1,84,06,79,728)</b>	<b>24,28,56,818</b>
Balance Brought Forward		92,57,21,093	70,11,47,400
<b>Profit Available For Appropriation</b>		<b>(91,49,58,635)</b>	<b>94,40,04,218</b>
<b>APPROPRIATION</b>			
Dividend on Preference Share Capital		–	18,33,333
Proposed Dividend		–	1,37,93,937
Tax on Dividend		–	26,55,855
General Reserve		–	–
		–	<b>1,82,83,125</b>
<b>Balance Carried to Balance Sheet</b>		<b>(91,49,58,635)</b>	<b>92,57,21,093</b>
<b>Earnings Per Share of Rs.10 each (Refer Note No.12 )</b>			
<b>Basic</b>			
Before Extra Ordinary Item		4.95	8.73
After Extra Ordinary Item		(62.50)	8.73
<b>Diluted</b>			
Before Extra Ordinary Item		4.95	8.73
After Extra Ordinary Item		(62.50)	8.73
<b>Additional Information</b>	XIX		
<b>Significant Accounting Policies and Notes to Accounts</b>	XX		

As per our attached report of even date

For **HARIBHAKTI & CO.**  
Chartered Accountants

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

**CHETAN DESAI**  
Partner

Jaipur, 30<sup>th</sup> June, 2008

**SANDEEP MUNDRA**  
Partner

**MUKESH KHETAN**  
Company Secretary

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

**NIRMAL KUMAR BARDIYA**  
Director

**CASH FLOW STATEMENT** for the year ended 31st March, 2008

Amount in Rupees

Particulars	Schedule	Year ended 31st March 2008	Year ended 31st March 2007
<b>A. Cash Flow from Operating Activities</b>			
Net Profit before Tax and Extraordinary Items		14,90,05,596	25,69,84,096
Adjustment for :			
Depreciation		1,75,95,707	1,86,52,540
Unrealised Foreign Exchange Difference		(3,95,81,068)	85,61,984
Employee Compensation Expenses		46,46,014	14,81,110
Loss/(Profit) on sale of Fixed Assets		(14,736)	(12,366)
Gratuity Expenses		29,90,260	-
Interest and Dividend Earned		(1,37,89,203)	(4,30,75,547)
Interest paid on borrowings		8,27,76,899	3,68,62,632
<b>Operating Profit before working Capital Changes</b>		<b>20,36,29,469</b>	<b>27,94,54,449</b>
Adjustment for :			
Trade and other Receivables		(51,54,44,926)	(27,08,12,264)
Trade Payables		(5,14,40,226)	4,08,00,684
Stock-in-Trade		(21,60,34,758)	(12,81,70,955)
<b>Cash Generated from Operations</b>		<b>(57,92,90,439)</b>	<b>(7,87,28,086)</b>
Direct Taxes paid - Current Year		1,52,00,000	42,90,000
- Earlier Year		-	18,48,991
<b>Net Cash from Operating Activities</b>		<b>(59,44,90,439)</b>	<b>(8,48,67,077)</b>
<b>B. Cash Flow from Investing Activities</b>			
Purchase of Fixed Assets		(65,85,133)	(1,55,01,292)
Sale of Fixed Assets		1,15,000	59,813
Investment in Subsidiaries		(48,00,00,000)	(1,33,75,94,001)
Loan to Subsidiaries		(78,60,21,000)	(20,92,32,000)
Interest and Dividend received		1,00,74,812	4,74,17,982
<b>Net Cash used in Investing Activities</b>		<b>(1,26,24,16,321)</b>	<b>(1,51,48,49,498)</b>
<b>C. Cash flow from Financing Activities</b>			
Proceeds from/(Repayment of) Long Term Borrowings		59,40,28,792	20,24,43,336
Proceeds from/(Repayment of) Long Term Loan		47,07,40,000	-
Proceeds from Issuance of Share Capital		1,02,67,01,600	-
Share Issue Expenses		(1,48,37,718)	(39,99,860)
Dividend and Tax on Dividend paid		(1,82,83,125)	(4,71,85,609)
Interest Paid on Borrowings		(8,27,76,899)	(3,68,62,632)
<b>Net Cash used in Financing Activities</b>		<b>1,97,55,72,650</b>	<b>11,43,95,235</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>11,86,65,890</b>	<b>(1,48,53,21,340)</b>
Opening Balance of Cash and Cash Equivalents		15,32,16,482	1,63,85,37,822
<b>Closing Balance of Cash and Cash Equivalents</b>		<b>27,18,82,372</b>	<b>15,32,16,482</b>
<b>Cash and Cash Equivalents Comprises</b>			
Cash, cheques and drafts in hand		4,60,820	2,78,267
Balance with scheduled bank in current accounts		2,00,43,245	1,14,17,293
Balance with scheduled bank in deposit accounts		5,08,62,355	14,15,20,922
Balance with other Banks		20,05,15,952	-
		<b>27,18,82,372</b>	<b>15,32,16,482</b>
<b>Significant Accounting Policies and Notes on Accounts</b>	XX		

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

**As per our attached report of even date**

For **HARIBHAKTI & CO.**  
Chartered Accountants

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

**CHETAN DESAI**  
Partner  
Jaipur, 30<sup>th</sup> June, 2008

**SANDEEP MUNDRA**  
Partner

**MUKESH KHETAN**  
Company Secretary

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

**NIRMAL KUMAR BARDIYA**  
Director

## SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2008		As at 31st March, 2007	
<b>SCHEDULE I - SHARE CAPITAL</b>				
<b>Authorised</b>				
4,10,00,000 (Previous Year - 3,10,00,000) Equity Shares of Rs. 10/- each	41,00,00,000		31,00,00,000	
45,00,000 (Previous Year - 45,00,000) Unclassified Shares of Rs 100/- each	45,00,00,000	86,00,00,000	45,00,00,000	76,00,00,000
<b>Issued, Subscribed and Paid up</b>				
3,16,98,473 (Previous Year - 2,75,87,873) Equity Shares of Rs.10/- each (Refer Note No. 8)	31,69,84,730		27,58,78,730	
44,00,000 (Previous Year-44,00,000) 1% Non Convertible Redeemable Cumulative Preference Share of Rs. 100 each (Refer Note No. 6)	44,00,00,000	75,69,84,730	44,00,00,000	71,58,78,730
		<b>75,69,84,730</b>		<b>71,58,78,730</b>

### Notes:

Out of the above Equity Shares :

- 72,94,920 Equity Shares were allotted as fully paid up Bonus Share by capitalisation of Profit & Loss Account
- 1,28,60,600 (Previous Year - 87,50,000) Equity Shares have been allotted as underlying Share for 12,86,060 (Previous Year - 8,75,000) Global Depository Receipts (Refer Note No. 8)

## SCHEDULE II - RESERVES AND SURPLUS

<b>Securities Premium Account</b>				
As per last Balance Sheet	4,98,45,25,909		4,98,85,25,769	
Add: Received during the year	90,43,32,000		-	
	5,88,88,57,909		4,98,85,25,769	
Less: Expenses for issue of securities	1,48,37,718	5,87,40,20,191	39,99,860	4,98,45,25,909
<b>General Reserve</b>				
As per last Balance Sheet	9,00,00,000		9,00,00,000	
Less : Transitional Liabilities for Retirement Benefits Plan (Refer Note No. 4)	1,03,52,744		-	
	7,96,47,256		9,00,00,000	
Less: Debit Balance in Profit & Loss deducted as per contra	7,96,47,256	-	-	9,00,00,000
<b>Employee Stock Option Outstanding</b> (Refer Note No.7 )	1,00,68,148		1,23,09,796	
Less : Deferred Employees Compensation Expenses Outstanding	39,41,024	61,27,124	10,828,686	14,81,110
<b>Foreign Currency Translation Reserve</b>		(1,68,33,730)		-
<b>Balance in Profit and Loss account</b>		-		92,57,21,094
		<b>5,86,33,13,585</b>		<b>6,00,17,28,113</b>



**SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2008		As at 31st March, 2007	
<b>SCHEDULE III - SECURED LOANS</b>				
<b>Working Capital Facilities from Banks</b>				
Pre-shipment Credit	38,33,43,421		33,51,05,635	
Post-shipment Credit	83,52,42,730	1,21,85,86,151	30,15,05,236	63,66,10,871
<b>Term Loan</b>				
Corporate Loan		47,07,40,000		–
		<b>1,68,93,26,151</b>		<b>63,66,10,871</b>

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

- (i) Above Loans are secured by hypothecation of Stock-in-Trade and Book Debts on pari-passu basis.
- (ii) Further Secured, on pari-passu basis, by :
  - a. Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68 & E-69 EPIP, Sitapura and E-1,E-2, E-13 & E-14, SEZ, Sitapura, Jaipur
  - b. Hypothecation of Plant & Machineries & Other Movable Assets
  - c. Personal Guarantee of Chairman

**B. Term Loan :**

- (i) Above Corporate Loan is secured by second charges on Current Assets as well as Fixed Assets of the Company (excluding property situated at SEZ, Sitapura), and
- (ii) Personal Guarantee of Chairman

**SCHEDULE IV : FIXED ASSETS** (Amount in Rupees)

NAME OF ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2007	Addition during the year	Ded./Adj. during the year	As at 31.03.2008	Up to 31.3.2007	For the Year	Ded./Adj. during the year	Up to 31.03.2008	As at 31.03.2008	As at 31.3.2007
Freehold Land	48,94,908	–	–	48,94,908	–	–	–	–	48,94,908	48,94,908
Leasehold Land	3,71,03,637	–	–	3,71,03,637	12,10,736	3,71,726	–	15,82,462	3,55,21,175	3,58,92,901
Building	4,48,53,630	2,81,876	–	4,51,35,506	1,63,26,185	28,78,090	–	1,92,04,275	2,59,31,231	2,85,27,445
Plant & Machinery	7,90,11,921	15,04,121	42,886	8,04,73,156	3,39,98,796	63,85,219	12,568	4,03,71,447	4,01,01,709	4,50,13,125
Electric Installation	1,47,59,688	1,42,064	–	1,49,01,752	49,53,531	13,83,370	–	63,36,901	85,64,851	98,06,157
Furniture & Fixtures	2,11,27,089	7,13,382	–	2,18,40,471	1,03,87,513	20,39,341	–	1,24,26,854	94,13,617	1,07,39,576
Office Equipment	1,13,87,985	6,99,078	–	1,20,87,063	55,10,026	9,44,696	–	64,54,722	56,32,341	58,77,959
Computer	1,99,84,002	24,03,567	–	2,23,87,569	1,36,67,591	31,08,985	–	1,67,76,576	56,10,993	63,16,411
Vehicles	36,52,307	8,41,045	2,69,735	42,23,617	23,21,104	4,84,280	1,99,789	26,05,595	16,18,022	13,31,203
<b>Total</b>	<b>23,67,75,167</b>	<b>65,85,133</b>	<b>3,12,621</b>	<b>24,30,47,679</b>	<b>8,83,75,482</b>	<b>1,75,95,707</b>	<b>2,12,357</b>	<b>10,57,58,832</b>	<b>13,72,88,847</b>	<b>14,83,99,685</b>
Previous Year	22,15,06,375	1,55,01,292	2,32,500	23,67,75,167	6,99,07,995	1,86,52,540	1,85,053	8,83,75,482	14,83,99,685	15,15,98,380

## SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

Particulars		As at 31st March, 2008	As at 31st March, 2007
<b>SCHEDULE V - INVESTMENTS (Long Term - at Cost)</b>			
<b>Trade Investments - Unquoted</b>			
<b>- In Wholly Owned Subsidiaries</b>			
1,000 (Previous Year - 1,000) Common Stock with No par value of Jewel Gem USA Inc.,		52,70,90,000	52,70,90,000
3,38,79,121 (Previous Year - 2,18,00,000) Ordinary Shares of US \$ 1 each fully paid-up of Genoa Jewellers Ltd	1,46,11,50,250		
Less: Diminuation in Value of Investment	1,00,90,85,127	45,20,65,123	98,11,50,250
3,50,000 (Previous Year - 3,50,000) Ordinary Shares of Baht 100 each fully paid-up of STS Gems Thai Ltd	1,11,25,99,043		
Less: Diminuation in Value of Investment	92,00,00,000	19,25,99,043	- 1,11,25,99,043
1,00,000 (Previous Year-1,00,000) Ordinary Shares of Bhat 100 each fully paid-up of STS Creations Thai Ltd	6,20,31,574		
Less: Diminuation in Value of Investment	6,20,31,574	-	- 6,20,31,574
200 (Previous Year 200) Common Shares with No par value of STS Jewels Inc.		1,99,50,79,632	1,99,50,79,632
1,500 (Previous Year - 1,500) Ordinary Shares of Yen 50,000 each fully paid-up of STS Gems Japan Ltd		1,99,18,042	1,99,18,042
87,500 (Previous Year - 87,500) Ordinary Shares of HK \$100 each fully paid-up of STS Gems Limited Hongkong		15,74,99,992	15,74,99,992
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.		41,02,27,250	41,02,27,250
<b>Other than Trade Investment - Unquoted</b>			
3,60,000 (Previous Year - 3,60,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited		52,07,000	52,07,000
Nil (Previous Year 99,98,370) of Reliance Liquidity Fund-Daily Dividend Reinvestment Option of Rs.10 each		-	-
<b>Other than Trade Investment - Quoted</b>			
368 (Previous Year - 368) Equity Shares of Rs.10 each fully paid up of Punjab National Bank		1,43,520	1,43,520
		<b>3,75,98,29,602</b>	<b>5,27,09,46,303</b>
<b>Notes:</b>			
1. Aggregate amount of Quoted Investment		1,43,520	1,43,520
2. Market value of Quoted Investment		1,87,772	1,74,506
3. Aggregate amount of Non Quoted Investment		3,75,96,86,082	5,27,08,02,783

**SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2008		As at 31st March, 2007	
<b>SCHEDULE VI - INVENTORIES</b> (As taken, valued and certified by the Management)				
Materials-in-process		70,46,07,465		52,61,11,013
Semi Finished Goods		9,74,72,162		4,18,83,532
Finished Goods		2,63,59,452		4,34,82,224
Stores and Consumables		11,93,762		21,21,314
		<b>82,96,32,841</b>		<b>61,35,98,083</b>

<b>SCHEDULE VII - SUNDRY DEBTORS</b> (Unsecured and considered good unless otherwise stated)				
Outstanding for more than Six Months	24,16,039		73,31,415	
Others	1,64,17,05,636	1,64,41,21,675	1,10,70,83,851	1,11,44,15,266
		<b>1,64,41,21,675</b>		<b>1,11,44,15,266</b>

<b>SCHEDULE VIII - CASH AND BANK BALANCES</b>				
Cash in Hand		4,60,820		2,78,267
Balance with Scheduled Banks				
In Current Accounts	2,00,43,245		1,14,17,293	
In Deposit Accounts	5,08,62,355	7,09,05,600	14,15,20,922	15,29,38,215
[Pledged Rs. 1,08,62,355 (Previous Year Rs. 88,92,486)]				
Balance with Non Scheduled Banks (Refer Note No. 10)				
In Current Accounts	6,65,952		-	
In Deposit Accounts	19,98,50,000	20,05,15,952	-	-
		<b>27,18,82,372</b>		<b>15,32,16,482</b>

<b>SCHEDULE IX - LOANS &amp; ADVANCES</b> (Unsecured and considered good unless otherwise stated)				
Advances and Loans to Subsidiaries (Refer Note No. 11)		99,52,53,000		20,92,32,000
Advances recoverable in cash or in kind or for value to be received (Net of Provision for Doubtful Advance Rs. 9,41,421 (Previous Year Rs. NIL) (Refer Note No. 3)		1,99,12,861		2,47,55,153
Advance tax (Net of Provision)		3,15,04,704		1,99,44,470
Security Deposits		41,07,076		30,90,507
		<b>1,05,07,77,641</b>		<b>25,70,22,130</b>

## **SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

<b>Particulars</b>	<b>As at 31st March, 2008</b>	<b>As at 31st March, 2007</b>
<b>SCHEDULE X - CURRENT LIABILITIES</b>		
Sundry Creditors (Refer Note No.5)	10,11,90,838	15,20,04,875
Unclaimed Dividend*	3,60,372	3,50,376
Other Liabilities	2,20,64,296	2,47,51,797
	<b>12,36,15,506</b>	<b>17,71,07,048</b>

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

## **SCHEDULE XI - PROVISIONS**

Leave Encashment (Refer Note No. 4)	44,31,808	51,00,508
Gratuity (Refer Note No. 4)	1,86,73,860	–
Dividend on Preference Share	–	18,33,333
Proposed Dividend	–	1,37,93,937
Tax on Dividend	–	26,55,855
	<b>2,31,05,668</b>	<b>2,33,83,632</b>

**SCHEDULES** Forming Part of Profit & Loss Account

Amount in Rupees

Particulars	Year ended 31st March, 2008		Year ended 31st March, 2007	
<b>SCHEDULE XII - SALES</b>				
Export Sales	2,84,06,50,562		2,67,16,92,296	
Domestic Sales	25,89,37,519	3,09,95,88,081	11,00,03,220	2,78,16,95,516
		<b>3,09,95,88,081</b>		<b>2,78,16,95,516</b>

<b>SCHEDULE XIII - OTHER INCOME</b>				
Interest Received (Gross, Tax Deducted at Source - Rs. 4,35,772) (Previous Year - Rs. 78,92,381)		1,27,20,341		3,85,35,103
Dividend Received		10,68,862		45,40,444
Commission Received (Gross, Tax Deducted at Sources - Rs. 16,88,207) (Previous Year - Rs. 1,19,851)		1,51,00,089		21,51,521
Miscellaneous Income		1,15,851		36,108
Exchange Fluctuation (Net)		1,12,53,537		(24,79,387)
		<b>4,02,58,680</b>		<b>4,27,83,789</b>

<b>SCHEDULE XIV - MATERIAL COST</b>				
<b>Materials Consumed</b>				
<b>Opening Material-in-Process</b>	<b>52,61,11,013</b>		<b>45,37,64,969</b>	
Add: Purchases	2,53,12,85,700		2,09,43,55,862	
	3,05,73,96,713		2,54,81,20,831	
<b>Less: Closing Material-in-Process</b>	<b>70,46,07,465</b>	<b>2,35,27,89,248</b>	<b>52,61,11,013</b>	<b>2,02,20,09,818</b>
Purchases of Finished Goods		19,92,88,305		15,94,27,905
<b>(Increase)/Decrease in Semi Finished and Finished Goods:</b>				
<i>Opening Stocks</i>				
Semi Finished Goods	4,18,83,532		2,47,40,233	
Finished Goods	4,34,82,224		56,48,405	
	8,53,65,756		3,03,88,638	
Less: <i>Closing Stocks</i>				
Semi Finished Goods	9,74,72,162		4,18,83,532	
Finished Goods	2,63,59,452		4,34,82,224	
	12,38,31,614	(3,84,65,858)	8,53,65,756	(5,49,77,118)
		<b>2,51,36,11,695</b>		<b>2,12,64,60,605</b>

## SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

Particulars		Year ended 31st March, 2008		Year ended 31st March, 2007
<b>SCHEDULE XV - MANUFACTURING EXPENSES</b>				
Job Work Charges		4,25,48,176		8,46,43,726
Stores and Consumables		2,63,34,835		3,12,12,365
Power and Fuel		1,28,20,311		1,19,92,766
Repairs and Maintenance		69,71,808		67,75,007
Other Manufacturing Expenses		1,64,10,805		1,12,33,738
		<b>10,50,85,935</b>		<b>14,58,57,602</b>
<b>SCHEDULE XVI - EMPLOYEES COSTS</b>				
Salaries, Wages, Bonus etc.		16,22,53,861		13,48,81,162
Contributions to Provident and Other Funds		1,18,85,292		94,16,870
Staff Welfare Expenses		70,88,922		56,62,393
Employee Compensation Expenses under ESOS (Refer Note No. 7)		46,46,014		14,81,110
Recruitment and Training		21,37,157		32,54,933
		<b>18,80,11,246</b>		<b>15,46,96,469</b>
<b>SCHEDULE XVII - ADMINISTRATIVE &amp; SELLING EXPENSES</b>				
Rent, Rates and Taxes		21,64,864		13,97,213
Insurance		15,64,804		21,65,223
Travelling and Conveyance		2,26,98,429		2,20,38,878
Legal and Professional		69,24,501		32,22,825
Postage and Telephone		59,51,784		61,21,518
Printing and Stationery		26,32,890		28,10,674
Advertisement and Business Promotion		13,40,220		26,85,776
Brokerage and Commission		10,67,262		30,86,903
Packing and Forwarding		1,14,20,176		82,61,241
Misc. Expenses		49,11,808		37,35,938
Donation		8,601		3,85,537
Auditors' Remuneration		8,50,559		9,75,837
Directors' Remuneration		69,83,308		75,50,000
Directors' Sitting Fees		4,00,000		2,35,000
Information Technology Expenses		56,53,031		1,16,32,468
Loss on Sale of Assets		16,318		-
		<b>7,45,88,554</b>		<b>7,63,05,029</b>
<b>SCHEDULE XVIII - FINANCIAL EXPENSES</b>				
Interest				
- On Fixed Loans	2,03,47,770		-	
- On Working Capital Facilities	6,24,29,129	8,27,76,899	3,68,62,632	3,68,62,632
Finance Charges		91,71,129		86,60,332
		<b>9,19,48,028</b>		<b>4,55,22,964</b>

**SCHEDULES** Forming Part of Profit & Loss Account

Amount in Rupees

Particulars	Year ended 31st March, 2008		Year ended 31st March, 2007	
<b>SCHEDULE XIX - ADDITIONAL INFORMATION</b>				
(Pursuant to provisions of Paragraph 3 and 4 of Part II of Schedule VI to the Companies Act, 1956)				
	<b>Quantity</b>	<b>Rupees</b>	<b>Quantity</b>	<b>Rupees</b>
<b>1. Materials Consumed</b>				
Roughs (Grams)	25,89,426	70,73,52,812	27,19,121	84,48,77,758
Gold and Alloys (Grams)	15,66,988	59,36,00,939	16,88,364	58,99,17,205
Gemstones (Carats)	10,64,055	56,44,22,690	12,14,010	43,70,76,910
Accessories (Nos.)	6,53,596	30,26,28,341	2,97,851	4,19,79,177
Diamond (Carats)	21,292	18,47,84,466	18,814	10,81,58,768
		<b>2,35,27,89,248</b>		<b>2,02,20,09,818</b>
<i>Note: Consumption includes quantity and cost of materials sold.</i>				
<b>2. Stocks, Turnover and Purchases</b>				
<b>Opening Stocks</b>				
Gem Stones (Carats)	1,29,335	59,49,839	1,11,429	46,28,135
Jewellery (Nos.)	17	15,182	67	1,96,289
Diamond (Carats)	2,324	3,73,88,840	32	3,31,325
Accessories (Nos.)	282	1,28,363	1,748	4,92,656
		<b>4,34,82,224</b>		<b>56,48,405</b>
<b>Purchases</b>				
Gem Stones (Carats)	–	–	–	–
Jewellery (Nos.)	–	–	747	86,23,103
Diamond (Carats)	32,763	19,92,88,305	20,943	15,07,93,914
Accessories (Nos.)	–	–	29	10,888
		<b>1,99,288,305</b>		<b>15,94,27,905</b>
<b>Turnover</b>				
Roughs (Grams)	7,547	6,05,38,114	29,113	2,47,96,474
Gem Stones (Carats)	14,51,182	1,02,11,07,432	8,50,955	96,90,16,703
Jewellery (Nos.)	8,08,703	1,65,62,81,429	6,22,421	1,47,71,17,810
Diamond (Carats)	40,059	30,82,12,129	28,322	25,84,53,369
Accessories (Nos.)	3,11,740	5,31,69,744	3,55,653	5,13,35,994
Others	–	2,79,233	–	9,75,166
		<b>3,09,95,88,081</b>		<b>2,78,16,95,516</b>
<b>Closing Stocks</b>				
Gem Stones (Carats)	1,34,577	41,80,166	1,29,335	59,49,839
Jewellery (Nos.)	–	–	17	15,182
Diamond (Carats)	2,148	2,21,79,286	2,324	3,73,88,840
Accessories (Nos.)	–	–	282	1,28,363
		<b>2,63,59,452</b>		<b>4,34,82,224</b>
<b>3. Capacities and Production</b>		<b>Quantity</b>		<b>Quantity</b>
Licensed and Installed Capacities		Not Applicable		Not Applicable
<b>Actual Production:</b>				
<i>Gem Stones(Carats)</i>		16,79,437		11,34,797
<i>Diamond (Carats)</i>		13,707		21,434
<i>Studded Jewellery (Nos.)</i>		8,08,686		6,21,624
<i>Accessories (Nos.)</i>		9,71,572		8,51,768



## SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

Particulars	Year ended 31st March, 2008		Year ended 31st March, 2007	
		Quantity		Quantity
<b>4. Captive Consumption</b>				
Gem Stones(Carats)		2,23,012		2,80,217
Diamond (Carats)		6,588		4,243
Accessories (Nos.)		6,60,114		4,96,905
<b>5. Managerial Remuneration</b>		<b>Rupees</b>		<b>Rupees</b>
Profit before Taxation after Extra Ordinary Item		(1,84,21,11,105)		25,69,84,096
Add: Depreciation as per Accounts		1,75,95,707		1,86,52,540
Managerial Remuneration		69,83,308		75,50,000
Loss on Sale of Fixed Assets		16,318		–
Diminution in Value of Investment		1,99,11,16,701		–
		<b>17,36,00,929</b>		<b>28,31,86,636</b>
Less: Depreciation as per Section 350 of Companies Act, 1956		1,75,95,707		1,86,52,540
Profit on Sale of Fixed Assets		31,054		12,366
Share Issue Expenses		1,48,37,718		39,99,860
Profit as per Sec. 349		<b>14,11,36,450</b>		<b>26,05,21,870</b>
Eligible Remuneration to Managing Director as per Sec. 309 (5% of Eligible Profit)		<b>70,56,822</b>		<b>1,30,26,093</b>
Remuneration paid to Managing Director		<b>69,83,308</b>		<b>75,50,000</b>
<b>6. Payments to Directors from Subsidiaries</b>		<b>2,00,72,415</b>		<b>2,19,81,015</b>
<b>7. Payments to Auditors</b>				
a. Audit Fees		4,49,440		4,49,440
b. Tax Audit Fees		1,68,540		1,68,540
c. For Other Services		56,180		1,35,870
d. For Reimbursement of Expenses		1,76,399		2,21,987
		<b>8,50,559</b>		<b>9,75,837</b>
<b>8. Repairs and Maintenance</b>				
a. Buildings		8,08,042		7,95,850
b. Machineries		23,79,943		20,43,284
c. Other Repairs		37,83,823		39,35,873
		<b>69,71,808</b>		<b>67,75,007</b>
<b>9. Value of Imports calculated on C.I.F. basis</b>				
a. Raw Materials (other than through canalising agencies)		1,59,92,04,894		1,22,84,90,070
b. Consumables, Stores & Spares		1,05,13,504		1,61,78,627
c. Capital Goods		6,97,443		21,14,968
<b>10. Value and % of Material Consumption</b>				
<b>Raw Materials and Components:</b>		<b>Rupees</b>		<b>Rupees</b>
Imported	63.18	1,48,64,35,166	58.66	1,18,60,53,921
Indigenous	36.82	86,63,54,082	41.34	83,59,55,897
		<b>2,35,27,89,248</b>		<b>2,02,20,09,818</b>

**SCHEDULES** Forming Part of Profit & Loss Account

Amount in Rupees

Particulars	Year ended 31st March, 2008		Year ended 31st March, 2007	
	%	Rupees	%	Rupees
<b>Consumables, Stores &amp; Spares:</b>				
Imported	45.40	1,19,54,891	58.87	1,83,75,375
Indigenous	54.60	1,43,79,944	41.13	1,28,36,990
		<b>2,63,34,835</b>		<b>3,12,12,365</b>
<b>11. Expenditure in Foreign Currency</b>				
Travelling Expenses		14,28,457		32,94,469
Professional Fees		1,00,99,450		–
Others		6,79,596		16,678
<b>12. Earnings in Foreign Currency</b>				
Export of goods calculated on F.O.B. basis		2,82,62,44,635		2,63,87,47,154
Interest		76,98,096		32,36,568
Commission		87,59,546		21,51,521
<b>13. Remittance in Foreign Currency on Account of Dividends:</b>				
a. Year to which the Dividend relates		2006-07		2005-2006
b. Number of Non-Resident Shareholders to whom remittances were made		3		19
c. Number of Shares on which remittances were made		15,13,800		87,084
d. Dividend Amount (in Rupees)		7,56,900		1,30,628

## **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.

## **SCHEDULES** Forming Part of Accounts

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

### **9. Investments**

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

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

### **10. Revenue Recognition**

#### **Sale of Goods:**

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

#### **Dividend on Investment:**

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

#### **Interest Income:**

Revenue is recognized on time proportionate basis.

#### **Commission Income:**

Revenue is recognized on the accrual basis.

### **11. Foreign Currency Transactions:**

#### **a. Initial Recognition:**

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

#### **b. Conversion:**

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

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

#### **c. Exchange Differences:**

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

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

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

### **12. Employee Benefits**

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

### **13. Provision for Current and Deferred Taxation**

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

## SCHEDULES Forming Part of Accounts

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 recognized if there is a reasonable certainty that the assets will be realized in future.

### 14. Earning Per Share

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

### 15. Provision, Contingent Liabilities and Contingent Assets

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

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

**Contingent Liability** is disclosed in case of

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

**Contingent Assets** are neither recognized, nor disclosed.

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

## B. NOTES ON ACCOUNTS

	As at 31st March, 2008		As at 31st March, 2007	
	Rupees	Rupees	Rupees	Rupees
<b>1. Contingent Liabilities:</b>				
a. Guarantees given by bank on behalf of Company		7,20,50,000		2,48,35,000
b. Guarantees given to bank & others by the Company		1,23,72,25,000		25,65,90,000
c. Disputed Tax Matters				
Income Tax		1,13,00,891		1,12,39,420
Service Tax		7,82,551		–
Custom Duty		10,26,147		–
d. Dividend on Cumulative Preference Share for the year		44,00,000		–
<b>2. The Deferred Tax Liabilities/(Asset) comprise of the following:</b>				
a. Deferred Tax Liability				
i. Depreciation		30,48,941		30,37,322
b. Deferred Tax Assets:				
i. Provision for Gratuity	63,47,245		–	
ii. Carried Forward Losses	16,12,329		–	
iii. Provision for Leave Encashment	38,484		46,392	
		79,98,058		46,392
<b>c. Deferred Tax Liability/(Assets) (Net)</b>		<b>(49,49,117)</b>		<b>29,90,930</b>

Net deferred tax charge/(credit) for the year of Rs. (2,609,191) (Previous year Rs. 45,287) after taking into consideration the deferred tax assets of Rs. 5,330,856 related to Gratuity liability as on 1<sup>st</sup> April'2007 (adjusted from General Reserve) has been recognized in the Profit and Loss Account for the year.

**SCHEDULES** Forming Part of Accounts

3. Advances recoverable include Rs.26,350 (Previous year Rs.2,200,000) due from VGL Softech Limited, a Company in which directors are interested.
4. Company adopted the Accounting Standard (AS – 15) (Revised 2005) "Employee Benefits" effective from April 01, 2007. Consequent to the adoption and in accordance with the transitional provision of the Accounting Standard, an amount of Rs.10,352,744 (net of deferred tax Rs. 5,330,856) (Refer Schedule II) is adjusted against the opening balance in the General Reserves.

The Company has classified the various benefits provided to employees as under:

**A. Defined Contribution Plans**

- a. Provident Fund
- b. State Defined Contribution Plans
  - i. Employers' Contribution to Employees' State Insurance

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

Particulars	Year Ended March 31, 2008 Rupees
Employer's contribution to Provident Fund	84,51,719
Employer's contribution to Employees State Insurance	32,71,764

**B. Defined Benefit Plans****a. Contribution to Gratuity Fund (Funded Scheme)**

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

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

**I. Change in the Present Value of Obligation**

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

Present value of defined benefit obligation as at beginning of the year on 01.04.2007	1,92,02,285
Interest cost	15,36,183
Current service cost	58,78,684
Benefits paid	(2,41,577)
Actuarial (gain)/loss on obligations	(24,19,118)
Present value of defined benefit obligation as at the end of the year on 31.03.2008	2,39,56,457

**II. Changes in the Fair Value of Plan Assets**

Present value of plan assets as at beginning of the year on 01.04.2007	35,18,685
Expected return on plan assets	3,13,163
Contributions	16,08,387
Benefits paid	(2,41,577)
Actuarial gains/(losses)	83,939
Fair value of plan assets as at end of the year on 31.03.2008	52,82,597

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

Present value of funded obligation as at end of the year on 31.03.08	2,39,56,457
Fair value of plan assets as at end of the year	52,82,597
Funded Asset recognised in the Balance Sheet	-
Shown under Schedule XI - "Provision"	1,86,73,860

## SCHEDULES Forming Part of Accounts

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

### IV. Amount recognised in the Balance Sheet

Present value of defined benefit obligation as at the end of the year on 31.03.2008	2,39,56,457
Fair value of plan assets as at end of the year 31.03.2008	52,82,597
Liability/(Net Asset) recognised in the Balance Sheet on 31.03.2008	1,86,73,860

### V. Expenses recognised in Profit and Loss Account

Current service cost	58,78,684
Past service cost	-
Interest cost	15,36,183
Expected Return on Plan Assets	(3,13,163)
Net Actuarial (gain)/loss recognised in the period	(25,03,057)
Total Expenses recognised in the Profit and Loss Account*	45,98,647

\* included in Salaries, wages, bonus etc in Schedule - XVI

### VI. Actual Return on Plan Assets

Expected Return on Plan Assets	3,13,163
Actuarial gain/(losses) on Plan Assets	83,939
Actual Return on Plan Assets	3,97,102

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

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

### b. Leave Encashment (Non-Funded Scheme)

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

#### I. Amount recognised in the Balance Sheet

Actual value of leave encashment as at beginning of the year on 01.04.2007	51,00,508
Leave encashment provided for the year	47,72,205
Actual paid for the year	54,40,905
Actual value of leave encashment as at end of the year on 31.03.2008	44,31,808

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

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

### 7. Employee Stock Option Scheme:

The Company has issued Stock Options under "VGL ESOP – 2006 Scheme" to its employees (including certain employees of the Subsidiaries).

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



**SCHEDULES** Forming Part of Accounts

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

Particulars	VGL ESOP – 2006		
	A	B	Total
Exercise (Grant) Price	240	202	
Date of Grant of Option	06.01.2007	27.07.2007	
Vesting commences on	06.01.2008	27.07.2008	
Options granted & outstanding as at the beginning of the year on 01.04.07	3,00,973	-	3,00,973
Options granted during the year	-	*12,000	12,000
Options lapsed during the year (Re-issuable)	54,808	-	54,808
Options granted and outstanding as at the end of the year on 31.03.08	2,46,165	12,000	2,58,165

\* Granted out of lapsed options

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

8. During the year, on 12<sup>th</sup> Oct. 2007, the Company has allotted 4,11,060 Global Depository Receipts @ USD 58.5988 (equivalent to Rs. 2,300) underlying 41,10,600 Equity Shares of Rs. 10 each at a premium of Rs. 220 per share, aggregating Rs. 9,454.38 lacs, on private placement basis.
9. During the year, on 12<sup>th</sup> Oct. 2007, the Company has allotted 3,53,320 Convertible Warrants @ of Rs. 2,300/- each, one warrant convertible into 10 Equity Shares of Rs. 10 each at a premium of Rs. 220 per share, aggregating to Rs. 8,126.36 lacs, on preferential basis. 10% of the total amount, i.e. Rs. 812.64 lacs has been received and the balance amount is payable upon conversion. As per the term of issue the warrants are convertible within 18 months from the date of allotment i.e. on or before 12<sup>th</sup> April 2009.

**10. Balances with Non-Scheduled Bank held in:**

Amount in Rupees

Name of the Bank	As at 31.03.2008	Maximum Amount outstanding at any time during the year	As at 31.03.2007	Maximum Amount outstanding at any time during the year
<b>a. In Current Account</b>				
i) ICICI Bank UK Limited	6,65,952	27,62,82,307	-	31,48,63,571
ii) ICICI UK, Escrow A/c	-	94,57,27,586	-	-
iii) HSBC Bank USA, N.A.	-	-	-	2,543
<b>b. In Fixed Deposit</b>				
i) ICICI Bank UK Limited	-	93,71,50,400	-	49,46,70,711
ii) PNB, UK	19,98,50,000	19,98,50,000	-	-

**11. Advances and Loans to Wholly Owned Subsidiaries:**

Amount in Rupees

Name of the Bank	As at 31.03.2008	Maximum Amount outstanding at any time during the year	As at 31.03.2007	Maximum Amount outstanding at any time during the year
a. Jewel Gems USA	7,59,43,000	8,12,25,000	5,66,67,000	5,66,67,000
b. STS Gems Limited, HK	1,99,85,000	2,17,95,000	2,17,95,000	2,17,95,000
c. STS Gems Thai Limited	11,99,10,000	12,22,70,000	4,35,90,000	4,35,90,000
d. Genoa Jewellers Limited	77,94,15,000	78,67,96,730	8,71,80,000	8,71,80,000

## SCHEDULES Forming Part of Accounts

### 12. Earning Per Share (EPS):

	2007-08	2006-07
a. Profit After Tax (Rs.)		
– Before Extra Ordinary Item	15,04,36,973	24,28,56,818
– After Extra Ordinary Item	(1,84,06,79,728)	24,28,56,818
b. Dividend on Preference Shares including Tax Payable thereon (Rs.)	44,00,000	21,44,908
c. Profit attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b)		
– Before Extra Ordinary Item	14,60,36,973	24,07,11,910
– After Extra Ordinary Item	(1,84,50,79,728)	24,07,11,910
d. i) Weighted average number of Equity Shares outstanding during the year for Basic EPS	2,95,19,630	2,75,87,873
ii) No of Stock Option Outstanding	2,58,165	3,00,973
iii) No of Dilutive Potential Equity Shares	–	–
e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS (d (i)+d (iii))	2,95,19,630	2,75,87,873
f. Basic Earning Per Share		
– Before Extra Ordinary Item	4.95	8.73
– After Extra Ordinary Item	(62.50)	8.73
g. Diluted Earning Per Share		
– Before Extra Ordinary Item	4.95	8.73
– After Extra Ordinary Item	(62.50)	8.73

### 13. 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. VGL Softech Limited; 2. Shivram Properties Private Limited. 3. Surawell Pacific Limited

##### Key Management Personnel (KMP)

1. Shri Rahimullah – Managing Director;

##### Relative of Key Management Personnel

1. Shri Imran Khan; 2. Arif Ullah

**SCHEDULES** Forming Part of Accounts**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	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
<b>(i) Transaction during the year</b>								
a. Sales of Goods	2,23,00,93,534	2,19,94,86,999	-	-	-	-	-	-
b. Purchases of Goods	406,192,343	30,49,23,732	-	-	-	-	-	-
c. Loan Given	80,28,54,730	20,92,32,000	-	-	-	-	-	-
d. Advance Given	-	-	-	-	-	-	26,350	33,32,680
e. Advance Given Repaid	-	-	-	-	-	-	22,00,000	82,01,286
f. Expense	-	-	-	-	-	-	63,36,016	70,16,481
g. Investment	48,00,00,000	25,26,17,500	-	-	-	-	-	-
h. Remuneration	-	-	69,83,308	75,50,000	2,30,588	85,500	-	-
i. Guarantee	1,28,62,90,000	27,11,25,000	-	-	-	-	-	-
j. Share Warrants	-	-	-	-	-	-	4,06,31,800	-
<b>(ii) Balances as at 31.03.08</b>								
a. Amount Receivable	1,23,41,63,414	83,05,81,147	-	-	-	-	-	-
b. Amount Payable	2,34,995	-	-	-	-	-	15,09,893	-
c. Loan Receivable*	99,52,53,000	20,92,32,000	-	-	-	-	-	-
d. Investment**	3,75,44,79,082	5,26,55,95,783	-	-	-	-	52,07,000	52,07,000
e. Advance Receivable	-	-	-	-	-	-	26,350	22,00,000

\* Loan receivable balance as at 31.03.08 are net of foreign exchange difference.

\*\* Investment balance as at 31.03.08 are net of diminution in value of Investment

**C. Details of Material Related Party Transactions**

Amount in Rs.

Nature of Transactions	Subsidiaries												Enterprises over which significant influence exercised by Key Managerial Persons					
	Genoa Jewellers Limited		Jewel Gem USA Inc.		STS Jewels Inc. USA		STS Gems Japan Limited		STS Gems Limited, Hongkong		STS Gems Thai Limited		VGL Softech Limited		Shivram Properties Pvt Ltd		Surawell Pacific Limited	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
<b>(i) Transaction during the year</b>																		
a. Sales of Goods	1,12,92,67,438	60,10,76,960	3,22,84,414	8,08,36,089	59,86,04,298	81,90,66,582	3,12,24,548	2,26,97,136	13,48,21,151	17,57,86,671	28,14,91,864	45,47,70,613	-	-	-	-	-	-
b. Purchases of Goods	4,97,42,677	20,63,058	1,03,31,281	1,49,63,343	17,14,70,503	13,89,03,323	36,12,430	35,42,828	5,07,31,567	3,94,32,092	10,12,68,097	9,35,66,695	-	-	-	-	-	-
c. Loan Given	69,96,16,730	8,71,80,000	2,45,58,000	5,66,67,000	-	-	-	-	-	2,17,95,000	7,86,80,000	4,35,90,000	-	-	-	-	-	-
d. Advance Given	-	-	-	-	-	-	-	-	-	-	-	-	26,350	31,00,000	-	-	-	-
e. Advance Given Repaid	-	-	-	-	-	-	-	-	-	-	-	-	22,00,000	79,54,646	-	-	-	-
f. Expense	-	-	-	-	-	-	-	-	-	-	-	-	60,57,592	70,16,481	2,78,424	-	-	-
g. Investment	48,00,00,000	-	-	15,95,57,500	-	-	-	-	-	-	-	9,30,60,000	-	-	-	-	-	-
h. Guarantee	93,57,05,000	-	-	-	-	-	-	-	7,94,60,000	-	-	-	-	-	-	-	-	-
i. Share Warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,06,31,800	-
<b>(ii) Balances as at 31.03.08</b>																		
a. Amount Receivable	74,11,30,305	32,83,63,981	1,18,23,027	1,70,37,760	23,93,31,662	17,79,30,896	1,40,29,174	2,01,67,396	11,15,52,321	13,89,90,214	11,62,96,925	20,84,52,299	-	-	-	-	-	-
b. Amount Payable	-	17,64,134	-	52,58,822	-	5,27,45,566	-	17,06,914	-	75,395	-	21,42,274	13,31,019	-	1,78,874	-	-	-
c. Loan Receivable*	77,94,15,000	8,71,80,000	7,59,43,000	5,66,67,000	-	-	-	-	19,985,000	2,17,95,000	11,99,10,000	4,35,90,000	-	-	-	-	-	-
d. Advance Receivable	-	-	-	-	-	-	-	-	-	-	-	-	26,350	22,00,000	-	-	-	-
e. Investment**	45,20,65,123	98,11,50,250	52,70,90,000	52,70,90,000	1,99,50,79,632	1,99,50,79,632	1,99,18,042	1,99,18,042	157,499,992	15,74,99,992	19,25,99,043	1,11,25,99,043	52,07,000	52,07,000	-	-	-	-
f. Guarantee	1,20,68,30,000	27,11,25,000	-	-	-	-	-	-	79,460,000	-	-	-	-	-	-	-	-	-

\* Loan Receivable Balance as at 31st March, 2008 are net of foreign exchange difference

\*\* Investment Balance as at 31st March, 2008 are net of diminution in value of Investment

## **SCHEDULES** Forming Part of Accounts

---

**14. Segment Reporting:**

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

- 15.** 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 : 30<sup>th</sup> June 2008

**BALANCE SHEET ABSTRACT AND GENERAL BUSINESS PROFILE****I. Registration Details**

Registration No.

4 9 4 5

State Code 17

Balance Sheet Date

31.03.2008

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

Public Issue

Nil

Right Issue

Nil

Bonus Issue

Nil

Private Placement

9,45,438

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

Total Liabilities

83,90,888

Total Assets

83,90,888

**Sources of Funds**

Paid-up Capital

7,56,985

Secured Loans

16,89,326

Reserve &amp; Surplus

58,63,314

Unsecured Loans

Nil

Share Warrant Money

81,264

Deferred Tax Assets (Net)

0

**Application of Funds**

Net Fixed Assets

1,37,289

Investment

37,59,830

Net Current Assets

36,53,509

Deferred Tax Assets (Net)

4,949

Profit &amp; Loss Account

8,35,311

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

Turnover

31,39,847

Total Expenditure

29,90,841

Profit/(Loss ) before Tax

1,49,006

Profit/(Loss ) after Tax

Before Extra Ordinary Item

1,50,437

Profit/(Loss ) after Tax

After Extra Ordinary Item

(18,40,680)

Earning per Shares in Rs.

Before Extra Ordinary Item

4.95

Earning per Shares in Rs.

After Extra Ordinary Item

(62.50)

Dividend Rate %

0.00%

**V. Generic Names of Three Principal Products of the Company (As per Monetary Terms)**

Product Description

*Other Precious Stones**Gold Studded Jewellery*

Item Code No.

710319.09

711319.03

Item Code No.

710310.11

711319.04

Item Code No.

710310.19

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

Rs in Lacs

Name of the Company	Issued & Subscribed Share capital	Reserves	Total Liabilities	Total Assets	Investment other than Investment in Subsidiary	Turnover	Profit/(Loss) before Taxation	Provision for Taxation	Profit & (Loss) after Taxation	Proposed Dividend
STS Jewels Inc., USA	199.73	1,107.48	5,454.66	6,761.87	-	18,616.37	(808.01)	1.81	(809.83)	NIL
STS Gems Thai Limited, Thailand	448.39	1,506.72	5,896.36	7,851.46	-	13,288.02	(2,718.43)	-	(2,718.43)	NIL
STS Creations Thai Limited, Thailand	128.11	(256.31)	291.90	163.70	-	15.94	(27.27)	-	(27.27)	NIL
STS Gems Limited, Hong Kong	449.28	1,284.08	6,634.44	8,367.79	-	9,249.62	13.49	14.62	(1.13)	NIL
STS Gems Japan Limited	302.03	(142.24)	782.06	941.85	7.55	963.92	(95.48)	-	(95.48)	NIL
Jewel Gem USA Inc.	4,713.52	(663.51)	5,343.45	9,393.46	-	10,076.52	(315.14)	0.23	(315.37)	NIL
Genoa Jewellers Limited, BVI	13,533.05	(8,431.25)	8,144.64	13,246.44	448.50	-	(9,118.87)	-	(9,118.87)	NIL
Indo Mexico Co. S. De R.L. De C.V., Mexico	3,511.09	(406.97)	3,159.93	6,264.05	-	3,126.29	(436.81)	-	(436.81)	NIL
STS Jewels Canada Inc.	3.99	(16.17)	40.77	28.60	-	32.83	(15.04)	-	(15.04)	NIL
2Umbrellas. Com Inc., USA#	-	-	-	-	-	-	-	-	-	NIL
STS Gems USA Inc.	179.75	106.34	392.69	678.79	-	956.82	(34.21)	1.43	(35.64)	NIL
STS Jewel Gems (China) Ltd.*	-	-	-	-	-	-	-	-	-	NIL
The Jewellery Channel Ltd., UK	19.92	(5,080.57)	11,676.93	6,616.28	-	18,748.65	(3,548.92)	-	(3,548.92)	NIL
The Jewellery Channel Inc., USA	1,198.35	(9,451.86)	15,293.98	7,040.48	-	14,222.95	(9,274.84)	-	(9,274.84)	NIL
Der Schmuckkanal Deutschland GmbH, Germany	315.57	(5,068.61)	9,828.44	5,075.39	-	8,330.45	(2,930.29)	-	(2,930.29)	NIL
Genoa Jewellers STT (St. Thomas) Limited, USVI	0.40	(252.35)	3,211.56	2,959.61	-	1,516.90	(322.26)	-	(322.26)	NIL
Genoa Jewellers (St. Kitts) Limited, WI	0.20	(49.53)	868.02	818.70	-	597.17	(16.96)	13.04	(30.00)	NIL
Genoa Jewellers (SXM) N.V., St. Maarten	1.20	377.51	1,494.83	1,873.54	-	2,046.09	203.69	-	203.69	NIL

**Notes:**

- 1.\* Liquidated during the year & the reserves/assets were transferred to respective holding Company viz, STS Gems Limited, Hong Kong;
2. # Discontinued its operation and all reserves and assets were transferred to respective holding company viz, STS Jewels Inc., USA.

## CONSOLIDATED FINANCIAL STATEMENTS

### AUDITORS REPORT FOR CONSOLIDATED Financial Statements

To,  
The Members  
VAIBHAV GEMS LIMITED

1. We have audited the attached Consolidated Balance Sheet of Vaibhav Gems Limited (the Company) and its subsidiaries as at 31<sup>st</sup> March 2008 and the Consolidated Profit and Loss account and Consolidated Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provide reasonable basis for our opinion.
3. We further report that:
  - a) We did not audit the financial statement of 7 subsidiaries, whose financial statements reflect total assets of Rs. 49883.61 lacs as at March 31, 2008, and total revenue of Rs. 56339.76 lacs for the year ended on that date. These financial statements and some financial information have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the report of other auditors.
  - b) The consolidated financial statements of one subsidiary, which reflect total assets of Rs.24287.53 lacs and total revenue of Rs. 46668.75 lacs have been audited by one of the undersigned, viz. B. Khosla & Co.
  - c) We draw attention to Note no. 9 (a) of Notes to accounts whereby the auditors of one sub subsidiary have given a disclaimer of opinion on financial statements being drawn on going concern assumption.
  - d) The financial statements of one sub subsidiary which reflects total assets of Rs. 28.60 lacs and total revenue of Rs. 32.83 lacs are not audited. We have relied upon the figures as provided by the management.
  - e) Certain other financial information of the subsidiaries, which have not been attested by other auditors, has been compiled by the management and have been verified to the extent possible.
4. We report that the consolidated financial statement have been prepared by the company's management in accordance with the requirements of the Accounting Standard (AS) 21, Consolidated Financial Statements and on the basis of the separate audited/unaudited financial statements and other information referred in paragraph 3 (e) above.
5. We report that on the basis of the information and explanations given to us and on consideration of the separate audit report on the individual financial statement of the Company and its subsidiaries and subject to Note 3(c) above , 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, 2008.
  - b. in case of the Consolidated Profit and Loss Account, of the Loss for the year ended on that date; and
  - c. in case of the Consolidated Cash Flow Statement, of the cash flow for the year ended on that date.

For **Haribhakti & Co.**  
Chartered Accountants

**Chetan Desai**  
Partner  
Membership No. 17000  
Place : Jaipur  
Date : 30<sup>th</sup> June 2008

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

**Sandeep Mundra**  
Partner  
Membership No. 75482



## CONSOLIDATED BALANCE SHEET as at 31<sup>st</sup> March, 2008

Amount in Rupees

Particulars	Schedule	As at 31st March, 2008		As at 31st March, 2007	
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' Funds</b>					
Share Capital	I	75,69,84,731		71,58,78,730	
Share Warrants(Refer Note No. 5)		8,12,63,600		–	
Reserves and Surplus	II	5,82,96,74,630	<b>6,66,79,22,961</b>	5,50,53,48,453	6,22,12,27,183
<b>Minority Interest</b>			<b>1,90,72,986</b>		<b>2,03,76,460</b>
<b>Loan Funds</b>					
Secured Loans	III	2,10,48,80,798		1,05,30,45,302	
Unsecured Loans	IV	5,54,55,107	<b>2,16,03,35,905</b>	6,99,83,446	1,12,30,28,748
<b>Total</b>			<b>8,84,73,31,852</b>		<b>7,36,46,32,391</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	V	2,88,48,85,872		3,42,80,14,256	
Less: Depreciation		37,34,40,467		28,44,89,732	
Net Block		<b>2,51,14,45,405</b>		3,14,35,24,524	
Capital Work-in-Progress		–	<b>2,51,14,45,405</b>	13,93,093	3,14,49,17,617
<b>Investments</b>	VI		<b>5,09,55,574</b>		9,74,93,392
<b>Deferred Tax Assets (Net)</b>			<b>49,49,117</b>		1,50,37,376
<b>Current Assets, Loans and Advances</b>					
Inventories	VII	3,81,32,12,212		3,07,96,41,212	
Sundry Debtors	VIII	98,90,35,753		91,17,37,360	
Cash and Bank Balances	IX	50,66,18,196		41,55,88,704	
Interest Accrued on Bank Deposits		50,25,882		9,06,061	
Loans and Advances	X	48,10,05,204		58,81,17,847	
			<b>5,79,48,97,247</b>	4,99,59,91,184	
<b>Less: Current Liabilities and Provisions</b>					
Current Liabilities	XI	1,53,32,31,965		86,54,23,545	
Provisions	XII	2,31,05,668		2,33,83,633	
			<b>1,55,63,37,633</b>	88,88,07,178	
<b>Net Current Assets</b>			<b>4,23,85,59,614</b>		4,10,71,84,006
<b>Profit and Loss Account</b>					
Debit Balance in Profit & Loss Account		2,12,10,69,398			
Less: General Reserve deducted as per contra		79,647,256	<b>2,04,14,22,142</b>	–	–
<b>Total</b>			<b>8,84,73,31,852</b>		<b>7,36,46,32,391</b>
Significant Accounting Policies and Notes to Accounts	XX		–		–

As per our attached report of even date

For **HARIBHAKTI & CO.**  
Chartered Accountants

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

**CHETAN DESAI**  
Partner  
Jaipur, 30<sup>th</sup> June, 2008

**SANDEEP MUNDRA**  
Partner

**MUKESH KHETAN**  
Company Secretary

For and on behalf of the Board

**RAHIMULLAH**  
Managing Director

**NIRMAL KUMAR BARDIYA**  
Director

**CONSOLIDATED PROFIT AND LOSS ACCOUNT** for the year ended 31<sup>st</sup> March, 2008

Amount in Rupees

Particulars	Schedule	Year ended 31st March 2008	Year ended 31st March 2007
<b>INCOME</b>			
Sales	XIII	7,60,78,08,945	5,19,15,18,608
Other Income	XIV	13,52,95,490	15,17,20,919
<b>Total</b>		<b>7,74,31,04,435</b>	<b>5,34,32,39,527</b>
<b>EXPENDITURE</b>			
Materials Cost	XV	4,71,32,93,428	2,98,77,76,173
Manufacturing/Direct Expenses	XVI	37,63,78,103	32,45,33,175
Employees Costs	XVII	1,24,73,13,436	89,61,14,391
Administrative & Selling Expenses	XVIII	2,97,80,78,974	1,19,12,88,720
Financial Expenses	XIX	14,60,17,997	11,19,39,446
<b>Total</b>		<b>9,46,10,81,938</b>	<b>5,51,16,51,905</b>
<b>Profit/(Loss) Before Depreciation</b>		<b>(1,71,79,77,503)</b>	<b>(16,84,12,378)</b>
Depreciation	V	11,25,42,155	6,99,58,910
<b>Profit/(Loss) Before Tax</b>		<b>(1,83,05,19,658)</b>	<b>(23,83,71,288)</b>
Add/Less: Provision For Taxation			
– Current Tax		28,87,201	1,37,47,514
– Earlier Years Tax		(3,47,095)	10,72,377
– Deferred Tax Charges/(Credits)		1,39,68,026	(1,79,83,019)
– Fringe Benefit Tax		17,50,000	13,50,000
<b>Profit/(Loss) After Tax and Before Minority Interest</b>		<b>(1,84,87,77,790)</b>	<b>(23,65,58,160)</b>
Add : Minority Interest in Profit/(Loss)		(3,36,617)	1,75,027
<b>Profit After Tax Before Extra Ordinary Item</b>		<b>(1,84,91,14,407)</b>	<b>(23,63,83,133)</b>
Less : Goodwill on consolidation written off (Refer Note No. 8)		(70,76,73,638)	–
<b>Profit After Tax After Extra Ordinary Item</b>		<b>(2,55,67,88,045)</b>	<b>(23,63,83,133)</b>
Balance brought forward		43,57,18,647	69,03,84,905
<b>Profit Available For Appropriation</b>		<b>(2,12,10,69,398)</b>	<b>45,40,01,772</b>
<b>APPROPRIATION</b>			
Dividend on Preference Share Capital		–	18,33,333
Proposed Dividend		–	1,37,93,937
Tax on Dividend		–	26,55,855
General Reserve		–	–
<b>Total</b>		<b>–</b>	<b>1,82,83,125</b>
<b>Balance Carried to Balance Sheet</b>		<b>(2,12,10,69,398)</b>	<b>43,57,18,647</b>
<b>Earnings Per Share of Rs.10 each (Refer Note No.6)</b>			
<b>Basic</b>			
Before Extra Ordinary Item		(62.78)	(8.65)
After Extra Ordinary Item		(86.76)	(8.65)
<b>Diluted</b>			
Before Extra Ordinary Item		(62.78)	(8.65)
After Extra Ordinary Item		(86.76)	(8.65)
<b>Significant Accounting Policies and Notes to Accounts</b>	XX		

As per our attached report of even date

For **HARIBHAKTI & CO.**  
Chartered AccountantsFor **B. KHOSLA & CO.**  
Chartered Accountants**CHETAN DESAI**  
Partner  
Jaipur, 30<sup>th</sup> June, 2008**SANDEEP MUNDRA**  
Partner**MUKESH KHETAN**  
Company Secretary

For and on behalf of the Board

**RAHIMULLAH**  
Managing Director**NIRMAL KUMAR BARDIYA**  
Director

## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31st March, 2008

Amount in Rupees

Particulars	Schedule	As at 31st March 2008	As at 31st March 2007
<b>A. Cash Flow from Operating Activities</b>			
<b>Net Profit/(Loss) before tax and extraordinary Items</b>		<b>(1,83,05,19,658)</b>	<b>(23,83,71,288)</b>
Adjustment for :			
Depreciation		11,25,42,155	6,99,58,910
Unrealised Foreign Exchange Difference		(3,95,81,068)	85,61,984
Employee Compensation Expenses		46,46,014	14,81,110
Profit on Sales of Investment		(26,19,031)	(48,70,959)
Loss/(Profit) on Sale of Fixed Assets		(6,70,360)	7,301
Gratuity Expenses		29,90,260	-
Interest and Dividend Earned		(1,97,38,153)	(4,54,96,736)
Interest Paid on Borrowings		11,90,53,466	8,68,11,304
<b>Operating Profit before working Capital Changes</b>		<b>(1,65,38,96,375)</b>	<b>(12,19,18,374)</b>
Adjustment for :			
Trade and Other Receivables		(5,36,68,667)	22,80,43,981
Trade Payables		67,10,37,550	24,42,99,505
Stock- in - Trade		(73,35,71,000)	(1,05,26,41,091)
<b>Cash generated from Operations</b>		<b>(1,77,00,98,492)</b>	<b>(70,22,15,979)</b>
Direct Taxes Paid		(1,52,00,000)	(1,67,95,345)
Earlier Year Tax		3,47,095	(18,48,991)
Minority Share of Interest in Profits		(3,36,617)	1,75,027
<b>Net Cash from operating activities</b>		<b>(1,78,52,88,014)</b>	<b>(72,06,85,288)</b>
<b>B. Cash Flow from Investing Activities</b>			
Purchase of Fixed Assets		(18,69,97,442)	(27,27,38,352)
Payment for Goodwill (net of Capital Reserve)		-	(1,91,80,402)
Sales of Fixed Assets		9,24,221	79,813
Sales/(Purchases) of Shares/Mutual Fund		4,65,37,818	83,51,535
Profit on Sale of Investment		26,19,031	48,70,959
Interest and Dividend Received		1,97,38,153	4,54,96,736
<b>Net Cash used in Investing Activities</b>		<b>(11,71,78,219)</b>	<b>(23,31,19,711)</b>
<b>C. Cash Flow from Financing Activities</b>			
Proceeds from/(Repayment of ) Long Term Borrowings		44,25,52,677	6,19,91,135
Proceeds from/(Repayment of) Short Term Borrowings		60,68,07,992	2,05,31,485
Proceeds from Issuance of Share Capital (Net of Expenses)		1,01,18,63,883	(39,99,860)
Loans Advanced to Others		9,81,72,983	(34,17,74,699)
Minority Interest Payable		(13,03,474)	(7,31,323)
Foreign Currency Translation Reserve - Unrealised		(2,72,61,745)	(1,88,25,945)
Dividend and Tax on Dividend Paid		(1,82,83,125)	(4,71,85,609)
Interest Paid on Borrowings		(11,90,53,466)	(8,68,11,304)
<b>Net Cash used in Financing Activities</b>		<b>1,99,34,95,725</b>	<b>(41,68,06,120)</b>
<b>Net Increase in Cash and Cash Equivalents (A+B+C)</b>		<b>9,10,29,492</b>	<b>(1,37,06,11,119)</b>
Opening Balance of Cash and Cash Equivalents		41,55,88,704	1,78,61,99,823
<b>Closing Balance of Cash and Cash Equivalents</b>		<b>50,66,18,196</b>	<b>41,55,88,704</b>
<b>Cash and Cash Equivalents Comprises</b>			
Cash, Cheques and Drafts in Hand		33,39,971	1,11,43,625
Balance with Bank in Current Accounts		16,01,35,999	11,69,15,948
Balance with Bank in Deposit Accounts		34,31,42,226	28,75,29,131
Balance with Other Banks			
		<b>50,66,18,196</b>	<b>41,55,88,704</b>
<b>Significant Accounting Policies and Notes on Accounts forming integral part of Cash Flow Statement</b>	<b>XX</b>		

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

**CHETAN DESAI**  
Partner

**SANDEEP MUNDRA**  
Partner

**MUKESH KHETAN**  
Company Secretary

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

**NIRMAL KUMAR BARDIYA**  
Director

Jaipur, 30<sup>th</sup> June, 2008

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2008		As at 31st March, 2007	
<b>SCHEDULE I - SHARE CAPITAL</b>				
<b>Authorised</b>				
4,10,00,000 (Previous Year - 3,10,00,000) Equity Shares of Rs 10/- each	41,00,00,000		31,00,00,000	
45,00,000 Unclassified Shares of Rs 100/- each	45,00,00,000	86,00,00,000	45,00,00,000	76,00,00,000
<b>Issued, Subscribed and Paid up</b>				
3,16,98,473 (Previous Year - 2,75,87,873) Equity Shares of Rs 10/- each	31,69,84,731		27,58,78,730	
44,00,000 1% Non Convertiable Redeemable Cumulative Preference Share of Rs. 100 each	44,00,00,000	75,69,84,731	44,00,00,000	71,58,78,730
		<b>75,69,84,731</b>		<b>71,58,78,730</b>

**Notes :** Out of the above Equity Shares :

- 72,94,920 Equity Shares were allotted as fully paid up Bonus Share by capitalisation of Profit & Loss Account
- 1,28,60,600 ( Previous Year-87,50,000) Equity Shares have been allotted as underlying Shares for Global Depository Receipts

**SCHEDULE II - RESERVES AND SURPLUS**

<b>Securities Premium Account :</b>				
As per last Balance Sheet	4,98,45,25,910		4,98,85,25,769	
Add: Received during the year	90,43,32,000		-	
	5,88,88,57,910		4,98,85,25,769	
Less: Expenses for Issue of Securities	1,48,37,718	5,87,40,20,192	39,99,860	4,98,45,25,909
<b>General Reserve:</b>				
As per last Balance Sheet	9,00,00,000		9,00,00,000	
Add: Transitional liabilities for Deferred Benefit Plan (Refer Note 4)	(1,03,52,744)	-	-	-
	7,96,47,256		9,00,00,000	
Less: Debit Balance in Profit & Loss deducted as per contra	7,96,47,256	-	-	9,00,00,000
<b>Capital Reserve on Consolidation</b>				
		1,42,11,290		1,42,11,290
<b>Foreign Currency Translation Reserve</b>				
		(6,46,83,976)		(2,05,88,503)
<b>Employee Stock Option Outstanding (Refer Note No. 7)</b>				
	1,00,68,148		1,23,09,796	
Less: Deferred Employees Compensation Expenses Outstanding	39,41,024	61,27,124	1,08,28,686	14,81,110
<b>Balance in Profit and Loss Account</b>				
		-		43,57,18,647
		<b>5,82,96,74,630</b>		<b>5,50,53,48,453</b>

## SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2008		As at 31st March, 2007	
-------------	---------------------------	--	---------------------------	--

### SCHEDULE III - SECURED LOANS

<b>From Bank</b>				
Term Loan [Repayable within one year Rs. 11,51,82,271 (Previous Year Rs. 5,99,29,607)]	50,26,23,074		7,21,23,909	
Working Capital Loan	1,60,22,57,724	2,10,48,80,798	98,09,21,393	1,05,30,45,302
		<b>2,10,48,80,798</b>		<b>1,05,30,45,302</b>

### SCHEDULE IV - UNSECURED LOANS

<b>From Bank</b> [Repayable within one year Rs. 91,50,389 (Previous Year Rs. 9,20,263)]		2,74,93,537		2,65,41,746
<b>From Others</b> [Repayable within one year Rs. 2,79,61,570 (Previous Year Rs. 4,34,41,700)]		2,79,61,570		4,34,41,700
		<b>5,54,55,107</b>		<b>6,99,83,446</b>

**SCHEDULE V - FIXED ASSETS**

(Amount in Rs.)

PARTICULARS OF ASSET	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	Balance as on 31.03.2007	Additions	Deductions	Balance as on 31.03.2007	Depreciation	Adjustments	Currency Realignment	Balance as on 31.03.2008	Balance as on 31.03.2007
<b>Intangible Assets</b>									
Goodwill on Consolidation*	2,55,14,08,558	-	70,76,73,658	-	-	-	-	1,84,37,34,920	2,55,14,08,558
<b>Tangible Assets</b>									
Land (Freehold)	5,29,06,732	(12,56,532)	-	-	-	-	-	5,16,50,200	5,29,06,732
Land (Leasehold)	3,71,03,637	1,43,25,534	-	12,10,736	7,29,864	-	-	4,94,88,571	3,58,92,901
Building	11,22,86,562	1,14,81,562	4,26,495	5,37,55,915	55,18,361	3,71,420	(20,37,846)	6,64,76,620	5,85,30,648
Lease Hold Improvement	18,07,89,989	5,98,36,234	-	3,12,84,786	2,89,77,000	-	(24,37,403)	18,28,01,839	14,95,05,203
Plant & Machinery	15,58,54,353	4,50,16,760	60,07,121	7,18,43,685	1,82,18,894	58,22,792	(20,30,454)	11,26,54,660	8,40,10,669
Electric Installation	1,47,77,757	1,40,682	-	49,56,241	13,86,707	-	(207)	85,75,698	98,21,516
Furniture & Fixtures	8,97,55,912	1,09,54,978	6,51,324	3,29,14,430	1,01,70,775	5,99,314	(15,79,222)	4,09,06,668	5,68,41,482
Office Equipment	6,93,73,471	14,48,520	17,34,470	2,75,60,337	84,49,284	17,29,956	(11,43,196)	3,31,36,468	4,18,13,135
Computer	15,49,83,995	3,37,84,024	14,64,771	5,57,54,880	3,79,82,264	14,55,139	(27,06,237)	8,95,75,769	9,92,29,114
Vehicles	87,73,289	6,87,739	15,90,065	52,08,721	11,09,006	15,20,114	(1,58,118)	46,39,495	35,64,568
<b>Total</b>	<b>3,42,80,14,256</b>	<b>17,64,19,501</b>	<b>71,95,47,885</b>	<b>28,44,89,732</b>	<b>11,25,42,155</b>	<b>1,14,98,736</b>	<b>(1,20,92,684)</b>	<b>37,34,40,467</b>	<b>3,14,35,24,524</b>
Previous Year	3,11,22,34,312	31,71,66,885	13,86,941	21,53,73,832	6,99,58,910	8,43,010	-	28,44,89,732	2,89,68,60,480

**Note:**

\*Goodwill on consolidation written off due to permanent diminution in value of investment in two subsidiaries.

## SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2008	As at 31st March, 2007
<b>SCHEDULE VI - INVESTMENTS</b> (Long Term - at Cost)		
<b>Other than Trade Investment - Unquoted</b>		
3,60,000 (Previous Year - 3,60,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Ltd.	52,07,000	52,07,000
<b>Other than Trade Investment - Quoted</b>		
368 (Previous Year - 368) Equity Shares of Rs.10 each fully paid up of Punjab National Bank	1,43,520	1,43,520
3,130.07 (Previous Year - 2,569) Shares of Tokio Kiho of Japan Yen 50 each	7,55,073	5,86,622
10,000 0% CP HBOS Treasury Serv PLC	-	3,52,64,495
3,000 5.22% Auction Rate Receipts of SLM Student Loan Trust	-	4,32,59,245
Money Market Funds	9,10,372	1,30,32,510
11,000 4.9% Commercial Deposit/ Morgan Stanley of US \$ 100 each	4,39,39,610	-
	<b>5,09,55,574</b>	<b>9,74,93,392</b>

## SCHEDULE VII - INVENTORIES

(As taken, valued and certified by the Management) (At cost or net realisable value, whichever is lower)

Materials-in-Process	85,45,90,471	75,24,19,021
Semi Finished Goods	19,27,77,879	11,41,87,397
Finished Goods	2,76,46,50,100	2,21,09,13,480
Stores and Consumables	11,93,762	21,21,314
	<b>3,81,32,12,212</b>	<b>3,07,96,41,212</b>

## SCHEDULE VIII - SUNDRY DEBTORS

(Unsecured and considered good unless otherwise stated)

Outstanding for more than six months	17,54,36,466	14,52,64,066
Less: Provision for doubtful debts	(2,43,00,939)	(5,77,422)
Others	83,79,00,226	76,70,50,716
	<b>98,90,35,753</b>	<b>91,17,37,360</b>



**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2008		As at 31st March, 2007	
<b>SCHEDULE IX - CASH AND BANK BALANCES</b>				
Cash in Hand		33,39,971		1,11,43,625
Balance with Banks				
- In Current Accounts	16,01,35,999		11,69,15,948	
- In Deposit Accounts*	34,31,42,226	50,32,78,225	28,75,29,131	404,445,079
*Pledged, Rs. 10,28,21,282 (Previous Year Rs. 15,47,71,978)				
		<b>50,66,18,196</b>		<b>41,55,88,704</b>

**SCHEDULE X - LOANS & ADVANCES** (Unsecured and considered good unless otherwise stated)

Advances recoverable in cash or in kind or for value to be received		16,78,18,382		25,75,54,476
Key Money Deposits		23,63,69,977		24,62,26,047
Advance Tax (Net of Provision)		4,36,56,996		3,53,44,488
Security Deposits		3,31,59,849		4,89,92,836
		<b>48,10,05,204</b>		<b>58,81,17,847</b>

**SCHEDULE XI - CURRENT LIABILITIES**

Sundry Creditors		1,26,48,85,587		68,04,27,835
Unclaimed Dividend		3,60,372		3,50,376
Other Liabilities		26,79,86,006		18,46,45,334
		<b>1,53,32,31,965</b>		<b>86,54,23,545</b>

**SCHEDULE XII - PROVISIONS**

Leave Encashment		44,31,808		51,00,508
Gratuity		1,86,73,860		-
Dividend on Preference Share		-		18,33,333
Proposed Dividend		-		1,37,93,937
Tax on Dividend		-		26,55,855
		<b>2,31,05,668</b>		<b>2,33,83,633</b>

## SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	Year ended 31st March, 2008	Year ended 31st March, 2007
<b>SCHEDULE XIII - SALES</b>		
Sales	7,60,78,08,945	5,19,15,18,608
	<b>7,60,78,08,945</b>	<b>5,19,15,18,608</b>

<b>SCHEDULE XIV - OTHER INCOME</b>		
Interest Income	1,97,38,153	4,54,96,736
Miscellaneous Income	3,53,08,732	2,29,49,073
Exchange Gain (Net)	8,02,48,605	8,32,75,110
	<b>13,52,95,490</b>	<b>15,17,20,919</b>

<b>SCHEDULE XV - MATERIALS</b>				
<b>Materials Consumed</b>				
Opening Material-in-Process	75,24,19,022		71,97,21,070	
Add : Purchases	3,17,31,43,333		2,33,14,08,640	
	3,92,55,62,355		3,05,11,29,710	
Less : Closing Material-in-Process	85,45,90,471	3,07,09,71,884	75,24,19,021	2,29,87,10,689
Purchases of Finished Goods		2,27,46,48,646		1,89,13,27,527
<b>(Increase)/Decrease in Semi Finished and Finished Goods:</b>				
<i>Opening Stocks</i>				
Semi Finished Goods	11,41,87,397		9,46,80,430	
Finished Goods	2,21,09,13,480		1,02,81,58,404	
	2,32,51,00,877		1,12,28,38,834	
Less : <i>Closing Stocks</i>				
Semi Finished Goods	19,27,77,879		11,41,87,397	
Finished Goods	2,76,46,50,100		2,21,09,13,480	
	2,95,74,27,979	(63,23,27,102)	2,32,51,00,877	(1,20,22,62,043)
		<b>4,71,32,93,428</b>		<b>2,98,77,76,173</b>

<b>SCHEDULE XVI - MANUFACTURING/DIRECT EXPENSES</b>				
Job Work Charges		10,26,41,911		10,39,76,267
Stores and Consumables		3,76,81,315		4,84,62,691
Power and Fuel		1,73,98,921		1,79,01,817
Repairs and Maintenance		79,82,221		86,21,683
Freight, Taxes and Duties		17,97,48,860		10,52,98,892
Other Manufacturing Expenses		3,09,24,875		4,02,71,825
		<b>37,63,78,103</b>		<b>32,45,33,175</b>

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	Year ended 31st March, 2008	Year ended 31st March, 2007
<b>SCHEDULE XVII - EMPLOYEES COSTS</b>		
Salaries, Wages, Bonus etc.	1,06,08,80,808	77,92,10,733
Contributions to Provident and Other Funds	12,69,09,742	6,51,09,256
Staff Welfare Expenses	2,99,66,837	1,40,71,360
Recruitment and Training	2,95,56,049	3,77,23,042
	<b>1,24,73,13,436</b>	<b>89,61,14,391</b>
<b>SCHEDULE XVIII - ADMINISTRATIVE &amp; SELLING EXPENSES</b>		
Rent, Rates and Taxes	15,51,94,582	12,73,14,125
Insurance	3,29,01,645	2,87,88,657
Travelling and Conveyance	10,38,33,334	8,62,52,603
Legal and Professional	13,66,00,133	8,80,89,991
Postage and Telephone	4,57,67,881	3,56,19,375
Printing and Stationery	1,51,03,743	1,39,91,833
Advertisement and Business Promotion	19,57,30,900	15,03,35,172
Discount, Brokerage and Commission	7,76,53,540	4,08,13,818
Packing and Forwarding	7,33,68,214	4,24,42,603
Repair & Maintenance	3,23,39,190	1,36,77,728
Bad Debts	6,61,68,616	65,81,190
Office Expenses	17,25,36,694	9,65,05,132
Donation	24,29,921	-
Auditors' Remuneration	68,49,608	-
Directors' Remuneration	2,78,97,641	82,37,234
Directors' Sitting Fees	19,77,098	2,35,000
Information Technology Expenses	4,84,65,956	4,21,39,189
Loss on Sale of Assets	99,350	24,414
Pre-Operative Expenses	-	2,42,71,291
<b>TV CHANNEL EXPENSES</b>		
Content & Broadcasting	1,34,61,50,030	19,70,86,412
Call Handling & Collection Charges	22,21,54,211	8,76,51,098
Packing & Distribution Charges	46,43,66,131	20,06,90,635
Less: Recovered	-24,95,09,444	-9,94,58,780
	<b>2,97,80,78,974</b>	<b>1,19,12,88,720</b>
<b>SCHEDULE XIX - FINANCIAL EXPENSES</b>		
Interest	11,90,53,466	8,68,11,304
Finance Charges	2,69,64,531	2,51,28,142
	<b>14,60,17,997</b>	<b>11,19,39,446</b>

## SCHEDULES forming part of Consolidated Accounts

### SCHEDULE XX - SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

#### A. Significant Accounting Policies

##### 1. Basis for Preparation of Consolidated Financial Accounts

- (a) The consolidated financial statement relates to Vaibhav Gems Limited (**'the holding Company'**) and 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 Accountants of India and relevant provision of the Companies Act, 1956.
- (b) The consolidated financial statement has been prepared under historical cost convention on an accrual basis.

##### 2. Principles of consolidation

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

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

(\*) Ceases its operation. (\*\*) Liquidated during the year

- b) The consolidated financial statements have been prepared on the following basis:
- The consolidated financial statements have 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.

**SCHEDULES** forming part of Consolidated Accounts

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

**B. Notes to Accounts**

Amount in Rupees

Particulars	As at 31.03.2008	As at 31.03.2007
<b>1. Contingent Liabilities:</b>		
a. Guarantees given by bank on behalf of Company	7,20,50,000	2,48,35,000
b. Guarantees given by Company to Bank	89,80,11,000	25,65,90,000
c. Disputed Income Tax, Service Tax & Customs Matters	1,31,09,589	1,12,39,420
d. Dividend on Cumulative Preference Shares	44,00,000	-
<b>2. The Deferred Tax Liabilities/(Asset) comprise of the following:</b>		
<b>a. Deferred Tax Liability</b>		
Depreciation	30,48,941	30,37,322
<b>b. Deferred Tax Assets:</b>		
Provision for Leave Encashment/Gratuity	(63,85,729)	(46,392)
Carry Forward Losses	(16,12,329)	(1,06,43,217)
Expenses Allowable on Deferred Basis	-	(73,85,089)
<b>Total</b>	<b>(79,98,358)</b>	<b>(1,80,74,698)</b>
<b>c. Deferred Tax Liability/(Assets) (Net)</b>	<b>(49,49,117)</b>	<b>(1,50,37,376)</b>

Net deferred tax charge/(credit) for the year of Rs. 1,39,68,026 (Previous Year Rs. 1,79,83,019) has been recognized in the Profit and Loss Account for the year.

## SCHEDULES forming part of Consolidated Accounts

### 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:

Particulars	As at 31.03.2008 Rupees	As at 31.03.2007 Rupees
Not later than one year	33,03,16,117	30,92,41,426
Later than one year & not later than five years	66,39,97,281	52,37,86,017
Later than five years	–	43,44,000

4. The holding Company adopted the Accounting Standard (AS – 15) (Revised 2005) “Employee Benefits” effective from April 01, 2007. Consequent to the adoption and in accordance with the transitional provision of the Accounting Standard, an amount of Rs.1,03,52,744 (net of deferred tax Rs. 53,30,856 ) (Refer Schedule II) is adjusted against the opening balance in the General Reserves.
- 5.A During the year, on 12<sup>th</sup> Oct. 2007, the Company has allotted 4,11,060 Global Depository Receipts @ USD 58.5988 (equivalent to Rs. 2,300) underlying 41,10,600 Equity Shares of Rs. 10 each at a premium of Rs. 220 per share, aggregating Rs. 9,454.38 lacs, on private placement basis.
- 5.B During the Year, on 12<sup>th</sup> Oct. 2007, the holding Company has allotted 353,320 Convertible Warrants @ of Rs. 2,300/- each, one warrant convertible into 10 Equity Shares of Rs. 10 each at a premium of Rs. 220 per share, aggregating to Rs. 8,126.36 lacs, on preferential basis. 10% of the total amount, i.e. Rs. 812.64 lacs has been received and the balance amount is payable upon conversion. As per the term of issue the warrants are convertible within 18 months from the date of allotment i.e. on or before 12<sup>th</sup> April 2009.

### 6. Earning per Share (EPS):

Particulars	2007-08 Rupees	2006-07 Rupees
a. Profit/(Loss) for the Year After Tax (Rs.)		
– Before Extra Ordinary Items	(1,84,91,14,407)	(23,63,83,133)
– After Extra Ordinary Items	(2,55,67,88,045)	(23,63,83,133)
b. Dividend on Preference Share including Tax thereon(Rs.)	44,00,000	21,44,908
c. Profit/(Loss) attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b)		
– Before Extra Ordinary Items	(1,85,35,14,407)	(23,85,28,041)
– After Extra Ordinary Items	(2,56,11,88,045)	(23,85,28,041)
d. (i) Weighted Averages Number of Equity Shares Outstanding during the Year for Basic EPS	2,95,19,630	2,75,87,873
(ii) No of Stock Options Outstanding	2,58,165	3,00,973
(iii) No of Dilutive Potential Equity Shares		–
e. Weighted Average Number of Equity Shares Outstanding during the year for Diluted EPS (d(i) + d(iii))	2,95,19,630	2,75,87,873
f. <b>Basic Earning Per Share</b>		
– Before Extra Ordinary Items	(62.78)	(8.65)
– After Extra Ordinary Items	(86.76)	(8.65)
g. <b>Diluted Earning Per Share</b>		
– Before Extra Ordinary Items	(62.78)	(8.65)
– After Extra Ordinary Items	(86.76)	(8.65)

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

The holding Company has issued Stock Options under "VGL ESOP – 2006 Scheme" to its employees (including certain employees of the Subsidiaries).

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

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

Particulars	VGL ESOP – 2006		
	A Rupees	B Rupees	Total Rupees
Exercise (Grant) Price	240	202	
Date of Grant of Options	06.01.2007	27.07.2007	
Vesting commences on	06.01.2008	27.07.2008	
Options granted and outstanding as at the beginning of the year on 01.04.08	3,00,973	–	3,00,973
Options granted during the year	–	12,000*	12,000
Options lapsed during the year ( Re-issuable)	54,808	–	54,808
Options granted and outstanding as at the end of the year on 31.03.08	2,46,165	12,000	2,58,165

\* Granted out of lapsed options

The excess of market price per share as on the date of grant of option, over the exercise price for the Stock Option granted to employees (including certain employees of the Subsidiaries), is amortized by the holding Company over the vesting period. The amortized value for the year pertaining to its employees (including certain employees of the Subsidiaries) amounting to Rs.46,46,014 has been charged under Employee Cost.

8. The holding company has provided for diminution in the value of investments in two of its subsidiary companies in its standalone financial statements and correspondingly, the goodwill on consolidation amounting to Rs. 70,76,73,638 in respect of those subsidiaries have been written off as extra ordinary item.
9. a) In respect of The Jewellery Channel Inc; USA, one of the step down subsidiary, the auditors have issued disclaimer of opinion in the Auditors' Report on financial statement being drawn on going concern assumption. However, the management has written off the entire investments and loans and advances in that subsidiary.
- b) In case of two subsidiaries, although, the net worth as on the balance sheet date is negative, based on the management representation for continuing support to those subsidiaries, the respective auditors have accepted the financials on the going concern basis and accordingly no adjustment is made in the consolidated financial statement.

**10. Segment information:**

(i) For the year ended 31<sup>st</sup> March 2008:

Amount in Rupees

Sr. No.	Particulars	Wholesale Operations	Retail Operations (TV Channels)	Retail Operations (Stores)	Elimination	Total
1	<b>Revenue</b>					
	External Revenue	2,55,84,46,690	4,03,53,03,576	1,01,40,58,678		7,60,78,08,945
	Inter-Segment Revenue	3,27,73,86,672	9,49,01,906		(3,37,22,88,578)	–
	<b>Total Revenue</b>	5,83,58,33,362	4,13,02,05,482	1,01,40,58,678	(3,37,22,88,578)	7,60,78,08,945
2	<b>Segment Result</b>					
	Operating Result	(21,18,65,636)	(1,58,30,87,977)	45,56,641	(1,66,07,893)	(1,80,70,04,864)
	Interest Income					1,97,38,153
	Interest Expenses					11,90,53,466

## SCHEDULES forming part of Consolidated Accounts

	Rupees	Rupees	Rupees	Rupees	Rupees
Exchange Gain - Unallocated					7,54,63,902
Profit Before Tax					(1,83,08,56,275)
Tax Expenses					1,82,58,132
<b>Net Profit After Tax</b>					(1,84,91,14,407)
Less Goodwill W/off					(70,76,73,638)
<b>Profit After Extra Ordinary Item</b>					(2,55,67,88,045)
<b>3 Other Information</b>					
Segment Assets	11,89,09,46,351	2,39,98,99,600	1,19,15,90,116	(7,12,01,88,724)	8,36,22,47,343
Segment Liabilities	5,11,51,43,771	2,92,13,28,315	87,34,35,051	(5,17,41,60,613)	3,73,57,46,524
Depreciation and Amortization	3,17,63,006	5,30,97,615	2,76,81,534		11,25,42,155
Non Cash Expenses other than Depreciation	3,16,25,690	3,46,42,275	-		6,62,67,966
Goodwill on Consolidation Written Off	70,76,73,638				70,76,73,638

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

Amount in Rupees

Sr. No.	Particulars Operation	Wholesale Operations	Retail Operations (TV Channels)	Retail Operations (Stores)	Elimination	Total
<b>1</b>	<b>Revenue</b>					
	External Revenue	3,21,17,41,900	1,24,81,21,257	73,16,55,451		5,19,15,18,608
	Inter-Segment Revenue	1,66,92,95,719	25,63,374		(1,67,18,59,093)	-
	<b>Total Revenue</b>	<b>4,88,10,37,619</b>	<b>1,25,06,84,631</b>	<b>73,16,55,451</b>	<b>(1,67,18,59,093)</b>	<b>5,191,5,18,608</b>
<b>2</b>	<b>Segment Result</b>					
	Operating Result	17,53,47,042	(35,00,59,082)	(34,39,926)	(1,07,29,538)	(18,88,81,504)
	Interest Income					4,54,96,736
	Interest Expenses					8,68,11,304
	Un-allocable exchange loss					81,75,218
	<b>Profit/(Loss) Before Tax</b>					<b>(23,83,71,290)</b>
	Tax Expenses					(18,13,128)
	<b>Net Profit/(Loss) After Tax</b>					<b>(23,65,58,162)</b>
<b>3</b>	<b>Other Information</b>					
	Segment Assets	11,56,86,68,077	1,48,06,38,325	1,11,84,28,749	(5,91,42,95,582)	8,25,34,39,569
	Segment Liabilities	3,52,82,46,218	87,07,96,742	76,76,85,809	(3,13,45,16,383)	2,03,22,12,386
	Depreciation and Amortization	3,55,58,654	1,11,83,191	2,32,17,064		6,99,58,910
	Non Cash Expenses other than Depreciation	6,30,866	59,35,412	7,03,839		72,70,117

**Notes:**

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



**SCHEDULES** forming part of Consolidated Accounts**11. Related Party Disclosures:****A. List of related parties with whom transactions have taken place and relationships:**

Key Managerial Personnel(KMP)

Shri Rahimullah – Managing Director

Relative of Key Managerial Personnel

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

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 6. Surawell Pacific Ltd.

Nature of Transactions	Key Managerial Person		Relative of Key Managerial Person		Enterprises over which significant influence exercised by Key Managerial Persons			
	2007-08	2006-07	2007-08	2006-07	2007-08		2006-07	
					VGL Softech LTD.	Other	VGL Softech Ltd.	Other
(i) <b>Transaction during the year</b>	-	-	-	-	-	-	-	-
a. Purchases of Goods	-	-	-	-	-	-	-	2,58,467
b. Advance Given	-	-	-	-	26,350	-	31,00,000	2,32,680
c. Advance Given Repaid	-	-	-	-	22,00,000	-	79,54,646	2,46,640
d. Expenses	-	-	6,18,432	5,71,039	3,88,29,220	278,424	5,84,37,322	-
e. Remuneration	2,78,97,641	75,50,000	32,73,789	28,66,668	-	-	-	-
(ii) <b>Balances as at 31.03.08</b>	-	-	-	-	-	-	-	-
a. Amount Receivable	-	-	94,482	-	26,350	-	-	-
b. Amount Payable	-	-	-	-	84,95,532	178,174	3,63,72,833	-
c. Loan & Advance Receivable	-	-	-	-	-	-	22,00,000	-
d. Investments	-	-	-	-	52,07,000	-	52,07,000	-

12. 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 Rs. 9,98,62,750 (US\$ 25,00,000) 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, 2008, STS Jewels Inc. held on consignment 1,493 troy ounces of fine gold valued at Rs. 5,56,72,125 (US\$ 13,93,716)

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

13. The previous year figures have been regrouped, rearranged, restated & reclassified wherever necessary.

For and on behalf of the Board

**Mukesh Khetan**  
Company Secretary

**Nirmal Kumar Bardiya**  
Director

**Rahimullah**  
Managing Director

Place : Jaipur

Date : 30<sup>th</sup> June 2008