

ANNUAL  
REPORT  
2009 - 2010



VAIBHAV GEMS LIMITED

## **FORWARD LOOKING STATEMENT**

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



Vaibhav Gems Limited

### **Board of Directors**

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

### **Company Secretary**

- ❖ Mukesh Khetan

### **Statutory Auditors**

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

### **Registrar & Share Transfer Agents**

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

### **Bankers**

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

### **Registered Office**

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

### **Corporate Office**

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

## Our Vision

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

## Our Mission

Mission B14X

## Our Core Values

I will serve my customers with passion.

I will keep my word.

I will be respectful to all.

I will always help my team.

I will keep an open mind and improve everyday.

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## CHAIRMAN'S MESSAGE

Dear Shareholders,

What an eventful year this has been! The worldwide financial crisis started in '08-'09 and continued through out most of '09-'10. While consumer spending on discretionary items such as your company's gems and jewelry continued to be subdued, prices of our main inputs like gold, platinum, silver and diamonds remained at elevated levels. Such a difficult situation demanded out of the box thinking. As advised in my last AGM address, we continued with our efforts to consolidate our operations and reduce our operating costs in the first part of the year. We also radically changed our product mix bringing in entirely new; lower price point product ranges to our customers. This new product mix lowered our average price point to \$ 41/pc from \$ 132 only two years ago. While continuing to bring our price points low with such great new products, we continued our relentless focus on quality and customer service. We cultivated the EEO (Exceptional Quality, Exquisite Designs and Outstanding Value) mantra throughout our operation, and customers have started to respond to such changes. UK TV fully turned around in FY 2009-10 and the US has begun to turn around towards end of FY 2009-10.

During the year in review, one of our main competitors, Gems TV, closed its US operations and sold its UK operations to another of our competitors. While this has given us some maneuvering room, markets still remain fragile. Consumer confidence in the US and UK

is still low, high deficits in both countries continue to invite fears of inflation, and precious metal prices are still very high. We recognize the state of the economy and continue to manage the company with frugality and caution.

Although we barely turned around in 2009-10, I am highly confident of our direct-to-consumer business model, with our keen focus on quality and product selection. With the combined jewelery market of \$60 billion in the US and UK available to us, I am confident that we will see substantial growth in your company in the years to come.

On behalf of the VGL board of directors, I sincerely thank the VGL group employees around the world for their remarkable dedication and hard work during these years of crisis. Without their support, it would have been nearly impossible to make it through these tough times. I'd also like to thank our customers and bankers for their continued support. Lastly, I would like to acknowledge the continued support by you, the valued shareholders of the company.

Thank you and best regards,

(Sunil Agrawal)

Chairman  
Vaibhav Gems Limited

## BOARD PROFILES



**Mr. SUNIL AGRAWAL**, Chairman

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



**Mr. 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 36 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 Asian Hotels (East) Ltd. and Asian Hotels (West) Ltd.



**Smt. Sheela Agrawal**, Director

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

**DIRECTOR'S REPORT****Dear Shareholders**

Your directors present the 21<sup>st</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 2010.

Particulars	FINANCIAL HIGHLIGHTS:	
	<i>(Rupees in Lacs)</i>	
	Standalone	
	2009-10	2008-09
Sales and Other Income	12,151.96	17,907.02
Less : Cost of Sales	12,111.93	18,511.73
Operating Profit/PBDIT	40.13	(604.67)
Less : Interest	1,280.75	1,460.53
Less : Depreciation & Amortization	120.77	150.13
Profit Before Taxes	(1,361.39)	(2,215.33)
Less : Provision for Taxes	(17.57)	50.43
Net Profit after Tax but before Extra-ordinary Items	(1,343.82)	(2,265.76)
Less : Extra- ordinary Items – (Provision for Doubtful debt)	1,557.60	(23,152.73)
<b>Profit after Tax and Extra-ordinary Items</b>	<b>213.90</b>	<b>(25,418.49)</b>
Add: Balance brought forward from the previous year	(34,568.08)	(9,149.59)
<b>Total Profits available for Appropriations</b>	<b>(34,354.18)</b>	<b>(34,568.08)</b>
Appropriations :		
Dividend on Preference Share Capital	-	-
Proposed Dividend on Equity Shares	-	-
Tax on Dividend	-	-
General Reserve	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Balance to be carried forward</b>	<b>(34,354.18)</b>	<b>(34,568.08)</b>

**DIVIDEND:**

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

**SUBSIDIARIES:**

Your Company has 8 subsidiaries and 7 step down subsidiaries. To conserve resources and successful turnaround of business your company closed the business operations of 5 of its direct subsidiaries and 5 step down subsidiaries. Brief detail of the operating subsidiaries is provided below:

**Operating Subsidiaries:**

1. STS Jewels Inc., USA, a 100 per cent subsidiary is engaged in the wholesale segment and market jewellery to the departmental stores, TV channels and others in USA.
2. STS Gems Limited, Hong Kong, a 100 per cent subsidiary is engaged in outsourced manufacturing for the group and marketing of Jewellery in Europe and America.
3. The Jewellery Channel Ltd. UK (TJC UK), ([www.thejewellerychannel.tv](http://www.thejewellerychannel.tv)) a wholly owned step down subsidiary of Vaibhav Gems Limited, is engaged in marketing jewellery through electronic media and operates a dedicated 24 hours jewellery TV shopping channel and Internet Jewellery shopping website in the UK.
4. The Liquidation Channel, USA (TJC USA), ([www.liquidationchannel.com](http://www.liquidationchannel.com)) a wholly owned step down subsidiary of Vaibhav Gems Limited is engaged in marketing jewellery through electronic media and operates a dedicated 24 hours jewellery TV shopping channel and Internet Jewellery shopping website in the USA.

**EMPLOYEE STOCK OPTION PLAN 2006:**

During the year, the compensation committee in their meeting held on 29th January 2010, granted 2,97,500 stock options to the eligible employees of the company and its subsidiaries 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 bestowed with the coveted **GJEP Export Award**, the **fifteenth successive** award for being the largest Indian exporter of coloured gemstones on realization basis.

**DIRECTORS:**

During the year, on 29<sup>th</sup> January 2010, Shri Suresh Panjabi, Director of your company has resigned from the directorship of the company due to his personal pre-occupation. The Board recorded its appreciation for the valuable services rendered by him during his tenure.

During the year, on 30<sup>th</sup> June, 2009, Shri Sanjeev Agrawal and Shri Ikramullah, Directors of the company had resigned from the directorship of the company due to their personal pre-occupations. The Board recorded appreciation for the valuable services rendered by them during their tenure.

As per Article 61 of Articles of Association of the Company, Shri M.L. Mehta and Shri S.S. Bhandari, retire by rotation at the ensuing Annual General Meeting. Being eligible, 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, retiring at the ensuing Annual General Meeting; 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 2011 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. We had applied to the Government of India for an exemption from such attachment as we present the audited consolidated financial statements in the annual report. We believe that the consolidated accounts present a full and fair picture of the state of affairs and the financial condition and are accepted globally. We will make available the audited annual accounts and related information of subsidiaries, where applicable, upon request by any of our investor.

Further, as required, the brief financial data of the subsidiaries has been furnished under the head "Statement pursuant to section 212(8) of the Companies Act, 1956, related to Subsidiary Companies" forming part of the Annual Report.

**OUTLOOK:**

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 financial year 2009-2010 are as follows:

**GROWTH TRENDS:**

The growth trends reported for the financial year 2009-2010 are:

- From export figures of US \$ 24,495.58 million in the FY 2008-09, the exports in FY 2009-10 have shown considerable increase and have registered an export of US \$ 28,414.64 million. This indicates an increase

of 16 per cent in the total gems and jewellery exports. The performance of this industry is critical as it contributes 13 per cent to India's total merchandise exports.

- Colored gems stone export increased by 10.55 per cent to US \$ 286.65 million in 2009-10 compared to US \$ 259.29 million in the previous fiscal, while gold jewellery exports rose by 9.38 per cent to US \$ 9.42 billion during the period under review compared to US \$ 8.61 billion in 2008-09.
- Gold Jewellery exports have also been on a rise accounting for 9.38 per cent increase in FY 2009-10, with exports increasing from US \$ 8,616.43 million in 2008-09 to US \$ 9,424.33 million in 2009-10.

The Indian Government has provided an impetus to the booming gems and jewellery industry with favorable Foreign Trade Policy 2009-2014:

- It has been decided to neutralize duty incidence on gold jewellery exports, to allow duty drawback on such exports.
- To promote export of gems and jewellery products, the value limits of personal carriage have been increased from US \$ 2 million to US \$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has been increased from US \$ 0.1 million to US \$ 1 million.

Sources : <http://www.pr.com>, <http://www.indianyellowpages.com>, <http://www.gjpec.org>, <http://www.commodityonline.com>

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

The Corporate Audit function plays a key role in providing an objective view and reassurance of the overall control systems and effectiveness of the risk management process across Vaibhav Gems Limited and its Subsidiaries to both the operating management and the Audit Committee of the Board. Internal control system also assesses opportunities for improvement in the business processes and provides

recommendations designed to add value to the operations and the group as a whole.

Strong internal control and their rigorous testing is one of the strengths of Vaibhav. Vaibhav's Audit Committee along with Management oversees financial controls and their implementation. Your Company has an active Internal Audit Team. The Internal Audit team independently reviews the internal and financial controls, business processes and the financial transactions to provide the reasonable assurance of the integrity, confidentiality and availability of critical information and the effectiveness and efficiency of operations, safeguarding of assets and compliance with rules and regulations.

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

#### **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.

Training and Development are being given paramount importance in your company and regular training and development opportunities are provided to the employees based on the need and requirements.

#### **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 jewellery 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 jewellery. The foreign exchange earnings and outgo (FOB basis) of the Company is as follows:

	<b>Rs. in Lacs</b>	
	<b>2009-10</b>	<b>2008-09</b>
<b>Earnings</b>	12194.30	17313.09
<b>Outgo</b>	4453.88	9076.69

**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>, 2010; 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 : 21<sup>st</sup> May, 2010

**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 6,69,657, including 2,97,500 options issued during the year on 29 <sup>th</sup> January 2010 at an exercise price of Rs. 26.75 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 29 <sup>th</sup> January 2010 was arrived at Rs. 36.15 and the market price on NSE was Rs 32.45, as on 28 <sup>th</sup> January, 2010, a day before the grant date of Options. However, the Compensation Committee, in their meeting held on 29 <sup>th</sup> January 2010, decided the option price to be Rs 26.75 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	<b>1,26,157</b>										
12.1(d)	Options exercised	<b>NIL</b>										
12.1(e)	The Total number of shares arising as a result of exercise of option	<b>Not Applicable</b>										
12.1(f)	Options lapsed (reissuable)	<b>NIL.</b>										
12.1(g)	Variation of terms of options	<b>NIL.</b>										
12.1(h)	Money realized by exercise of options	<b>Not Applicable</b>										
12.1(i)	Total number of options in force	<b>6,69,657</b>										
12.1(j)	Employee wise details of options granted:	Senior Managerial 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. Pramod Akhramka</td> <td>67,192</td> </tr> <tr> <td>2. Mr. Sri Burugapalli</td> <td>3,12,000</td> </tr> </tbody> </table>	Name of Employee	Number of Options	1. Mr. Pramod Akhramka	67,192	2. Mr. Sri Burugapalli	3,12,000				
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2. Mr. Sri Burugapalli	3,12,000											
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	<table> <tbody> <tr> <td>1. Mr. Manoj Saraf</td> <td>2. Mrs Reeta Sharma</td> </tr> <tr> <td>3. Mr. Vivek Jain</td> <td>4. Mr. Pradeep Sharma</td> </tr> <tr> <td>5. Mr. Ankur Sogani</td> <td>6. Mr. Nitin Duggar</td> </tr> <tr> <td>7. Mr. Amit Agrawal</td> <td>8. Mr. Praveen Tiwari</td> </tr> <tr> <td>9. Mr. Gerald Tempton</td> <td></td> </tr> </tbody> </table>	1. Mr. Manoj Saraf	2. Mrs Reeta Sharma	3. Mr. Vivek Jain	4. Mr. Pradeep Sharma	5. Mr. Ankur Sogani	6. Mr. Nitin Duggar	7. Mr. Amit Agrawal	8. Mr. Praveen Tiwari	9. Mr. Gerald Tempton	
1. Mr. Manoj Saraf	2. Mrs Reeta Sharma											
3. Mr. Vivek Jain	4. Mr. Pradeep Sharma											
5. Mr. Ankur Sogani	6. Mr. Nitin Duggar											
7. Mr. Amit Agrawal	8. Mr. Praveen Tiwari											
9. Mr. Gerald Tempton												
	(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil										
12.1(k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'	As disclosed in the Financial Statements of the Company										

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY STRUCTURE AND DEVELOPMENTS

The Gems and Jewellery sector is among the largest and leading market in the world. Gems and Jewellery have epitomised heritage, aesthetics, culture and social status throughout the world across time.

The gems and jewellery sector can be categorised into the following sub sectors :

- Gemstones : Diamonds and coloured stones (precious, semi precious and synthetic)
- Jewellery : Plain gold, studded, silver, costume
- Pearls

India is gaining prominence as an international sourcing destination for high quality designer Jewellery. Presence of highly skilled and low-cost labour enables India to design and make high volumes of exquisite jewellery at relatively low cost. Its ability to provide high quality low cost jewellery makes it an ideal destination to source Jewellery.

Global jewellery sales are expected to grow at 4.6 per cent year-on-year to touch US \$185 billion in 2010 and US \$230 billion in 2015. Today India is undeniably USA's largest supplier of jewellery, with the US importing 25 per cent of its jewellery from India. The gems and jewellery export grew by 16 per cent to US \$28.41 billion in 2009-10. The gems and jewellery exports sector employs about 1.3 million people.

Sources : [www.ibef.org](http://www.ibef.org) , [www.researchandmarkets.com](http://www.researchandmarkets.com)

### INDIAN GEMS & JEWELLERY SECTOR: OVERVIEW

The Indian gems and jewellery industry is the fastest growing jewellery market in the world and one of the important foundations of the country's export growth. Indian gems and jewellery products are acknowledged the world over for their exquisite craftsmanship. Modern state of the art machinery and computerized operations have lent a cutting edge to the jewellery manufacture in India.

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 financial year 2009-2010 are as follows:

- From export figures of US \$ 24,495.58 million in the FY 2008-09, the exports in FY 2009-10 have shown considerable increase and have registered an export of US \$ 28,414.64 million. This indicates an increase of 16 per cent in the total gems and jewellery exports. The performance of this industry is critical as it contributes 13 per cent to India's total merchandise exports.

- Coloured gems stone export increased by 10.55 per cent to US \$286.65 million in 2009-10 compared to US \$259.29 million in the previous fiscal.
- Gold jewellery exports have also been on a rise accounting for 9.38 per cent increase in FY 2009-10, with exports increasing from US \$ 8,616.43 million in 2008-09 to US \$ 9,424.33 million in 2009-10.

### GOVERNMENT INITIATIVES:

In order to revive the Indian economy from the global economic downturn, the Government has provided an impetus to the booming gems and jewellery industry with favourable measures including:

- 100 per cent foreign direct investment (FDI) in gems and jewellery through the automatic route is allowed.
- The government has lowered import duty on platinum and has exempted rough coloured precious gems stones from customs duty.
- Rough, semi-precious stones are also exempt from import duty.
- Duty-free import of consumables for metals other than gold and platinum up to 2 per cent of freight on board (f.o.b) value of exports.
- Duty-free import entitlement for rejected jewellery up to 2 per cent of f.o.b value of exports.
- Import of gold of 18 carat and above under the replenishment scheme.
- Setting up of SEZs and gems and jewellery parks to promote investment in the sector.
- The government has raised the limit value of jewellery parcels for export through foreign post office (including via speed post) from US \$ 50,000 to US \$ 75,000 and the time period for re-import of branded jewellery remaining unsold has been extended from 180 days to 365 days.
- The export of coloured gemstones on a consignment basis has been allowed.

The Government has announced a series of measures to help gems and jewellery exports in the Foreign Trade Policy 2009-2014:

- It has been decided to neutralize duty incidence on gold jewellery exports, to allow duty drawback on such exports
- To promote export of gems and jewellery products, the value limits of personal carriage have been increased from US \$ 2 million to US \$ 5 million in case of participation in overseas exhibitions. The limit in case of personal



carriage, as samples, for export promotion tours, has been increased from US \$ 0.1 million to US \$ 1 million.

Sources: <http://www.blonnet.com>, <http://www.gjepc.org>, <http://www.commodityonline.com>, [www.ibef.org](http://www.ibef.org)

All these facts provides valuable topline and bottomline support to 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 for Tanzanite and is the leader in processing other popular gemstones such as Fire Opal, Apatite and Emerald and various other precious and semi precious stones. To capitalize on the opportunities present in the electronic retail segment, Vaibhav Gems is operating dedicated 24 hours jewellery shopping television marketing channels in UK and USA.

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

##### **Strengths**

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

##### **Weaknesses**

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

##### **Opportunities**

- Improve direct sale to end customers either through 24 hour jewellery TV channels or through web based electronic media.

- High potential Retail Jewellery marketing model.
- Strengthened manufacturing base and the existence of product development and marketing teams.
- Branding opportunity to unlock value.
- Ever-changing but ever-growing demand.
- Highly fragmented industry space offering room for consolidation.

##### **Threats**

- Rising Gold prices.
- Competition among top producing countries.
- Global economic slowdown- Jewellery is a discretionary product.
- Variations in customer specifications in terms of quality.
- Unforeseen general macro-economic factors and political turmoil.
- Requirement of stricter quality norms and hallmarking.

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. The gems and jewellery industry in India is a good blend of modern manufacturing and design techniques with traditional skills of the Indian artisan. It is the design of the creation which entice the customers. The designs fashioned by the Company are the latest and well in accordance with the contemporary style & demand. The designs produced by the Company are configured by using modern technology of CAD and CAM. 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 jewellery is manufactured under strict quality control at a state of the art manufacturing facility. The gemstones used in the jewellery are cut and polished in house as per the design specifications of the ornaments.

The whole production process of the Company is under a strict quality control procedure to ensure standardized product manufacturing and designing. The global acceptance of the company's products itself illuminate the subsistence of international quality standards. The Company is accredited with the prestigious ISO 9000: 2001 certification which is a hallmark as well as representative of the quality product manufacturing by the company.

## **FINANCIAL REVIEW**

### **Financial Performance**

The Company's consolidated turnover for the year 2009-10 has decreased by 24.64 % from Rs Rs. 760.78 crores in 2008-09 to Rs 573.34 Crore in 2009-10. The consolidated net losses after tax and extra-ordinary item stood at Rs. 240.35 crore for the year ended 31<sup>st</sup> March 2010

The Company's standalone turnover for the financial year 2009-10 decreased by 29.31% from Rs.170.96 crores in 2008-09 to Rs.120.83 crores in 2009-10. The net profit after taxes (PAT) after extra-ordinary items for the financial year 2009-10 stood at Rs 2.13 Crore as against the previous year's loss of Rs 254.18 Crore.

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

At VGL, we believe that every employee has a role to play in fostering an environment in which controls, assurance, accountability and ethical behaviour are given peak importance. 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. Investment in employees through training is constantly made to ensure that employees are equipped for challenges in their roles. The Company recognizes that nurturing and recruiting the best talent is vital to the long term success.

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**

As an intrinsic part of the overall Governance process, the company has in place a well established Internal Control framework which covers all aspects of financial and operational controls. The procedure are designed to ensure that :

- All assets and resources are acquired economically, used efficiently and are adequately protected;
- Significant financial, managerial and operating information is accurate, reliable and is provided timely; and
- All internal policies and statutory guidelines are complied with.

The Corporate Audit function plays a key role in providing to both the operating management and the Audit Committee of the Board an objective view and reassurance of the overall control systems and effectiveness of the internal control process across VGL and its Subsidiaries.

Internal control system also assesses opportunities for improvement in the business processes and provides recommendations designed to add value to the operations and the group as a whole.

### **MANAGEMENT OUTLOOK**

In the financial year 2009-10, the company had taken various austerity measures to curb costs and consolidate its business operations to focus on its strength areas for fast track turnaround of business. Throughout the previous year, your company has emphasized on its competitive cost structure, high quality, fine designs, its distinctive styles and most importantly, its top notch services to the customers. The Company has closed down its loss making businesses in Mexico, St Thomas, St. Maarten, Alaska, Japan and Thailand to support its core businesses of TV marketing in UK and USA and manufacturing operations in India and China.

All these measures taken during preceding two financial years has helped the company to turnaround its business across all segments. Your company is confident of having better business operation for FY 2010-11 with improved market leadership.

## RISK MANAGEMENT

### RISK REVIEW

The Risk Management framework at VGL encompasses the following activities:

- **Risk Identification:** A periodic assessment across the company and the subsidiaries together with a trigger based assessment is undertaken to identify and thereafter prioritize significant risks. This assessment is based on an online risk perception survey, environmental scanning and market study by experts.
- **Risk Measurement and Control:** Owners are identified for all identified risks and they go on to develop and deploy mitigation strategies. Measurement indices are used to evaluate effectiveness of the mitigation plans.
- **Risk Reporting and Review:** Besides detailed review by the Executive Committee, the risk status and exposures are also reviewed periodically by the Audit Committee of the board.

Some of the major risks and concerns identified at VGL are :

#### 1) Geographic concentration risk

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

##### Risk mitigation

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

#### 2) Seasonality risk

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

##### Risk mitigation

- Vaibhav Gems' products addresses the fashion conscious upper and mid value segment, where the impact of seasonality is limited.

- Products are marketed through large retail chains like Wal-Mart, J.C Penney, Sears, Macy's, Zales, Sterling, among others; where jewellery is complementary to clothing.
- Offers designs and products at different price points to maximize the off take during the non-peak season as well.
- Forayed into television and internet-driven marketing where seasonality is less pronounced. Moreover seasonality in the television market complemented the seasonality of the traditional stores.
- Employs a distribution strategy to service markets, which have complementary seasons.

#### 3) Exchange rate fluctuation risk

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

##### Risk mitigation

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

#### 4) Working Capital risk

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

##### Risk mitigation

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

#### 5) Debtors' risk

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

##### Risk mitigation

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



**6) Raw materials risk**

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

Coloured gemstones: Gemstones pricing and availability.

**Risk mitigation**

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

**7) Product obsolescence risk**

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

**Risk mitigation**

- Vaibhav Gems has a rich collection of designs and also with the help of its efficient designers in place it produces newer designs which are in vogue looking into the customer choices.
- 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 unit is located in Jaipur, traditional hub of jewellery-making enjoying a high availability of skilled labour. Moreover, the company's progressive HR practices, with a thrust on transparent recruitment, training and professionalism, make it an employer of choice. The company follows a regular appraisal of its workers'.

**9) Wastage risk**

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

**Risk mitigation**

Vaibhav Gems controls wastage in two ways:

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

**10) Competitor Risk**

The jewellery industry has a large number of players

**Risk mitigation**

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

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

## CORPORATE GOVERNANCE REPORT

### 1. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Corporate Governance is an integral part of values, ethics and the best business practices followed by the company. The raison detre of Corporate Governances lies in promoting and maintaining integrity, transparency and accountability in the organization, commitment to values and ethical business conduct. The Corporate Governance focus on timely and accurate disclosure of information and emphasizing existing regulation and practices on corporate governance and re-drafting and re-affirming the code of conduct regarding the financial situation, performance, ownership and governance of the company. Thus, corporate governance is a reflection of our culture, policies, our relationship with stakeholders and our commitment to values.

Corporate Governance primarily concerns transparency, full disclosure of material facts, independence of Board, fair play with all the stakeholders and directing the company to work towards enhancement of wealth of all stakeholders.

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.

The company firmly believes and has consistently practiced good corporate governance. The company's policy is reflected by the very values of transparency, professionalism and accountability. The company constantly strives towards betterment of these aspects

and thereby perpetuate it into generating long term economic value for its shareholders, customers, employees, other associated persons and the society as a whole. We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. The Company believes in adopting, adhering and benchmarking itself against the best recognized corporate governance practices. Good corporate governance practices stem from the culture and mindset of the organization. While practicing good corporate governance the company strives to communicate, all the material developments and its financial performance in a timely, meaningful and truthful manner.

Vaibhav's core values which include Customer Sovereignty, Passion for Excellence, Continuous Innovation, People Orientation and Social Responsibility are the keystones on which the framework of Corporate Governance is based, to make Vaibhav a vibrant and socially conscious organization. Corporate governance at Vaibhav transcends to a level beyond mere compliance to legal requirements.

### 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 2010 the Board of Directors of the Company held 5 meetings and the gap between two consecutive meetings did not exceeded four months.

The meetings were held on 30<sup>th</sup> April 2009, 30<sup>th</sup> June 2009, 31<sup>st</sup> July 2009, 31<sup>st</sup> October 2009 and 29<sup>th</sup> January 2010.

**Other details required in terms of Clause 49 of Listing Agreement:**

Name of the Director	Category	Board meetings attended during the year	Whether attended last AGM	No. of Directorship in other companies	No. of member-ship of Board committees #including Vaibhav Gems Ltd.	No. of Board committees #for which chairperson including Vaibhav Gems Ltd.
Mr. Sunil Agrawal	Chairman and Non-Executive Director	2	No	3	Nil	Nil
Mr. Suresh Punjabi*	Non-Independent Non-Executive Director	Nil	No	NA	NA	NA
Mr. Rahimullah	Non Independent Managing Director	4	Yes	2	1	Nil
Mr. Ikramullah**	Non Independent Non-Executive Director	NA	No	NA	NA	NA
Mr. Sanjeev Agrawal**	Non-Independent Non-Executive Director	NA	No	NA	NA	NA
Mr. Anandi Lal Roongta	Independent Non-Executive Director	5	Yes	1	3	1
Mr. M.L. Mehta	Independent Non-Executive Director	4	Yes	Nil	2	1
Mr. S. S. Bhandari	Independent Non-Executive Director	4	Yes	2	5	1
Mr. Nirmal Kumar Bardiya	Independent Non-Executive Director	3	No	6	2	Nil
Smt. Sheela Agrawal	Non Independent Non-Executive Director	4	Yes	2	Nil	Nil

- \*Resigned from the Board w.e.f. 29th Jan 2010
- \*\* Resigned from the Board w.e.f. 30th June 2009
- #Committees include Audit Committees, Shareholder's/Investors Grievance Committees and Compensation 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.
- Appointment of the CFO is approved by the Audit Committee before finalization of the same by the management. The Audit Committee, while approving the appointment, shall assess the qualification, experience & background, etc of the candidate.

**Composition, Meetings & Attendance**

The audit committee consists of 4 members who all are non-executive directors.

Name of the Director	Position Held in Committee	No of Meetings Attended
Mr. S. S. Bhandari	Chairman	6
Mr. Anandi Lal Roongta	Member	7
Mr. M.L. Mehta	Member	6
Mr. Nirmal Kumar Bardiya	Member	5
Mr. Sanjeev Agrawal*	Member	Nil

\* Resigned from the committee w.e.f. 30<sup>th</sup> June 2009

The committee held its meetings on 30<sup>th</sup> April 2009, 30<sup>th</sup> June 2009, 31<sup>st</sup> July 2009, 31<sup>st</sup> October 2009, 30<sup>th</sup> Dec 2009, 29<sup>th</sup> January 2010 and 29<sup>th</sup> March 2010.

**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	Nil
Mr. S. S. Bhandari	Member	1

During the year, the committee held only one meeting as on 29<sup>th</sup> January, 2010.

**Remuneration of Directors during 2009-2010**

Name of Director	Sitting Fees	Remuneration	Total	Terms	Shares held as on 31.3.10
Sunil Agrawal	Nil	NA	Nil	Not liable to retire by rotation	28,140
Anandi Lal Roongta	70,000	NA	70,000	Retirement by rotation	1,787
M.L. Mehta	55,000	NA	55,000	Retirement by rotation	Nil
N.K. Bardiya	40,000	NA	40,000	Retirement by rotation	Nil
Sanjeev Agrawal**	Nil	NA	Nil	Retirement by rotation	8,320
S. S. Bhandari	60,000	NA	60,000	Retirement by rotation	Nil
Suresh Punjabi*	Nil	NA	Nil	Retirement by rotation	20,900
Rahimullah	NA	42,00,000	42,00,000	Contractual	54,600
Ikramullah**	Nil	Nil	Nil	Retirement by rotation	Nil
Sheela Agrawal	20,000	NA	20,000	Retirement by rotation	15,193

\*Resigned from the board w.e.f. 29th Jan 2010

\*\* Resigned from the Board w.e.f. 30th June 2009

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

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

**SHAREHOLDER'S/INVESTOR'S GRIEVANCE COMMITTEE**

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

**Composition, Meetings & Attendance**

Name of the Director	Position Held in Committee	No of Meetings Attended
Mr. Anandi Lal Roongta	Chairman	1
Mr. S.S. Bhandari*	Member	1
Mr. Rahimullah	Member	1

The committee held only 1 meeting on 29<sup>th</sup> March 2010.

\*Appointed w.e.f. 29<sup>th</sup> March 2010.

**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	-	-	-	-
Correspondence / Query relating to NSDL operations	-	1	1	-
Correction of name on securities	-	-	-	-
Other Requests General Query	-	-	-	-
<b>TOTAL</b>	-	1	1	-

**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
2006-07	27 <sup>th</sup> September, 2007	10:00 A.M.	E-68, EPIP, Sitapura, Jaipur-302022
2007-08	30 <sup>th</sup> September, 2008	11:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2008-09	30 <sup>th</sup> September, 2009	11:00A.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
-	-	-	-

### Special Resolution passed in Annual General Meetings

Date of Meeting	Subject matter of Resolution
A) 27th September, 2007	No special resolution was passed in the AGM held on 27 <sup>th</sup> September 2007.
B) 30th September, 2008	1. To alter the Articles of Association by modifying the Articles as : Part I The existing articles no .86, 135,137 (a) , 137(b) , 137(c),138 , 138(a), 138(b), 142(a)143,144(a),153(a),155,156, contained in Part I be and hereby amended. Part II The new set of articles 153(b) 153(c) be and is hereby inserted in Part II.
C) 28 <sup>th</sup> September,2009	1. To approve the remuneration of Shri Rahimullah, Managing Director.

#### 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 in the Annual Report.

#### 8. AUDITORS' REPORT ON CORPORATE GOVERNANCE

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

#### 9. MANAGEMENT DISCUSSION AND ANALYSIS

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

#### 10. MD & CFO CERTIFICATION

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

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

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

**ii. ADOPTION OF NON-MANDATORY REQUIREMENTS OF CLAUSE 49**

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

➤ **Remuneration Committee**

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

➤ **Communication to shareholders**

At Vaibhav, quarterly significant developments, if any, are sent to shareholders. Quarterly and annual financial statements are regularly displayed at our website.  
([www.vaibhavgems.com](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 Jansatta, Rajasthan Patrika, Dainik Bhaskar, Business Standard, Financial Express and/or Economic Times. The said results are also displayed at company's web site at [www.vaibhavgems.com](http://www.vaibhavgems.com)
- (c) Press releases, if any, 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, 2010, at 11.00 a.m.  
Venue - E-69, EPIP, Sitapura, Jaipur 302022

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

Financial reporting for the quarter

- Ending 30<sup>th</sup> June, 2010 - End of July, 2010
- Ending 30<sup>th</sup> September, 2010 - End of October, 2010
- Ending 31<sup>st</sup> December, 2010 - End of January, 2011
- Ending 31<sup>st</sup> March, 2011 - End of May, 2011

**c. Record Date:** - 25th to 30th Sept. 2010  
(Both Days Inclusive)

**d. Dividend Payment Date:** - NA

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

#### Listing of Equity Shares on Stock Exchanges at: Bombay Stock Exchange Limited (BSE)

Phiroze Jee Jee Bhoy Towers  
Dalal Street, Mumbai - 400001

**Stock Code :** 532156

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

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

**Stock Code :** VAIBHAVGEM

**ISIN Code no. :** INE884A01019

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

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

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

**ISIN Code :** US9187661064

### f. Listing Fees to Stock Exchanges

The company has paid listing fees in respect of financial year 2010-2011 to the Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

### g. Custodial Fees to Depository

The company has paid custodial fees for the Financial year 2010-2011 to National Securities Depository Limited and Central Depository Services (India) Limited.

### h. Share Price Data

Month	VGL Price at BSE (in Rs.)		VGL Price at NSE	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2009	24.26	12.85	24.10	12.90
May 2009	25.85	16.10	26.40	16.30
June 2009	31.00	17.35	30.45	16.70
July 2009	22.65	17.15	22.50	17.10
August 2009	25.90	19.50	26.15	19.10
September 2009	28.40	22.80	28.40	22.40
October 2009	32.15	23.80	32.00	23.65
November 2009	25.95	21.00	26.50	20.85
December 2009	30.00	21.65	29.70	21.80
January 2010	40.45	28.80	40.50	28.15
February 2010	34.00	25.20	34.30	25.10
March 2010	35.50	26.70	36.00	26.60

### 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, 2010**

No. of equity Shareholding	Number of Shares	% of Share-holding	No. of Share-holders	% of Share-holders
1 to 1000	9,01,029	2.84	4,838	92.75
1001 to 5000	6,57,126	2.07	288	5.52
5001 to 10000	2,71,637	0.86	36	0.69
10001 and above	2,98,68,681	94.23	54	1.04
<b>Total</b>	<b>3,16,98,473</b>	<b>100%</b>	<b>5,216</b>	<b>100%</b>

### **ii. Categories of Shareholders as on March 31, 2010**

Category	No. of shares	% holding
Indian Promoters	26,95,625	8.50%
Foreign Promoters	15,41,940	4.86%
Banks	Nil	Nil
FII's	23,24,324	7.33%
Private Corporate Bodies	13,17,557	4.16%
Indian Public	19,69,326	6.21%
NRI's	68,854	0.22%
Others		
(i) Clearing Members	6,718	0.02%
(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, 2010, 99.57% of the total shares of the Company have been dematerialized.

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

### **n. ECS Mandate**

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

### **o. 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

### **p. Name and address of the Depository for the purpose of GDR**

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

### **q. Plant Locations**

The Company plants are located at the following addresses:

- K-6B, Fateh Tiba, Adarsh Nagar Road, Jaipur-302 004
- E-68 and E-69, EPIP, Sitapura, Jaipur – 302 022
- Unit No. 186-A, SDF, VI, SEEPZ, Mumbai

### **r. Branch Office**

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

### **s. Investors Correspondence**

Mr. Mukesh Khetan, Company Secretary heads the Corporate Secretarial 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** : comsec@vglgroup.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

**t. Transfer of unclaimed amount to Investor Education and Protection Fund**

The company has credited unclaimed dividend amount of Rs.29,939/- on 12<sup>th</sup> November 2009 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.

**u. 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 2010, 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  
FRN No. 103523W

For **B. Khosla & Co.**  
Chartered Accountants  
FRN No. 000205C

**Chetan Desai**  
Partner  
Membership No. 17000

**Sandeep Mundra**  
Partner  
Membership No. 75482

Place : Jaipur  
Date : 21<sup>st</sup> May 2010

## **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 2009-2010, 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 2009-2010 which are fraudulent, illegal or violate the Company's code of conduct.
4. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the audit committee those deficiencies, of which we are aware, in the design or operation of the internal control systems for the purpose of financial reporting and that we have taken the required steps to rectify these deficiencies.
5. We further certify that we have indicated to the Auditors and Audit Committee that:
  - a. There have been no significant changes in internal control during this year.
  - b. There have been no significant changes in accounting policies during this year.
  - c. There have been no instances of significant fraud of which we have become aware and the involvement therein, of management or an employee having a significant role in the Company's internal control system over financial reporting.

**Rahimullah**  
Managing Director

**Manoj Saraf**  
Chief Financial Officer

Place: Jaipur  
Date: 21<sup>th</sup> May 2010

## **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, 2010, 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, 2010.

Place: Jaipur

Date: 21<sup>st</sup> May 2010

**Rahimullah**

Managing Director

## AUDITORS' REPORT

To  
The Members of  
**VAIBHAV GEMS LIMITED**

1. We have audited the attached balance sheet of **VAIBHAV GEMS LIMITED** (the 'Company') as at March 31, 2010, the profit and loss account for the year ended on that date and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditors' Report) (Amendment) Order, 2004 (together 'the order') issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956 ('the Act') and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement of the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b. in our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books of accounts;
  - c. the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - d. in our opinion, the balance sheet, the profit and loss account and cash flow statement of the Company dealt with by this report comply with the accounting standards referred to in Section 211(3C) of the Act, to the extent they are applicable to the Company;
  - e. on the basis of written representation received from the directors, as on March 31, 2010, 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, 2010 from being appointed as a director in terms of section 274(1)(g) of the Act;
  - f. Without qualifying our report we draw attention to note no. 13 on the accounts. As explained therein, exposure of the company to three subsidiaries whose net worth is negative aggregate Rs.409.26 Crores against which no provision is considered necessary by the management.
  - g. in our opinion and to the best of our information and according to explanations given to us, the said accounts, read together with significant accounting policies and notes on accounts, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - i. in case of Balance Sheet, of the state of the affairs of the Company as at March 31, 2010;
    - ii. in case of Profit and Loss Account, of the profit of the Company for the year ended on that date; and
    - iii. in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**For Haribhakti & Co.**  
Chartered Accountants  
FRN No. 103523W

**Chetan Desai**  
Partner  
Membership No.17000

Place : Jaipur  
Date : 21<sup>st</sup> May, 2010

**For B. Khosla & Co.**  
Chartered Accountants  
FRN No. 000205C

**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 and in our opinion, 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. 13,491.84 lacs and the year-end balance of loan granted to such subsidiaries was Rs. 12,817.52 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 taken unsecured loan from one company covered in the register maintained under section 301 of the Act. The amount involved is Rs. 28 lacs and the year end balance is Rs. 28 lacs. As explained to us the loan is interest free and there is no stipulation as to the repayment of the same.
- (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, 2010 exceeds fifty percent of its net worth. The Company has incurred cash losses during the current financial year and in immediately preceding financial year.
- (x) Considering the Corporate Debt Restructuring scheme, in our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks and Financial Institutions.
- (xi) As informed, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are prima facie not prejudicial to the interest of the Company.
- (xiii) In our opinion and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were raised.
- (xiv) According to the information and explanations given to us and on overall examination of the balance sheet of the Company as at March 31, 2010, we report that no fund raised on short term basis have been used for long term purposes.
- (xv) According to the information and explanations given to us, the Company has not made any preferential allotment of shares during the year to a body corporate covered in the register maintained under Section 301 of the Act.
- (xvi) During the year covered by our report the Company has not raised any money by way of public issue.
- (xvii) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.
- (xviii) The following clauses of paragraphs 4 & 5 of the said Order are not applicable to the Company and has not been reported.  
Clause (viii), Clause (xiii), Clause (xiv) Clause (xix) and Clause (xx)

**For Haribhakti & Co.**  
Chartered Accountants  
FRN No. 103523W

**Chetan Desai**  
Partner  
Membership No.17000

Place : Jaipur  
Date : 21<sup>st</sup> May, 2010

**For B. Khosla & Co.**  
Chartered Accountants  
FRN No. 000205C

**Sandeep Mundra**  
Partner  
Membership No.75482



**BALANCE SHEET** as at 31<sup>st</sup> March, 2010

Amount in Rupees

Particulars	Schedule	As at 31st March, 2010		As at 31st March, 2009	
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' Funds</b>					
Share Capital	I	756,984,730		756,984,730	
Share Warrants		-		81,263,600	
Reserves and Surplus	II	5,993,182,663	<b>6,750,167,393</b>	5,979,210,122	<b>6,817,458,452</b>
<b>Loan Funds</b>					
Secured Loans	III		<b>1,693,842,291</b>		1,750,054,046
Unsecured Loans			<b>2,800,000</b>		
<b>Total</b>			<b>8,446,809,684</b>		<b>8,567,512,498</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	IV	220,142,619		208,508,946	
Less : Depreciation		128,971,491		117,995,477	
		91,171,128		90,513,469	
Add : Capital Work in Progress		-	<b>91,171,128</b>	2,000,000	92,513,469
<b>Investments</b>	V		<b>2,772,455,724</b>		2,772,455,724
<b>Deferred Tax Asset (Net)</b>			<b>2,780,107</b>		1,022,939
<b>Current Assets, Loans and Advances</b>					
Inventories	VI	608,109,570		532,550,307	
Sundry Debtors	VII	1,100,137,138		1,234,262,171	
Cash and Bank Balances	VIII	56,438,974		59,591,726	
Interest Accrued on Bank Deposits		190,822		88,926	
Loans and Advances	IX	563,355,989		641,118,681	
		<b>2,328,232,493</b>		<b>2,467,611,811</b>	
<b>Less : Current Liabilities and Provisions</b>					
Current Liabilities	X	89,901,847		133,809,822	
Provisions	XI	13,697,357		9,440,805	
		<b>103,599,204</b>		<b>143,250,627</b>	
<b>Net Current Assets</b>			<b>2,224,633,289</b>		<b>2,324,361,183</b>
<b>Profit and Loss Account</b>					
Debit Balance in Profit & Loss Account		3,435,416,692		3,456,806,439	
Less : General Reserve deducted as per contra		79,647,256	<b>3,355,769,436</b>	79,647,256	<b>3,377,159,183</b>
<b>Total</b>			<b>8,446,809,684</b>		<b>8,567,512,498</b>

Significant Accounting Policies and Notes to Accounts XX

As per our attached report of even date

For **HARIBHAKTI & CO.**  
Chartered AccountantsFor **B. KHOSLA & CO.**  
Chartered Accountants**CHETAN DESAI**  
Partner  
Jaipur, 21<sup>st</sup> May, 2010**SANDEEP MUNDRA**  
Partner**MUKESH KHETAN**  
Company Secretary

For and on behalf of the Board

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

**PROFIT AND LOSS ACCOUNT** for the year ended 31<sup>st</sup> March, 2010

Amount in Rupees

Particulars	Schedule	Year ended 31st March 2010	Year ended 31st March 2009
<b>INCOME</b>			
Sales	XII	1,208,395,398	1,709,649,007
Other Income	XIII	6,823,092	81,057,552
<b>Total</b>		<b>1,215,218,490</b>	<b>1,790,706,559</b>
<b>EXPENDITURE</b>			
Material Cost	XIV	922,136,980	1,593,171,466
Manufacturing Expenses	XV	68,597,884	71,823,599
Employees Costs	XVI	109,463,098	124,749,564
Administrative & Selling Expenses	XVII	100,450,537	50,999,927
Financial Expenses	XVIII	138,621,066	156,480,943
Depreciation	IV	12,076,506	15,013,110
<b>Total</b>		<b>1,351,346,071</b>	<b>2,012,238,609</b>
<b>Profit/(Loss) Before Tax</b>		<b>(136,127,581)</b>	<b>(221,532,050)</b>
Less: Provision For Taxation			
– Current Tax		-	-
– Earlier Years Tax		-	116,812
– Deferred Tax Charges/(Credits)		(1,757,168)	3,926,178
– Fringe Benefit Tax		-	1,000,000
<b>Profit/(Loss) After Tax Before Exceptional Item</b>		<b>(134,370,413)</b>	<b>(226,575,040)</b>
Less: Exceptional Items (Refer Note No. 8)		(155,760,160)	1,307,898,903
Less: Diminution in Value of Investment		-	1,007,373,860
<b>Profit/(Loss) After Tax After Exceptional Item</b>		<b>21,389,747</b>	<b>(2,541,847,803)</b>
Balance Brought Forward		(3,456,806,439)	(914,958,635)
<b>Profit Available for Appropriation</b>		<b>(3,435,416,692)</b>	<b>(3,456,806,439)</b>
<b>Appropriation</b>			
(i) Dividend on Preference Share Capital,			
(ii) Proposed Dividend,		-	-
(iii) Tax on Dividend,			
(iv) General Reserve		-	-
<b>Balance carried to Balance Sheet</b>		<b>(3,435,416,692)</b>	<b>(3,456,806,439)</b>
<b>Earnings Per Share of Rs. 10 each (Refer Note No. 12)</b>			
<b>Basic (Rs.)</b>			
Before Exceptional Item		(4.38)	(7.43)
After Exceptional Item		0.54	(80.47)
<b>Diluted (Rs.)</b>			
Before Exceptional Item		(4.38)	(7.43)
After Exceptional Item		0.53	(80.47)
<b>Additional Information</b>			
<b>Significant Accounting Policies and Notes to Accounts</b>	XIX		
	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, 21<sup>st</sup> May, 2010**SANDEEP MUNDRA**  
Partner**MUKESH KHETAN**  
Company Secretary**NIRMAL KUMAR BARDIYA**  
Director

**CASH FLOW STATEMENT** for the year ended 31st March, 2010

Amount in Rupees

Particulars	Year ended 31st March 2010	Year ended 31st March 2009
<b>A. Cash Flow from Operating Activities</b>		
Net Profit before Tax and Exceptional Items	(136,127,581)	(221,532,050)
Adjustment for :		
Depreciation	12,076,506	15,013,110
Unrealised Foreign Exchange Difference	89,238,773	(105,888,180)
Employee Compensation Expenses	141,131	(3,661,411)
Loss/(Profit) on sale of Fixed Assets	(66,258)	1,106,002
Loss on Impaired Fixed Assets	-	1,206,360
Gratuity Expenses	4,008,517	(12,121,844)
Interest and Dividend Earned	(1,263,971)	(5,052,755)
Interest paid on borrowings	128,075,665	146,052,720
<b>Operating Profit before working Capital Changes</b>	<b>96,082,782</b>	<b>(184,878,048)</b>
Adjustment for :		
Trade and other Receivables	212,803,778	183,136,284
Trade Payables	(41,278,280)	3,460,881
Stock-in-Trade	(75,559,263)	297,082,534
<b>Cash Generated from Operations</b>	<b>192,049,017</b>	<b>298,801,652</b>
Direct Taxes paid - Current Year	-	3,000,000
- Earlier Year	-	116,812
<b>Net Cash from Operating Activities</b>	<b>192,049,017</b>	<b>295,684,840</b>
<b>B. Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets	(11,098,797)	(3,500,605)
Sale of Fixed Assets	430,889	30,950,511
Investment in Subsidiaries	-	(19,999,982)
Loan to Subsidiaries	-	(353,931,448)
Interest and Dividend received	1,162,074	8,779,595
<b>Net Cash used in Investing Activities</b>	<b>(9,505,833)</b>	<b>(337,701,929)</b>
<b>C. Cash flow from Financing Activities</b>		
Proceeds from/(Repayment of) Long Term Borrowings	(782,478,343)	39,119,164
Proceeds from/(Repayment of) Long Term Loan	722,058,072	(63,340,000)
Proceeds from Issuance of Share Capital	-	-
Share Issue Expenses	2,800,000	-
Dividend and Tax on Dividend paid	-	-
Interest Paid on Borrowings	(128,075,665)	(146,052,720)
<b>Net Cash used in Financing Activities</b>	<b>(185,695,936)</b>	<b>(170,273,556)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(3,152,752)</b>	<b>(212,290,645)</b>
Opening Balance of Cash and Cash Equivalents	59,591,726	271,882,372
<b>Closing Balance of Cash and Cash Equivalents</b>	<b>56,438,974</b>	<b>59,591,726</b>
<b>Cash and Cash Equivalents Comprises</b>		
Cash, cheques and drafts in hand	849,549	458,778
Balance with scheduled bank in current accounts	19,443,802	9,413,616
Balance with scheduled bank in deposit accounts	36,145,623	48,098,209
Balance with other Banks	-	1,621,123
	<b>56,438,974</b>	<b>59,591,726</b>

**Significant Accounting Policies and Notes on Accounts**

Schedule - XX

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

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

For **HARIBHAKTI & CO.**  
Chartered Accountants

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

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

**CHETAN DESAI**  
Partner

**SANDEEP MUNDRA**  
Partner

**MUKESH KHETAN**  
Company Secretary

**NIRMAL KUMAR BARDIYA**  
Director

Jaipur, 21<sup>st</sup> May, 2010

**SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
<b>SCHEDULE I - SHARE CAPITAL</b>				
<b>Authorised</b>				
41,000,000 (Previous Year - 41,000,000) Equity Shares of Rs. 10/- each	410,000,000		410,000,000	
4,500,000 (Previous Year - 4,500,000) Unclassified Shares of Rs 100/- each	<b>450,000,000</b>	<b>860,000,000</b>	450,000,000	<b>860,000,000</b>
<b>Issued, Subscribed and Paid up</b>				
31,698,473 (Previous Year - 31,698,473) Equity Shares of Rs.10/- each	316,984,730		316,984,730	
4,400,000 (Previous Year-4,400,000) 1% Non Convertible Redeemable Cumulative Preference Share of Rs. 100 each (Refer Note No. 5)	440,000,000	756,984,730	440,000,000	756,984,730
		<b>756,984,730</b>		<b>756,984,730</b>

**Notes:**

Out of the above Equity Shares :

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

**SCHEDULE II - RESERVES AND SURPLUS**

<b>Securities Premium Account</b>		5,874,020,191		5,874,020,191
<b>General Reserve</b>				
As per last Balance Sheet	79,647,256	-	79,647,256	-
Less : Debit Balance in Profit & Loss deducted as per contra	79,647,256	-	79,647,256	-
<b>Capital Reserve</b>		81,263,600		
<b>Employee Stock Option Outstanding (Refer Note No. 6)</b>	4,516,157		2,825,699	
Less : Deferred Employees Compensation Expenses Outstanding	1,909,313	2,606,844	359,986	2,465,713
<b>Foreign Currency Translation Reserve</b>		35,292,028		102,724,218
		<b>5,993,182,663</b>		<b>5,979,210,122</b>

**SCHEDULE III - SECURED LOANS**

<b>Working Capital Facilities from Banks :</b>				
Pre-shipment Credit	394,912,323		486,145,518	
Post-shipment Credit	169,471,896	564,384,219	856,508,528	1,342,654,046
<b>Term Loan</b>				
Corporate Loan	407,400,000		407,400,000	
Working Capital Term Loan	722,058,072	1,129,458,072	-	407,400,000
		<b>1,693,842,291</b>		<b>1,750,054,046</b>

**SCHEDULES** Forming Part of Balance Sheet**Notes:****A. Working Capital Facilities & Working Capital Term Loan :**

- (i) Above Loans are secured by hypothecation of Stock-in-Trade and Book Debts on pari-passu basis.
- (ii) **Further Secured, on parri-passu basis, by :**
- Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68 & E-69 EPIP, Sitapura Jaipur
  - Hypothecation of Plant & Machinerics & Other Movable Assets

**B. Corporate Loan :**

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

**C. Working Capital Facilities, Working Capital Term Loan & Corporate Loan :**

- (i) Pledge of 254,332 equity shares of Rs. 10 each of Vaibhav Gems limited by Brett Plastic Private Limited and
- (ii) Pledge of 200 common shares with no par value of STS Jewels Inc.
- (iii) Pledge of 87,500 Ordinary Shares of HK \$100 each & assignment of loan worth Rs. 2.42 Crores of STS Gems Limited, HKK.
- (iv) Pledge of 12,576,633 equity shares of US \$1 each and assignment of loan worth Rs. 43.63 Crores of Genoa Jewelers Ltd. BV1 and;
- (v) Personal Guarantee of Mr. Sunil Agarwal, Chairman of the Company.

<b>SCHEDULE IV : FIXED ASSETS</b>										(Amount in Rupees)	
NAME OF ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK		
	As at 01.04.2009	Addition during the year	Ded./Adj. during the year	As at 31.03.2010	Up to 31.3.2009	For the Year	Ded./Adj. during the year	Up to 31.03.2010	As at 31.03.2010	As at 31.3.2009	
Freehold Land	4,894,908	-	-	4,894,908	-	-	-	-	4,894,908	4,894,908	
Leasehold Land	4,158,637	-	-	4,158,637	722,647	38,948	-	761,595	3,397,042	3,435,990	
Building	45,135,506	8,009,609	-	53,145,115	21,797,398	2,400,592	-	24,197,990	28,947,125	23,338,108	
Plant & Machinery	78,920,710	1,768,018	-	80,688,728	44,964,674	4,844,537	-	49,809,211	30,879,517	33,956,036	
Electric Installation	15,118,133	1,585,038	-	16,703,171	7,555,607	1,076,624	-	8,632,231	8,070,940	7,562,526	
Furniture & Fixtures	21,965,484	838,960	-	22,804,444	14,141,165	1,431,075	-	15,572,240	7,232,204	7,824,319	
Office Equipment	12,383,188	128,354	210,292	12,301,250	7,254,410	680,628	14,542	7,920,496	4,380,754	5,128,778	
Computer	22,415,534	333,818	1,254,831	21,494,521	19,036,290	1,326,723	1,085,950	19,277,063	2,217,457	3,379,244	
Vehicles	3,516,846	435,000	-	3,951,846	2,523,286	277,379	-	2,800,665	1,151,181	993,560	
<b>Total</b>	<b>208,508,946</b>	<b>13,098,797</b>	<b>1,465,123</b>	<b>220,142,619</b>	<b>117,995,477</b>	<b>12,076,506</b>	<b>1,100,492</b>	<b>128,971,491</b>	<b>91,171,128</b>	<b>90,513,469</b>	
Previous Year	243,047,679	1,500,605	36,039,338	208,508,946	105,758,832	15,013,110	2,776,465	117,995,477	90,513,469	137,288,847	

**SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
<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.,	527,090,000		527,090,000	
Less: Diminuation in Value of Investment	379,422,525	147,667,475	379,422,525	147,667,475
34,376,633(Previous Year - 33,879,121) Ordinary Shares of US \$ 1 each fully paid-up of Genoa Jewellers Ltd	1,481,150,232		1,481,150,232	
Less: Diminuation in Value of Investment	1,009,085,127	472,065,105	1,009,085,127	472,065,105
350,000 (Previous Year - 350,000) Ordinary Shares of Baht 100 each fully paid-up of STS Gems Thai Ltd	1,112,599,043		1,112,599,043	
Less: Diminuation in Value of Investment	1,112,599,043	-	1,112,599,043	-
100,000 (Previous Year-100,000) Ordinary Shares of Bhat 100 each fully paid-up of STS Creations Thai Ltd	62,031,574		62,031,574	
Less: Diminuation in Value of Investment	62,031,574	-	62,031,574	-
200 (Previous Year-200) Common Shares with No par value of STS Jewels Inc.	1,995,079,632	1,995,079,632	1,995,079,632	1,995,079,632
1,500 (Previous Year - 1,500) Ordinary Shares of Yen 50,000 each fully paid-up of STS Gems Japan Ltd	19,918,042		19,918,042	
Less: Diminuation in Value of Investment	19,918,042	-	19,918,042	-
87,500 (Previous Year - 87,500) Ordinary Shares of HK \$100 each fully paid-up of STS Gems Limited Hongkong	157,499,992	157,499,992	157,499,992	157,499,992
2 (Previous Year-2) Corporate Shares (one share of Ninety Nine Thousand Pesos and other one of One Thousand Pesos) of Indo Mexico Co. s. de rl.de.cv.	410,227,250		410,227,250	
Less: Diminuation in Value of Investment	410,227,250	-	410,227,250	-
<b>Other than Trade Investment - Unquoted</b>				
360,000 (Previous Year - 360,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited	5,207,000		5,207,000	
Less: Diminuation in Value of Investment	5,207,000	-	5,207,000	-
<b>Other than Trade Investment - Quoted</b>				
368 (Previous Year - 368) Equity Shares of Rs.10 each fully paid up of Punjab National Bank		143,520		143,520
		<b>2,772,455,724</b>		<b>2,772,455,724</b>

**Notes:**

1. Aggregate amount of Quoted Investment	<b>143,520</b>	<b>143,520</b>
2. Market value of Quoted Investment	<b>372,692</b>	<b>151,414</b>
3. Aggregate amount of Non Quoted Investment	<b>2,772,312,204</b>	<b>2,772,312,204</b>

**SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
<b>SCHEDULE VI - INVENTORIES</b> (As taken, valued and certified by the Management)				
Materials-in-process		596,971,633		507,136,959
Semi Finished Goods		3,753,078		8,041,533
Finished Goods		4,094,962		15,619,087
Stores and Consumables		3,289,897		1,752,727
		<b>608,109,570</b>		<b>532,550,307</b>

<b>SCHEDULE VII - SUNDRY DEBTORS</b> (Unsecured and considered good unless otherwise stated)				
Outstanding for more than Six Months				
Considered good	487,613,027		616,499,065	
Considered doubtful	314,472,363		482,759,042	
	802,085,390		1,099,258,107	
Less : Provision for Doubtful Debts	314,472,363	487,613,027	482,759,042	616,499,065
Others				
Considered good	612,524,111		617,763,106	
Considered doubtful	-		67,292,781	
	612,524,111		685,055,887	
Less : Provision for Doubtful Debts	-	612,524,111	67,292,781	617,763,106
		<b>1,100,137,138</b>		<b>1,234,262,171</b>

<b>SCHEDULE VIII - CASH AND BANK BALANCES</b>				
Cash in Hand		849,549		458,778
Balance with Scheduled Banks				
In Current Accounts	19,443,802		9,413,616	
In Deposit Accounts [Pledged Rs. 15,390,139(Previous Year Rs. 6,845,204)]	36,145,623	55,589,425	48,098,209	57,511,825
Balance with Non Scheduled Banks (Refer Note No. 10)				
In Current Accounts	-		848,893	
In Deposit Accounts	-	-	772,229	1,621,123
		<b>56,438,974</b>		<b>59,591,726</b>

**SCHEDULES** Forming Part of Balance Sheet

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
<b>SCHEDULE IX - LOANS &amp; ADVANCES</b>				
(Unsecured and considered good unless otherwise stated)				
Advances and Loans to Subsidiaries (Refer Note No. 11)				
Considered good	508,156,683		591,337,367	
Considered doubtful	773,595,574		757,847,081	
	1,281,752,257		1,349,184,448	
Less : Provision for Doubtful Debts	773,595,574	508,156,683	757,847,082	591,337,366
Advances recoverable in cash or in kind for value to be received		14,363,578		12,609,187
Advance tax (Net of Provision)		35,516,406		34,542,675
Security Deposits		5,319,322		2,629,452
		<b>563,355,989</b>		<b>641,118,680</b>

**SCHEDULE X - CURRENT LIABILITIES**

Sundry Creditors (Refer Note No.4)		74,067,890		111,295,051
Unclaimed Dividend*		312,183		342,122
Other Liabilities		15,521,774		22,172,649
		<b>89,901,847</b>		<b>133,809,822</b>

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

**SCHEDULE XI - PROVISIONS**

Leave Encashment		3,136,824		2,888,789
Gratuity		10,560,533		6,552,016
		<b>13,697,357</b>		<b>9,440,805</b>



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

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
<b>SCHEDULE XII - SALES</b>				
Export Sales	1,208,328,240		1,693,610,770	
Domestic Sales	67,158	1,208,395,398	16,038,237	1,709,649,007
		<b>1,208,395,398</b>		<b>1,709,649,007</b>

**SCHEDULE XIII - OTHER INCOME**

Interest Received (Gross, Tax Deducted at Source - Rs. 192,605) (Previous Year - Rs. 315,178)		1,241,632		4,981,785
Dividend Received		22,339		70,969
Commission Received (Gross, Tax Deducted at Sources - Rs. 465,928) (Previous Year - Rs.722,793)		4,719,026		6,950,434
Miscellaneous Income		840,095		1,165,159
Exchange Fluctuation (Net)		-		67,889,204
		<b>6,823,092</b>		<b>81,057,552</b>

**SCHEDULE XIV - MATERIAL COST**

<b>Materials Consumed</b>				
<b>Opening Material-in-Process</b>	507,136,959		704,607,465	
Add: Purchases	994,236,518		1,228,680,268	
	1,501,373,477		1,933,287,733	
Less: Closing Material-in-Process	596,971,633	904,401,844	507,136,959	1,426,150,774
Purchases of Finished Goods		1,922,555		66,849,699
<b>(Increase)/Decrease in Semi Finished and Finished Goods:</b>				
<i>Opening Stocks</i>				
Semi Finished Goods	8,041,533		97,472,162	
Finished Goods	15,619,087		26,359,452	
	23,660,620		123,831,614	
Less: <i>Closing Stocks</i>				
Semi Finished Goods	3,753,078		8,041,533	
Finished Goods	4,094,962		15,619,087	
	7,848,040	15,812,581	23,660,620	100,170,993
		<b>922,136,980</b>		<b>1,593,171,466</b>

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

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
<b>SCHEDULE XV - MANUFACTURING EXPENSES</b>				
Job Work Charges		20,100,854		19,817,297
Stores and Consumables		24,303,332		20,657,597
Power and Fuel		9,064,706		9,889,789
Repairs and Maintenance		4,514,246		4,686,662
Other Manufacturing Expenses		10,614,746		16,772,254
		<b>68,597,884</b>		<b>71,823,599</b>
<b>SCHEDULE XVI - EMPLOYEES COSTS</b>				
Salaries, Wages, Bonus etc.		98,324,878		115,974,625
Contributions to Provident and Other Funds		7,334,603		9,143,838
Staff Welfare Expenses		3,332,761		2,948,334
Employee Compensation Expenses under ESOS (Refer Note No. 6)		141,131		(3,661,411)
Recruitment and Training		329,725		344,178
		<b>109,463,098</b>		<b>124,749,564</b>
<b>SCHEDULE XVII - ADMINISTRATIVE &amp; SELLING EXPENSES</b>				
Rent, Rates and Taxes		912,392		1,890,292
Insurance		3,049,067		2,832,813
Travelling and Conveyance		5,839,285		10,614,300
Legal and Professional		2,304,656		2,365,896
Postage and Telephone		2,471,634		3,481,829
Printing and Stationery		905,266		1,046,144
Advertisement and Business Promotion		832,447		876,512
Brokerage and Commission		2,888,236		-
Packing and Forwarding		10,874,586		10,091,911
Misc. Expenses		3,383,760		7,397,040
Donation		-		25,000
Auditors' Remuneration		813,518		920,771
Directors' Remuneration		4,200,000		4,200,000
Directors' Sitting Fees		245,000		585,000
Information Technology Expenses		204,620		2,300,301
Loss on Sale of Assets		1,648		1,165,758
Loss on Impaired Fixed Assets		-		1,206,360
Exchange Fluctuation (Net)		61,524,422		-
		<b>100,450,537</b>		<b>50,999,927</b>
<b>SCHEDULE XVIII - FINANCIAL EXPENSES</b>				
Interest				
- On Term Loans	63,597,243		51,787,674	
- On Working Capital Facilities	64,478,423	128,075,666	94,265,046	146,052,720
Finance Charges		10,545,400		10,428,223
		<b>138,621,066</b>		<b>156,480,943</b>

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

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
<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)	1,144,902	132,531,998	1,266,933	359,778,818
Gold, Silver and Alloys (Grams)	2,313,168	319,712,209	1,425,496	303,196,482
Gemstones (Carats)	11,700,643	302,240,079	1,137,973	598,440,641
Accessories (Nos.)	570,559	56,006,185	361,482	82,969,449
Diamond (Carats)	20,323	93,911,373	11,176	81,765,384
		<b>904,401,844</b>		<b>1,426,150,774</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)	112,173	4,015,469	134,577	4,180,166
Jewellery (Nos.)	-	-	-	-
Diamond (Carats)	1,789	11,603,618	2,148	22,179,286
Accessories (Nos.)	-	-	-	-
		<b>15,619,087</b>		<b>26,359,452</b>
<b>Purchases</b>				
Gem Stones (Carats)	-	-	10,539	632,153
Jewellery (Nos.)	2,164	680,832	1,742	5,062,338
Diamond (Carats)	312	1,241,723	12,816	61,155,208
Accessories (Nos.)	-	-	-	-
		<b>1,922,555</b>		<b>66,849,699</b>
<b>Turnover</b>				
Roughs (Grams)	1,605	25,672	545	72,510
Gem Stones (Carats)	236,870	100,077,458	659,649	618,496,837
Jewellery (Nos.)	746,142	1,076,667,842	530,853	1,030,632,501
Diamond (Carats)	834	8,377,083	5,961	38,817,975
Accessories (Nos.)	61,834	23,056,410	59,930	20,891,049
Others	-	190,932	-	738,134
		<b>1,208,395,398</b>		<b>1,709,649,007</b>
<b>Closing Stocks</b>				
Gem Stones (Carats)	80,310	3,126,785	112,173	4,015,469
Jewellery (Nos.)	17	5,076	-	-
Diamond (Carats)	150	963,101	1,789	11,603,618
Accessories (Nos.)	-	-	-	-
		<b>4,094,962</b>		<b>15,619,087</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>		763,148		666,151
<i>Diamond (Carats)</i>		-		2,715
<i>Studded Jewellery (Nos.)</i>		786,183		529,111
<i>Accessories (Nos.)</i>		529,855		833,754

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

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
<b>4. Captive Consumption</b>		<b>Quantity</b>		<b>Quantity</b>
Gem Stones(Carats)		558,141		4,914
Diamond (Carats)		1,907		-
Accessories (Nos.)		468,021		773,824
<b>5. Managerial Remuneration</b>		<b>Rupees</b>		<b>Rupees</b>
Profit before Taxation after Exceptional Item		19,632,578		(2,536,804,813)
Add: Depreciation as per Accounts		12,076,506		15,013,110
Managerial Remuneration		4,200,000		4,200,000
Loss on Sale of Fixed Assets		1,648		1,165,758
Loss on Impaired Fixed Assets		-		1,206,360
Diminution in Value of Investment		-		1,007,373,860
		<b>35,910,732</b>		<b>(1,507,845,725)</b>
Less: Depreciation as per Section 350 of Companies Act, 1956		12,076,506		15,013,110
Profit on Sale of Fixed Assets		67,906		59,756
Share Issue Expenses		-		-
Profit as per Sec. 349		<b>23,766,320</b>		<b>(1,522,918,591)</b>
Eligible Remuneration to Managing Director as per Sec. 309 (5% of Eligible Profit)		<b>4,800,000</b>		<b>4,200,000</b>
Remuneration paid to Managing Director		<b>4,200,000</b>		<b>4,200,000</b>
<b>6. Payments to Directors from Subsidiaries</b>		<b>14,766,144</b>		<b>24,851,090</b>
<b>7. Payments to Auditors</b>				
a. Audit Fees		441,200		441,200
b. Tax Audit Fees		165,450		165,450
c. For Other Services		55,150		55,150
d. For Reimbursement of Expenses		151,718		258,971
		<b>813,518</b>		<b>920,771</b>
<b>8. Repairs and Maintenance</b>				
a. Buildings		1,697,445		1,146,530
b. Machineries		1,641,087		2,034,521
c. Other Repairs		1,175,714		1,505,611
		<b>4,514,246</b>		<b>4,686,662</b>
<b>9. Value of Imports calculated on C.I.F. basis</b>				
a. Raw Materials (other than through canalising agencies)		429,496,312		895,867,910
b. Consumables, Stores & Spares		16,582,958		10,465,587
c. Capital Goods		-		448,565
<b>10. Value and % of Material Consumption</b>				
<b>Raw Materials and Components:</b>		<b>Rupees</b>		<b>Rupees</b>
Imported	43.20	390,688,986	72.91	1,039,849,623
Indigenous	56.80	513,712,858	27.09	386,301,151
		<b>904,401,844</b>		<b>1,426,150,774</b>

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

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
	%	Rupees	%	Rupees
<b>Consumables, Stores &amp; Spares:</b>				
Imported	62.78	15,257,892	53.45	11,041,408
Indigenous	37.22	9,045,441	46.55	9,616,189
		<b>24,303,333</b>		<b>20,657,597</b>
<b>11. Expenditure in Foreign Currency</b>				
Travelling Expenses		289,931		887,192
Professional Fees		-		-
Others		221,831		-
<b>12. Earnings in Foreign Currency</b>				
Export of goods calculated on F.O.B. basis		1,214,711,520		1,721,426,487
Interest		-		3,450,468
Commission		4,719,026		6,432,808
<b>13. Remittance in Foreign Currency on Account of Dividends:</b>				
a. Year to which the Dividend relates		-		-
b. Number of Non-Resident Shareholders to whom remittances were made		-		-
c. Number of Shares on which remittances were made		-		-
d. Dividend Amount (in Rupees)		-		-

## **SCHEDULES** Forming Part of Accounts

### **SCHEDULE XX - SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS**

#### **A. SIGNIFICANT ACCOUNTING POLICIES**

##### **1. Basis of Preparation of Financial Statements**

- a. The financial statements have been prepared in compliance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India, the accounting standards as specified in Companies (Accounting Standards) Rules 2006, prescribed by Central Government and the relevant provisions of the Companies Act, 1956. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires changes in the accounting policy hitherto in use.
- b. The financial statements have been prepared under historical cost convention on an accrual basis.

##### **2. Use of Estimates**

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

##### **3. Fixed Assets**

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

##### **4. Depreciation and Amortization**

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

##### **5. Intangible Assets**

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

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

##### **6. Impairment of Assets**

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

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

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

Recoverable amount is determined

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

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

##### **7. Borrowing Cost**

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

##### **8. Inventories**

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

## **SCHEDULES Forming Part of Accounts**

- b. All raw materials purchased are simultaneously issued for production. Accordingly material-in-process includes such raw materials as well. Semi Finished Goods are goods manufactured and pending for pre-shipment inspection. Materials consumed are materials used in production of semi finished and finished goods only.
- c. Identification of a specific item and determination of estimated net realizable value involve technical judgments of the management, which has been relied upon by the Auditors.

### **9. Investments**

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

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

### **10. Revenue Recognition**

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

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

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

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

#### **Interest Income:**

Interest Income is recognized on time proportionate basis taking into account the amount outstanding and the rate applicable.

#### **Commission Income:**

Commission Income is recognized on the accrual basis.

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

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

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

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

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

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

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

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

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

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

### **12. Employee Benefits**

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

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

Provision for current tax is made after taking into consideration benefits admissible under the provisions of the Income Tax Act, 1961. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the company has unabsorbed depreciation or carry



**SCHEDULES** Forming Part of Accounts

forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

**14. Earning Per Share**

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

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

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

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

**Contingent Liability** is disclosed in case of

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

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

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

**B. NOTES ON ACCOUNTS**

Particulars	31st March, 2010		31st March, 2009	
	Rupees	Rupees	Rupees	Rupees
<b>1(a). Capital Commitment:</b>				
Estimated amount of contracts remaining to be Executed and not provided for		Nil		2,555,150
<b>1(b). Contingent Liabilities:</b>				
a. Guarantees given by bank on behalf of Company		77,032,800		81,861,000
b. Guarantees given to bank & others by the Company		317,851,200		1,693,851,500
c. Disputed Tax Matters				
Income Tax		25,131,306		11,099,221
Service Tax		2,090,209		1,436,380
Custom Duty		Nil		Nil
d. Dividend on Cumulative Preference Share		13,200,000		8,800,000
(*Arrears pertaining to 2007 08, 2008 09 & 2009 10)				
<b>2. The Deferred Tax Liabilities/(Asset) comprise of the following:</b>				
a. Deferred Tax Liability				
i. Depreciation		1,452,377		2,185,990
b. Deferred Tax Assets:				
i. Provision for Gratuity	3,263,205		2,227,030	
iii. Provision for Leave Encashment	969,279		981,899	
		4,232,484		3,208,929
<b>Deferred Tax Liability/(Assets) (Net)</b>		<b>(2,780,107)</b>		<b>(1,022,939)</b>

## SCHEDULES Forming Part of Accounts

Net deferred tax charge/(credit) for the year of Rs. 1,757,168 (Previous year Rs. (3,926,178)) has been recognized in the Profit and Loss Account for the year.

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

### A. Defined Contribution Plans

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

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

Particulars	Year Ended March 31, 2010 Rupees	Year Ended March 31, 2009 Rupees
Employer's contribution to Provident Fund	5,232,803	6,585,636
Employer's contribution to Employees State Insurance	2,094,082	2,515,603

### 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)	8.20%	7.80%
Rate of increase in compensation levels (per annum)	8.86%	7.10%
Rate of return on plan assets (for Funded Scheme)	9.15 %	9.15 %
Expected average remaining working lives of the employees (years)	23 years	23 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	10,003,078	23,956,457
Interest cost	780,240	1,916,517
Past Service cost	1,148,656	Nil
Current service cost	2,090,960	1,587,266
Benefits paid	(931,880)	(2,639,312)
Actuarial (gain)/loss on obligations	628,227	(14,817,850)
Present value of defined benefit obligation as at the end of the year	<b>13,719,281</b>	<b>10,003,078</b>

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

Present value of plan assets as at beginning of the year	3,451,062	5,282,597
Expected return on plan assets	315,772	483,358
Contributions	Nil	395,783
Benefits paid	(571,537)	(2,639,312)
Actuarial gains/(losses)	(36,549)	(71,364)
Fair value of plan assets as at end of the year*	<b>3,158,748</b>	<b>3,451,062</b>

\*All the funds under the Plan Assets are managed by insurer.

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

Present value of funded obligation as at end of the year	13,719,281	10,003,078
Fair value of plan assets as at end of the year	3,158,748	3,451,062
Funded Asset recognised in the Balance Sheet	-	-
Shown under Schedule XI - "Provision"	10,560,533	6,552,016

**SCHEDULES** Forming Part of Accounts

Particulars	Year Ended	Year Ended
	March 31, 2010	March 31, 2009
	Rupees	Rupees

**IV. Amount recognised in the Balance Sheet**

Present value of defined benefit obligation as at the end of the year	13,719,281	10,003,078
Fair value of plan assets as at end of the year	3,158,748	3,451,062
Liability/(Net Asset) recognised in the Balance Sheet	<b>10,560,533</b>	<b>6,552,016</b>

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

Current service cost	2,090,960	1,587,266
Past service cost	1,148,656	–
Interest cost	780,240	1,916,517
Expected Return on Plan Assets	(315,772)	(483,358)
Net Actuarial (gain)/loss recognised in the period	664,776	(14,746,486)
Total Expenses recognised in the Profit and Loss Account*	<b>4,368,860</b>	<b>(11,726,061)</b>
* included in Salaries, wages, bonus etc in Schedule - XVI		

**VI. Actual Return on Plan Assets**

Expected Return on Plan Assets	315,772	483,358
Actuarial gain/(losses) on Plan Assets	(36,549)	(71,364)
Actual Return on Plan Assets	<b>279,223</b>	<b>411,994</b>

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 (non-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	2,888,789	4,431,808
Leave encashment provided for the year	1,173,945	1,640,402
Actual paid for the year	925,910	3,183,421
Actual value of leave encashment as at end of the year	<b>3,136,824</b>	<b>2,888,789</b>

4. 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.

5. 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.

**SCHEDULES** Forming Part of Accounts**6. Employee Stock Option Scheme:**

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

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

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

Particulars	VGL ESOP – 2006				Total
	A	B	C	D	
Exercise (Grant) Price	240	202	20.65	26.75	
Date of Grant of Option	06.01.2007	27.07.2007	28.01.2009	29.01.2010	
Vesting commences on	06.01.2008	27.07.2008	28.01.2010	29.01.2011	
Options granted & outstanding as at the beginning of the year on 01.04.09	69,088	12,000	300,000	-	381,088
Options granted during the year	-	-	-	297,500*	297,500
Options lapsed during the year (Re-issuable)	8,931	-	-	-	8,931
Options granted and outstanding as at the end of the year on 31.03.10	60,157	12,000	300,000	297,500	669,657

\* Partially granted out of lapsed option

The excess of market price per share as on the date of grant of option, over the exercise price for the Stock Option granted to employees (including certain employees of the Subsidiaries), is amortized by the Company over the vesting period. The amortized value for the year pertaining to its employees (including certain employees of the Subsidiaries) amounting to Rs. 141,131 Last Year (Rs.3,661,411) has been charged under Employee Cost.

7. The company had applied for restructuring of its working capital and term loan under CDR Mechanism and accordingly honorable CDR Cell had approved the restructuring of debts of the company in the month of June, 2009. Out of the total working capital limit of Rs 132 Crore, Rs. 72 Crore has been converted into Working Capital Term Loan and Rs. 60 Crore continues as working Capital Limits.

8. Exceptional items represent provision made against investments/ receivables from subsidiaries or its subsequent reversal.

9. Un-hedged foreign currency exposures as at March 31,2010 are as under:

Particulars	Rs. in Crore
Receivables	160.56
Payables	41.29

**SCHEDULES** Forming Part of Accounts**10. Balances with Non-Scheduled bank held in:**

Name of the Bank	As at 31.03.2010	Maximum Amount outstanding at any time during the year	As at 31.03.2009	Maximum Amount outstanding at any time during the year
<b>a. In Current Account</b>				
i) ICICI Bank UK Limited	-	848,893	848,893	848,893
<b>b. In Fixed Deposit</b>				
i) PNB, UK	-	772,229	772,229	6,532,477

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

Name of the Subsidiaries	As at 31.03.2010 any time during the year	Maximum Amount outstanding at	As at 31.03.2009 any time during the year	Maximum Amount outstanding at
a. Jewel Gems USA	94,794,000	106,995,000	106,995,000	106,995,000
b. STS Gems Limited, HK	22,570,000	25,475,000	25,475,000	25,475,000
c. STS Gems Thai Limited	122,270,000	122,270,000	122,270,000	152,850,000
d. Genoa Jewellers Limited	1,042,118,258	1,094,444,448	1,094,444,448	1,245,727,500

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

	2009-10	2008-09
a. Profit After Tax (Rs.)		
– Before Exceptional Item	(134,370,413)	(226,575,040)
– After Exceptional Item	21,389,746	(2,541,847,803)
b. Dividend on Preference Shares (Rs.)	4,400,000	4,400,000
c. Profit attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b)		
– Before Exceptional Item	(138,770,413)	(230,975,040)
– After Exceptional Item	16,989,746	(2,546,247,803)
d. i) Weighted average number of Equity Shares outstanding during the year for Basic EPS	31,698,473	31,698,473
ii) No of Stock Option Outstanding	669,657	381,088
iii) No of Dilutive Potential Equity Shares	82,700	-
e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS (d (i)+d (iii))	31,781,173	31,698,473
f. Basic Earning Per Share		
– Before Exceptional Item	(4.38)	(7.29)
– After Exceptional Item	0.54	(80.33)
g. Diluted Earning Per Share		
– Before Exceptional Item	(4.38)	(7.29)
– After Exceptional Item	0.53	(80.33)

**13.** Three subsidiaries of the company are having negative net worth where the company has exposure of Rs. 261.48 crores, Rs. 48.56 Crore and Rs. 99.22 Crores. In these companies towards the investment, loans and advances and sundry debtors respectively. The management of the company does not foresee any further requirement of provision in respect of these subsidiaries, since the investment in these subsidiaries are long term in nature and all of the subsidiaries are having substantial carrying business value.

**SCHEDULES** Forming Part of Accounts**14. Related Party Disclosures:****A. List of related parties with whom transactions have taken place and relationships:****Subsidiaries (Direct and Step down)**

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

**Enterprises in which Directors are interested :**

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

**Key Management Personnel (KMP)**

1. Shri Rahimullah – Managing Director;

**Relative of Key Management Personnel**

1. Shri Imran Khan; 2. Arif Ullah

**B. Related Party Transactions**

Amount in Rs.

Nature of Transactions	Subsidiaries		Key Managerial Person		Relative of Key Managerial Person		Enterprises over which significant influence exercised by Key Managerial Persons	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
<b>(i) Transaction during the year</b>								
a. Sales of Goods	1,099,783,946	1,364,920,422	-	-	-	-	5,248,549	13,708,545
b. Purchases of Goods	296,593,180	287,844,471	-	-	-	-	-	-
c. Loan Given	-	234,373,500	-	-	-	-	-	-
d. Load Taken	-	-	-	-	-	-	2,800,000	-
e. Expense	2,258,291	2,339,516	-	-	162,000	48,000	420,000	3,819,074
f. Investment	-	19,999,982	-	-	-	-	-	-
g. Remuneration	-	-	4,200,000	4,200,000	-	-	-	-
h. Guarantee	-	480,422,500	-	-	-	-	-	-
i. Purchase of Fixed Assets	-	-	-	-	-	-	506,679	-
<b>(ii) Balances as at 31.03.10</b>								
a. Amount Receivable	1,336,590,256	1,653,951,682	-	-	-	-	-	6,715,008
b. Amount Payable	29,393,798	17,323,369	-	-	18,000	-	3,306,679	324,828
c. Loan Receivable	1,281,752,258	1,349,184,448	-	-	-	-	-	-
d. Investment	5,765,595,765	5,765,595,765	-	-	-	-	5,207,000	5,207,000
e. Guarantee given	385,884,000	1,766,712,500	-	-	-	-	-	-

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

Amount in Rs.

Nature of Transactions	Subsidiaries								Enterprises over which significant influence exercised by Key Managerial Persons							
	Genoa Jewellers Limited		STS Jewels Inc. USA		STS Gems Limited, Hongkong		STS Gems Thai Limited		VGL Softech Ltd.		Shivram Properties Pvt Ltd.		Brett Plastic Private Ltd.		Emerald Creations	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
(i) Transaction during the year																
a. Sales of Goods	817,771,902	678,380,857	192,067,943	392,365,236	89,875,437	139,575,871	68,664	101,722,558	-	-	-	-	-	-	5,248,549	13,708,545
b. Purchases of Goods	1,510,312	17,416,264	67,794,898	119,587,118	179,137,331	67,799,492	48,150,640	77,378,738	-	-	-	-	-	-	-	-
c. Loan Given	-	225,845,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-
d. Loan Taken	-	-	-	-	-	-	-	-	-	-	-	2,800,000	-	-	-	-
e. Expense	2,258,291.00	2,336,701.00	-	-	-	-	-	2,815	-	3,399,074	420,000	420,000	-	-	-	-
f. Investment	-	19,999,982	-	-	-	157,499,992	-	-	-	-	-	-	-	-	-	-
g. Remuneration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
h. Guarantee	-	-	-	-	-	48,934,000	-	-	-	-	-	-	-	-	-	-
i. Purchase of Fixed Assets	-	-	-	-	-	-	-	-	506,679	-	-	-	-	-	-	-
(ii) Balances as at 31.03.10																
a. Amount Receivable	984,828,930	1,216,529,693	232,665,856	209,420,085	97,929,109	124,286,614	-	41,447,784	-	826,815	-	-	-	-	-	5,888,193
b. Amount Payable	69,967.00	4,389,613.55	12,770,575	6,289,477	4,797,471	6,644,278	11,755,785	-	506,679	-	-	324,828	-	-	-	-
c. Loan Receivable	1,042,118,258	1,094,444,448	-	-	22,570,000	25,475,000	122,270,000	122,270,000	-	-	-	-	-	-	-	-
d. Investment	1,418,150,232	1,481,150,232	1,995,079,632	1,995,079,632	157,499,992	157,499,992	1,112,599,043	1,112,599,043	5,207,000	5,207,000	-	-	-	-	-	-
e. Guarantee	272,131,200	1,638,318,500	-	-	113,752,800	128,394,000	-	-	-	-	-	-	-	-	-	-

**15. Segment Reporting:**

Based on a reconsideration of relevant factors (especially the nature of risks and returns, the Company is considered to be a single segment company †“**Wholesale Business**”. As per AS 17 Segment Reporting if a single financial report contains both consolidated financial statements and the separate financial statement of the parent, segment information need be presented only on the basis of the consolidated financial statements. Accordingly, information required to be presented under AS 17 Segment Reporting has been given in the consolidated financial statements.

**16.** 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 : 21<sup>st</sup> May 2010



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

Registration No.

4 9 4 5

State Code 17

Balance Sheet Date

31.03.2010

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

Public Issue

Nil

Right Issue

Nil

Bonus Issue

Nil

Private Placement

0

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

Total Liabilities

8,446,810

Total Assets

8,446,810

**Sources of Funds**

Paid-up Capital

7,56,985

Secured Loans

1,693,842

Reserve &amp; Surplus

5,993,183

Unsecured Loans

2,800

Share Warrant Money

0

Deferred Tax Assets (Net)

0

**Application of Funds**

Net Fixed Assets

91,171

Investment

2,772,456

Net Current Assets

2,224,633

Deferred Tax Assets (Net)

2,780

Profit &amp; Loss Account

3,355,769

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

Turnover

1,215,218

Total Expenditure

1,351,346

Profit/(Loss ) before Tax

(136,128)

Profit/(Loss ) after Tax

Before Exceptional Item

(134,370)

Profit/(Loss ) after Tax

After Exceptional Item

21,390

Earning per Shares in Rs.

Before Exceptional Item

(4.38)

Earning per Shares in Rs.

After Exceptional Item

0.54

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	225.15	(843.35)	4,007.62	3,389.42	-	6,902.62	(342.36)	-	(342.36)	NIL
STS Gems Thai Limited, Thailand	489.23	(477.89)	1,391.11	1,402.45	-	624.95	(441.10)	-	(441.10)	NIL
STS Creations Thai Limited, Thailand	139.78	(310.42)	171.86	1.22	-	-	(13.74)	-	(13.73)	NIL
STS Gems Limited, Hong Kong	507.48	608.81	4,099.24	5,215.54	-	7,337.19	(238.99)	-	(238.99)	NIL
STS Gems Japan Limited	364.43	(407.77)	150.79	107.45	-	0.54	358.20	-	358.20	NIL
Jewel Gem USA Inc.	5,313.55	(6,382.91)	5,131.02	4,061.66	-	-	(1,198.42)	-	(1,198.42)	NIL
Genoa Jewellers Limited, BVI	15,479.83	(20,697.83)	11,068.12	5,850.13	1,316.78	-	(3,532.26)	4.24	(3,536.50)	NIL
Indo Mexico Co. S. De R.L. De C.V., Mexico	3,404.97	(3,546.56)	552.55	410.95	-	-	(80.67)	-	(80.67)	NIL
STS Gems USA Inc.*	-	-	-	-	-	-	-	-	-	NIL
STS Jewels Canada Inc.*	-	-	-	-	-	-	-	-	-	NIL
The Jewellery Channel Ltd., UK	16.97	(7,986.00)	11,789.19	3,820.15	-	16,605.46	705.22	0.01	705.21	NIL
The Jewellery Channel Inc., USA	1,350.90	(15,303.08)	16,742.29	2,790.11	-	11,541.35	(903.41)	-	(903.41)	NIL
Der Schmuckkanal Deutschland GmbH, Germany**	-	-	-	-	-	-	-	-	-	NIL
Genoa Jewellers STT (St. Thomas) Limited, BVI (#)	-	-	-	-	-	120.21	1,587.73	-	1,587.73	NIL
Genoa Jewellers (St. Kitts) Limited	0.23	(329.06)	328.83	-	-	25.85	(139.44)	-	(139.44)	NIL
Genoa Jewellers (SXM) N.V., St. Maarten (#)	-	-	-	-	-	151.30	(215.62)	-	(215.62)	NIL

**Notes:**

- All foreign subsidiaries figures are converted into Indian Rupees on standalone basis and all balance sheet item at closing rate and all profit and loss account item at average rate.
- \* Ceases its operations and all reserves and assets were transfer to respective holding company viz, STS Jewels Inc.
- \*\* Not consolidated due to under liquidation.
- # Hived off during the year.

## CONSOLIDATED FINANCIAL STATEMENTS

### AUDITORS REPORT FOR CONSOLIDATED Financial Statements

To,  
The Board of Director of  
VAIBHAV GEMS LIMITED

- 1) We have audited the attached Consolidated Balance Sheet of Vaibhav Gems Limited (the Company) and its subsidiaries as at 31<sup>st</sup> March 2010 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 5 subsidiaries, whose financial statements reflect total assets of Rs.16713.6 lacs as at March 31, 2010, and total revenue of Rs. 7,987.06 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 3 subsidiaries, which reflect total assets of Rs.63,368.53 lacs and total revenue of Rs. 35,775.9 lacs have been audited by one of the undersigned, viz. B. Khosla & Co.
  - c) We draw attention to Note no. 7 of Notes to accounts. As explained therein the auditors of four subsidiaries have laid an emphasis on the ability of the subsidiaries to continue on going concern basis without the adequate support from the Company.
  - d) Certain other financial information of the subsidiaries, which have not been attested by other auditors, has been compiled by the management and have been verified to the extent possible.
- 4) We report that the consolidated financial statement have been prepared by the company's management in accordance with the requirements of the Accounting Standard (AS) 21, Consolidated Financial Statements and on the basis of the separate audited financial statements and other information referred in paragraph 3 (d) above.
- 5) We report that on the basis of the information and explanations given to us and on consideration of the separate audit report on the individual financial statement of the Company and its subsidiaries, we are of the opinion that the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India
  - a. in case of the Consolidated Balance Sheet, of the state of affairs of the Company and its subsidiaries as at March 31, 2010.
  - 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: May 21<sup>st</sup>, 2010

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

**Sandeep Mundra**  
Partner  
Membership No. 75482

**CONSOLIDATED BALANCE SHEET** as at 31<sup>st</sup> March, 2010

Amount in Rupees

Particulars	Schedule	As at 31st March, 2010		As at 31st March, 2009	
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' Funds</b>					
Share Capital	I	756,984,730		756,984,730	
Share Warrants		-		81,263,600	
Reserves and Surplus	II	6,224,603,491	<b>6,981,588,221</b>	5,775,287,235	6,613,535,565
<b>Loan Funds</b>					
Secured Loans	III	1,987,545,331		2,106,486,055	
Unsecured Loans	IV	17,483,412	<b>2,005,028,743</b>	51,385,383	2,157,871,438
<b>Total</b>			<b>8,986,616,964</b>		<b>8,771,407,003</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	V	2,404,877,869		2,585,085,317	
Less: Depreciation		337,009,500		374,408,766	
Net Block		<b>2,067,868,369</b>		<b>2,210,676,551</b>	
Capital Work-in-Progress		-	<b>2,067,868,369</b>	2,000,000	<b>2,212,676,551</b>
<b>Investments</b>	VI		<b>131,821,431</b>		231,071,456
<b>Deferred Tax Assets (Net)</b>			<b>2,780,107</b>		1,022,939
<b>Current Assets, Loans and Advances</b>					
Inventories	VII	1,566,714,030		1,847,402,596	
Sundry Debtors	VIII	125,110,815		390,835,390	
Cash and Bank Balances	IX	117,382,397		145,900,456	
Interest Accrued on Bank Deposits		190,822		88,926	
Loans and Advances	X	337,963,167		270,598,149	
		<b>2,147,361,231</b>		<b>2,654,825,517</b>	
<b>Less: Current Liabilities and Provisions</b>					
Current Liabilities	XI	474,541,939		763,698,976	
Provisions	XII	13,697,357		9,440,805	
		<b>488,239,296</b>		<b>773,139,781</b>	
<b>Net Current Assets</b>			<b>1,659,121,935</b>		1,881,685,736
<b>Profit and Loss Account</b>					
Debit Balance in Profit & Loss Account		5,204,672,378		4,524,597,577	
Less: General Reserve deducted as per contra		79,647,256	<b>5,125,025,122</b>	79,647,256	<b>4,444,950,321</b>
<b>Total</b>			<b>8,986,616,964</b>		<b>8,771,407,003</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, 21<sup>st</sup> May, 2010**SANDEEP MUNDRA**  
Partner**MUKESH KHETAN**  
Company Secretary**NIRMAL KUMAR BARDIYA**  
Director

**CONSOLIDATED PROFIT AND LOSS ACCOUNT** for the year ended 31<sup>st</sup> March, 2010

Amount in Rupees

Particulars	Schedule	Year ended 31st March 2010	Year ended 31st March 2009
<b>INCOME</b>			
Sales	XIII	3,381,807,965	5,947,696,452
Other Income	XIV	52,171,074	78,361,619
<b>Total</b>		<b>3,433,979,039</b>	<b>6,026,058,071</b>
<b>EXPENDITURE</b>			
Materials Cost	XV	1,977,696,275	3,795,975,177
Manufacturing/Direct Expenses	XVI	188,870,539	274,529,799
Employees Costs	XVII	483,086,639	975,061,808
Administrative & Selling Expenses	XVIII	1,008,810,397	1,936,154,224
Financial Expenses	XIX	263,308,340	450,593,246
<b>Total</b>		<b>3,921,772,190</b>	<b>7,432,314,254</b>
<b>Profit/(Loss) Before Depreciation</b>		<b>(487,793,151)</b>	<b>(1,406,256,183)</b>
Depreciation	V	87,487,288	124,622,685
<b>Profit/(Loss) Before Tax</b>		<b>(575,280,439)</b>	<b>(1,530,878,868)</b>
Add/Less: Provision For Taxation			
– Current Tax		425,375	221,428
– Earlier Years Tax		1,301,656	116,812
– Deferred Tax Charges/(Credits)		(1,757,168)	3,926,178
– Fringe Benefit Tax		-	1,000,000
<b>Profit/(Loss) After Tax and before Minority Interest</b>		<b>(575,250,302)</b>	<b>(1,536,143,286)</b>
Add : Minority Interest in Profit/(Loss)		-	6,048,775
<b>Profit After Tax Before Exceptional Item</b>		<b>(575,250,302)</b>	<b>(1,530,094,511)</b>
Less : Exceptional Item (Refer Note No. 8)		(104,824,499)	(873,433,668)
<b>Profit After Tax After Exceptional Item</b>		<b>(680,074,801)</b>	<b>(2,403,528,179)</b>
Balance brought forward		(4,524,597,577)	(2,121,069,398)
<b>Profit Available For Appropriation</b>		<b>(5,204,672,378)</b>	<b>(4,524,597,577)</b>
<b>APPROPRIATION</b>			
Proposed Dividend		-	-
Tax on Dividend		-	-
<b>Balance Carried to Balance Sheet</b>		<b>(5,204,672,378)</b>	<b>(4,524,597,577)</b>
<b>Earnings Per Share of Rs.10 each</b> (Refer Note No. 6)			
<b>Basic</b>			
Before Exceptional Item		(18.29)	(48.41)
After Exceptional Item		(21.59)	(75.96)
<b>Diluted Rs.</b>			
Before Exceptional Item		(18.29)	(48.41)
After Exceptional Item		(21.59)	(75.96)
<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 AccountantsFor and on behalf of the Board  
**RAHIMULLAH**  
Managing Director**CHETAN DESAI**  
Partner  
Jaipur, 21<sup>st</sup> May, 2010**SANDEEP MUNDRA**  
Partner**MUKESH KHETAN**  
Company Secretary**NIRMAL KUMAR BARDIYA**  
Director

**CONSOLIDATED CASH FLOW STATEMENT** for the year ended 31st March, 2010

Amount in Rupees

Particulars	Schedule	As at 31st March 2010	As at 31st March 2009
<b>A. Cash Flow from Operating Activities</b>			
<b>Net Profit/(Loss) before tax and extraordinary Items</b>		<b>(575,280,439)</b>	<b>(1,530,878,868)</b>
Adjustment for :			
Depreciation		87,487,288	124,622,685
Unrealised Foreign Exchange Difference		-	-
Employee Compensation Expenses		141,131	(3,661,411)
Profit on Sales of Investment		-	-
Loss/(Profit) on Sale of Fixed Assets		5,043,852	2,955,070
Loss on Impaired Assets		6,326,911	-
Gratuity Expenses		4,008,517	(12,121,844)
Interest and Dividend Earned		(1,834,559)	(22,490,540)
Interest Paid on Borrowings		146,420,188	186,003,467
<b>Operating Profit before working Capital Changes</b>		<b>(327,687,111)</b>	<b>(1,255,571,441)</b>
Adjustment for :			
Trade and Other Receivables		68,305,380	404,149,992
Trade Payables		(288,909,002)	(771,076,009)
Stock- in - Trade		280,688,566	1,965,809,616
<b>Cash generated from Operations</b>		<b>(267,602,167)</b>	<b>343,312,158</b>
Direct Taxes Paid		(425,375)	(3,000,000)
Earlier Year Tax		(1,301,656)	(116,812)
Minority Share of Interest in Profits		-	6,048,775
<b>Net Cash from operating activities</b>		<b>(269,329,198)</b>	<b>346,244,121</b>
<b>B. Cash Flow from Investing Activities</b>			
Purchase of Fixed Assets		(22,954,506)	(122,304,471)
Purchase of Intangible Assets		(54,295,493)	-
Payment for Goodwill (net of Capital Reserve)		-	-
Sales of Fixed Assets		166,416,234	107,757,734
Sales/(Purchases) of Shares/Mutual Fund		-	(185,322,882)
Profit on Sale of Investment		-	-
Interest and Dividend Received		1,732,663	27,427,496
<b>Net Cash used in Investing Activities</b>		<b>90,898,897</b>	<b>(172,442,123)</b>
<b>C. Cash Flow from Financing Activities</b>			
Proceeds from/(Repayment of ) Long Term Borrowings		733,168,938	(63,981,591)
Proceeds from/(Repayment of) Short Term Borrowings		(862,724,483)	61,517,124
Proceeds from Issuance of Share Capital (Net of Expenses)		-	-
Loans Advanced to Others		(23,287,150)	(276,252,834)
Minority Interest Payable		-	(19,072,986)
Foreign Currency Translation Reserve - Unrealised		449,175,125	(50,725,984)
Dividend and Tax on Dividend Paid		-	-
Interest Paid on Borrowings		(146,420,188)	(186,003,467)
<b>Net Cash used in Financing Activities</b>		<b>149,912,242</b>	<b>(534,519,738)</b>
<b>Net Increase in Cash and Cash Equivalents (A+B+C)</b>		<b>(28,518,059)</b>	<b>(360,717,740)</b>
Opening Balance of Cash and Cash Equivalents		145,900,456	506,618,196
<b>Closing Balance of Cash and Cash Equivalents</b>		<b>117,382,397</b>	<b>145,900,456</b>
<b>Cash and Cash Equivalents Comprises</b>			
Cash, Cheques and Drafts in Hand		2,684,329	2,615,718
Balance with Bank in Current Accounts		48,235,034	66,113,112
Balance with Bank in Deposit Accounts		66,463,034	77,171,626
Balance with Other Banks		-	-
		<b>117,382,397</b>	<b>145,900,456</b>

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

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

*As per our attached report of even date*For **HARIBHAKTI & CO.**

Chartered Accountants

**CHETAN DESAI**

Partner

Jaipur, 21<sup>st</sup> May, 2010For **B. KHOSLA & CO.**

Chartered Accountants

**SANDEEP MUNDRA**

Partner

**MUKESH KHETAN**

Company Secretary

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

Managing Director

**NIRMAL KUMAR BARDIYA**

Director

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
<b>SCHEDULE I - SHARE CAPITAL</b>				
<b>Authorised</b>				
41,000,000 (Previous Year - 41,000,000) Equity Shares of Rs 10/- each	410,000,000		410,000,000	
4,500,000 (Previous Year - 4,500,000) Unclassified Shares of Rs 100/- each	450,000,000	860,000,000	450,000,000	860,000,000
<b>Issued, Subscribed and Paid up</b>				
31,698,473 (Previous Year - 31,698,473) Equity Shares of Rs 10/- each	316,984,730		316,984,730	
4,400,000 (Previous Year - 4,400,000) 1% Non Convertible Redeemable Cumulative Preference Share of Rs. 100 each (Refer Note No. 5)	440,000,000	756,984,730	440,000,000	756,984,730
		<b>756,984,730</b>		<b>756,984,730</b>

**Notes:**

Out of the above Equity Shares :

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

**SCHEDULE II - RESERVES AND SURPLUS**

<b>Securities Premium Account :</b>				
As per last Balance Sheet	5,874,020,191		5,874,020,191	
Add: Received during the year	-		-	
	5,874,020,191		5,874,020,191	
Less: Expenses for Issue of Securities	-	5,874,020,191	-	5,874,020,191
<b>General Reserve:</b>				
As per last Balance Sheet	79,647,256		79,647,256	
Add: Transitional liabilities for Deferred Benefit Plan	-		-	
	79,647,256		79,647,256	
Less: Debit Balance in Profit & Loss deducted as per contra	79,647,256	-	79,647,256	-
<b>Capital Reserve on Consolidation</b>		95,474,890		14,211,290
<b>Foreign Currency Translation Reserve</b>		252,501,566		(115,409,959)
<b>Employee Stock Option Outstanding (Refer Note No. 9)</b>	4,516,157		2,825,699	
Less: Deferred Employees Compensation Expenses Outstanding	1,909,313	2,606,844	359,986	2,465,713
		<b>6,224,603,491</b>		<b>5,775,287,235</b>



**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
-------------	---------------------------	--	---------------------------	--

**SCHEDULE III - SECURED LOANS**

<b>From Bank</b>				
Term Loan	1,182,425,242		438,641,483	
Working Capital Loan	805,120,089	1,987,545,331	1,667,844,572	2,106,486,055
		<b>1,987,545,331</b>		<b>2,106,486,055</b>

**SCHEDULE IV - UNSECURED LOANS**

From Bank		14,683,412		25,298,233
From Others		2,800,000		26,087,150
		<b>17,483,412</b>		<b>51,385,383</b>

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

PARTICULARS OF ASSET	GROSS BLOCK			DEPRECIATION			NET BLOCK			
	Balance as on 01.04.2009	Additions	Deductions	Currency Realignment	Balance as on 31.03.2010	Depreciation	Adjustments	Currency Realignment	Balance as on 31.03.2010	Balance as on 31.03.2009
<b>Intangible Assets</b>										
Goodwill on Consolidation	1,797,929,503	-	-	-	1,797,929,503	-	-	-	-	1,797,929,503
Broadcast Rights	-	54,295,493	-	-	54,295,493	1,508,208	-	-	1,508,208	52,787,285
<b>Tangible Assets</b>										
Land (Freehold)	4,894,908	(0)	-	(0)	4,894,908	-	-	-	-	4,894,908
Land (Leasehold)	22,941,475	-	16,181,442	(2,601,396)	4,158,637	38,948	-	-	761,595	3,397,042
Building	84,279,048	8,009,609	17,218,794	(5,388,876)	69,680,987	2,510,645	860,946	(517,067)	26,712,190	42,968,797
Lease Hold Improvement	169,876,620	3,107,127	45,646,401	(23,261,178)	104,076,167	22,864,579	27,470,805	(12,545,400)	56,922,640	47,153,527
Plant & Machinery	166,517,637	5,744,701	-	(11,802,833)	160,459,505	21,349,832	-	(2,854,521)	91,525,560	68,933,945
Electric Installation	15,118,133	1,585,038	-	-	16,703,171	1,076,624	-	-	8,632,231	8,070,940
Furniture & Fixtures	114,495,648	1,313,235	50,662,567	(12,670,538)	52,475,777	7,341,284	18,823,154	(12,387,369)	33,532,639	18,943,137
Office Equipment	35,986,263	128,354	19,966,060	(3,172,493)	12,976,064	1,131,729	792,509	(10,247,287)	8,444,122	4,531,942
Computer	165,927,671	2,613,574	28,684,028	(19,494,213)	120,363,002	28,910,110	(14,121,357)	(51,950,628)	103,677,007	16,685,996
Vehicles	7,118,408	452,869	462,495	(244,128)	6,864,653	755,329	398,350	(159,962)	5,293,308	1,571,346
<b>Total</b>	<b>2,585,085,314</b>	<b>77,249,999</b>	<b>178,821,788</b>	<b>(78,635,657)</b>	<b>2,404,877,869</b>	<b>87,487,288</b>	<b>34,224,405</b>	<b>(90,662,233)</b>	<b>337,009,500</b>	<b>2,067,868,369</b>
Previous Year	2,884,885,872	172,680,147	472,480,672		2,585,085,317	124,622,685	173,074,962		374,408,766	2,210,676,551

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
<b>SCHEDULE VI - INVESTMENTS</b> (Long Term - at Cost)				
<b>Other than Trade Investment - Unquoted</b>				
360,000 (Previous Year - 360,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited	5,207,000		5,207,000	
Less : Diminuation in Value of Investment	5,207,000	-	5,207,000	-
<b>Other than Trade Investment - quoted</b>				
368 (Previous year - 368) Equity Shares of Rs. 10 each fully paid up Punjab National Bank		143,520		143,520
<b>Trade Investments - quoted</b>				
Reich & Tang Daily Dollar INTL Limited II		-		220,493,076
10,000 SPDR S&P 500 ETF		52,685,217		-
Money Market Funds		78,992,694		10,434,860
		<b>131,821,431</b>		<b>231,071,456</b>
<b>SCHEDULE VII - INVENTORIES</b> (As taken, valued and certified by the Management) (At cost or net realisable value, whichever is lower)				
Materials-in-Process		684,444,296		507,136,959
Semi Finished Goods		3,753,078		8,041,533
Finished Goods		875,226,759		1,330,471,377
Stores and Consumables		3,289,897		1,752,727
		<b>1,566,714,030</b>		<b>1,847,402,596</b>
<b>SCHEDULE VIII - SUNDRY DEBTORS</b> (Unsecured and considered good unless otherwise stated)				
Outstanding for more than six months				
Considered good	10,379,078		40,257,989	
Considered doubtful	75,995,406		308,219,686	
Less: Provision for doubtful debts	(75,995,406)	10,379,078	(308,219,686)	40,257,989
Others				
Considered good	114,731,737		350,577,401	
Considered doubtful	-		-	
Less: Provision for doubtful debts	-	114,731,737	-	350,577,401
		<b>125,110,815</b>		<b>390,835,390</b>

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2010		As at 31st March, 2009	
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**SCHEDULE IX - CASH AND BANK BALANCES**

Cash in Hand		2,684,329		2,615,718
Balance with Banks				
- In Current Accounts	48,235,034		66,113,112	
- In Deposit Accounts	66,463,034	114,698,068	77,171,626	143,284,738
		<b>117,382,397</b>		<b>145,900,456</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		238,091,011		158,686,834
Advance Tax (Net of Provision)		41,604,038		40,082,198
Security Deposits		58,268,118		71,829,117
		<b>337,963,167</b>		<b>270,598,149</b>

**SCHEDULE XI - CURRENT LIABILITIES**

Sundry Creditors		303,511,204		405,670,918
Unclaimed Dividend		312,183		342,122
Other Liabilities		170,718,552		357,685,936
		<b>474,541,939</b>		<b>763,698,976</b>

**SCHEDULE XII - PROVISIONS**

Leave Encashment		3,136,824		2,888,789
Gratuity		10,560,533		6,552,016
		<b>13,697,357</b>		<b>9,440,805</b>

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	Year ended 31st March, 2010		Year ended 31st March, 2009	
<b>SCHEDULE XIII - SALES</b>				
Sales & Others Operational Income		3,381,807,965		5,947,696,452
		<b>3,381,807,965</b>		<b>5,947,696,452</b>
<b>SCHEDULE XIV - OTHER INCOME</b>				
Interest Income		1,834,559		22,556,725
Miscellaneous Income		50,336,515		55,804,894
		<b>52,171,074</b>		<b>78,361,619</b>
<b>SCHEDULE XV - MATERIALS</b>				
<b>Materials Consumed</b>				
Opening Material-in-Process	507,136,959		854,590,471	
Add : Purchases	1,357,553,078		1,362,407,050	
	1,864,690,037		2,216,997,521	
Less : Closing Material-in-Process	684,444,296	1,180,245,741	507,136,959	1,709,860,562
Purchases of Finished Goods		308,839,575		496,277,432
<b>(Increase)/Decrease in Semi Finished and Finished Goods:</b>				
<i>Opening Stocks</i>				
Semi Finished Goods	8,041,533		192,777,879	
Finished Goods	1,359,549,263		2,764,650,100	
	1,367,590,796		2,957,427,979	
<i>Less : Closing Stocks</i>				
Semi Finished Goods	3,753,078		8,041,533	
Finished Goods	875,226,759		1,359,549,263	
	878,979,837	488,610,959	1,367,590,796	1,589,837,183
		<b>1,977,696,275</b>		<b>3,795,975,177</b>
<b>SCHEDULE XVI - MANUFACTURING/DIRECT EXPENSES</b>				
Job Work Charges		47,836,985		61,465,367
Stores and Consumables		24,303,333		20,773,260
Power and Fuel		9,064,706		9,889,789
Repairs and Maintenance		4,514,246		4,686,662
Freight, Taxes and Duties		71,885,967		106,564,348
Other Manufacturing Expenses		31,265,302		71,150,373
		<b>188,870,539</b>		<b>274,529,799</b>

**SCHEDULES** forming part of Consolidated Accounts

Amount in Rupees

Particulars	Year ended 31st March, 2010	Year ended 31st March, 2009
<b>SCHEDULE XVII - EMPLOYEES COSTS</b>		
Salaries, Wages, Bonus etc.	422,863,939	868,128,409
Contributions to Provident and Other Funds	53,477,422	82,565,626
Staff Welfare Expenses	6,049,038	12,596,514
Employee Compensation Expenses under ESOP (Refer Note No. 9)	141,131	(3,661,411)
Recruitment and Training	555,109	15,432,670
	<b>483,086,639</b>	<b>975,061,808</b>
<b>SCHEDULE XVIII - ADMINISTRATIVE &amp; SELLING EXPENSES</b>		
Rent, Rates and Taxes	64,026,277	159,721,944
Insurance	15,373,180	39,742,672
Travelling and Conveyance	21,361,220	53,347,019
Legal and Professional	25,276,428	88,630,898
Postage and Telephone	24,999,913	44,632,758
Printing and Stationery	8,797,766	7,928,230
Advertisement and Business Promotion	22,578,299	97,330,250
Discount, Brokerage and Commission	8,401,751	74,283,668
Packing and Forwarding	20,890,079	28,826,267
Repair & Maintenance	3,526,165	9,423,923
Bad Debts	21,510,531	58,961,277
Office Expenses	60,055,717	133,450,441
Donation	156,837	306,924
Auditors' Remuneration	4,004,503	4,861,291
Directors' Remuneration	19,818,177	26,864,081
Directors' Sitting Fees	245,000	585,000
Information Technology Expenses	41,524,020	38,168,901
Loss on Sale of Assets	5,043,852	1,287,717
Loss on Impaired Assets	6,326,911	1,667,353
<b>TV CHANNEL EXPENSES</b>		
Content & Broadcasting	457,129,508	799,098,702
Call Handling & Collection Charges	86,864,937	136,150,647
Packing & Distribution Charges	90,899,326	130,884,261
	<b>1,008,810,397</b>	<b>1,936,154,224</b>
<b>SCHEDULE XIX - FINANCIAL EXPENSES</b>		
Interest	146,420,188	186,003,467
Bank Commission & Other Financial Expenses	17,043,296	35,630,975
Exchange Fluctuation Losses	99,844,856	228,958,804
	<b>263,308,340</b>	<b>450,593,246</b>

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

- (a) The consolidated financial statement relates to Vaibhav Gems Limited (**‘the holding Company’**) and 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 UK	United Kingdom	100	31 <sup>st</sup> March
STS Jewels Canada Inc.	Canada	100	31 <sup>st</sup> March
STS Gems USA Inc.	USA	100	31 <sup>st</sup> March
The Jewelry Channel Inc.	USA	100	31 <sup>st</sup> March

\*Hived off during the year

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



## **SCHEDULES** forming part of Consolidated Accounts

- (iv) The operations of foreign subsidiaries have been considered by the management, as non integral operations as described in Accounting Standard –AS 11 (revised) “Accounting for the effects of changes in foreign exchange rates”
- (v) The difference between the cost to the company of its investments in the subsidiaries and its portion of equity of subsidiaries at the dates they became subsidiaries, is recognized in the financial statements as Goodwill or Capital Reserve, as the case may be. This is based upon determination of pre-acquisition profits\losses and of net worth on the date of the acquisition determined by the management on the basis of certain estimates which have been relied upon by the auditors.
- (vi) Minority Interest in the consolidated financial statements is identified and recognized after taking into consideration;
- The minorities’ share of movement in equity since the date parent-subsidiary relationship came into existence.
- The profits/losses attributable to the minorities are adjusted against the income of the group in order to arrive at the net income attributable to the company
- (vii) The goods lying in inventory of any entity may include certain goods which have been processed in and transferred from one or more entity. For the purpose of consolidation, the amount of unrealized profits included in the value of such goods lying in inventory of any entity as at the end of the financial period, have been eliminated to the extent of % of net profit of the same financial period of the entity from whom these goods have been procured.
- (viii) Depreciation and amortization 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, 2010 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**

<b>1. Capital Commitment:</b>		
<b>Particulars</b>	<b>As at 31.03.2010 Rupees</b>	<b>As at 31.03.2009 Rupees</b>
<b>Capital Commitment</b>		
Estimated Amount of contracts remaining to be executed	-	2,555,150
<b>2. Contingent Liabilities:</b>		
<b>Particulars</b>	<b>As at 31.03.2010 Rupees</b>	<b>As at 31.03.2009 Rupees</b>
a. Guarantees given by bank on behalf of Company	77,032,800	81,861,000
b. Guarantees given by Company to Bank	317,851,200	898,011,000
c. Disputed Income Tax, Service Tax Matters:	27,221,515	11,488,321
d. Dividend on Cumulative Preference Shares	13,200,000	8,800,000

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

Particulars	As at 31.03.2010 Rupees	As at 31.03.2009 Rupees
<b>a. Deferred tax Liability</b>		
Depreciation	1,452,377	2,185,990
<b>b. Deferred tax Assets:</b>		
Provision for Gratuity	3,263,205	2,227,030
Provision for Leave Encashment	969,279	981,899
Carried forward Losses	-	-
<b>c. Deferred Tax Liability/(Assets)(Net)</b>	<b>(2,780,107)</b>	<b>(1,022,939)</b>

Net deferred tax charge/(credit) for the year of Rs. 1,757,168(Previous year Rs.3,926,178) has been recognized in the Profit and Loss Account for the year.

**4. Lease Commitments:**

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

Year	2009-10	2008-09
Not later than one year	171,981,644	51,618,438
Later than one year & not later than five years	47,247,106	74,571,273
Later than five years	-	-

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

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

	2009-10 Rupees	2008-09 Rupees
a. Profit / (Loss) for the year After Tax (Rs.)	(575,250,302)	(1,530,094,511)
- Before Extra Ordinary Items	(680,074,801)	(2,403,528,179)
- After Extra Ordinary Items	4,400,000	4,400,000
b. Dividend on Preference Share including Tax thereon(Rs.)		
c. Profit / (Loss) attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) <b>(a-b)</b>		
- Before Extra Ordinary Items	(579,650,302)	(1,534,494,511)
- After Extra Ordinary Items	(684,474,801)	(2,407,928,179)
d. (i) Weighted averages number of Equity shares outstanding during the year for Basic EPS	31,698,473	31,698,473
(ii) No of Stock Options Outstanding	669,657	381,088
(iii) No of Dilutive Potential Equity Shares	82,700	
e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS <b>(d(i) + d(iii))</b>	31,781,173	31,698,473
f. <b>Basic Earning Per Share</b>		
- Before Exceptional Items	(18.29)	(48.41)
- After Exceptional Items	(21.59)	(75.96)
g. <b>Diluted Earning Per Share</b>		
- Before Exceptional Items	(18.29)	(48.41)
- After Exceptional Items	(21.59)	(75.96)

**SCHEDULES** forming part of Consolidated Accounts

7. In case of few subsidiaries, although, the net worth as on the balance sheet date is negative, based on the management representation for continuing support to those subsidiaries, the respective auditors have accepted the financials on the going concern basis and accordingly no adjustment is made in the consolidated financial statement.
8. The details of exceptional items are as under :

Sr. No.	Particulars	2009-2010	2008-2009
1	Write off of receivables by subsidiaries under closure	68,273,317	398,389,919
2	Stores Key money write-off	-	256,701,541
3	Goodwill on consolidation written-off	-	26,625,015
4	Loss on hived off of subsidiaries	36,551,182	-
5	Investments written off	-	48,829,704
6	Impairment of fixed assets	-	142,887,489
	<b>Total</b>	<b>104,824,499</b>	<b>873,433,667</b>

**9. Employee Stock Option Scheme:**

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

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

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

Particulars	VGL ESOP – 2006				Total
	A	B	C	D	
Exercise (Grant) Price	240	202	20.65	26.75	
Date of Grant of Option	06.01.2007	27.07.2007	28.01.2009	29.01.2010	
Vesting commences on	06.01.2008	27.07.2008	28.01.2010	29.01.2011	
Options granted and outstanding as at the beginning of the year on 01.04.09	69,088	12,000	300,000	-	381,088
Options granted during the year*	-	-	-	297,500	297,500
Options lapsed during the year ( Re-issuable)	8,931	-	-	-	8,931
Options granted and outstanding as at the end of the year on 31.03.10	60,157	12,000	300,000	297,500	669,657

\* Partially granted out of lapsed option

The excess of market price per share as on the date of grant of option, over the exercise price for the Stock Option granted to employees (including certain employees of the Subsidiaries), is amortized by the 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.141,131 (Last Year Rs.(3,661,411) has been charged under Employee Cost.

**SCHEDULES** forming part of Consolidated Accounts**10. Segment information:****(i) For the year ended 31<sup>st</sup> March 2010:**

Amount in Rupees

Sr. No.	Particulars	Wholesale Operations	Retail Operations (TV Channels)	Retail Operations (Stores)	Elimination	Total
1	<b>Revenue</b>					
	External Revenue	537,390,724	2,814,681,899	29,735,342	-	3,381,807,965
	Inter-Segment Revenue	1,419,380,738	37,699,953	-	(1,457,080,690)	-
	<b>Total Revenue</b>	<b>1,956,771,462</b>	<b>2,852,381,852</b>	<b>29,735,342</b>	<b>(1,457,080,690)</b>	<b>3,381,807,965</b>
2	<b>Segment Result</b>					
	Operating Result	(105,289,203)	(111,481,320)	(114,079,431)		(330,849,954)
	Interest Income					1,834,559
	Interest Expenses					146,420,188
	Un-allocable exchange loss					99,844,856
	<b>Profit / (Loss) Before Tax</b>					<b>(575,280,439)</b>
	Tax Expenses					(30,137)
	<b>Net Profit / (Loss) after tax</b>					<b>(575,250,302)</b>
	Less Exceptional Item					104,824,499
	Profit after Exceptional Item					(680,074,801)
3	<b>Other Information</b>					
	Segment Assets	3,647,709,501	661,026,326	41,095,307		4,349,831,134
	Segment Liabilities	1,915,119,968	490,010,258	88,137,813		2,493,268,039
	Depreciation and Amortization	16,657,807	68,481,901	2,347,580		87,487,288
	Non Cash Expenses other than Depreciation	11,370,763	-	-		11370363

**(ii) For the year ended 31<sup>st</sup> March 2009:**

Sr. No.	Particulars Operation	Wholesale Operations	Retail Operations (TV Channels)	Retail Operations (Stores)	Elimination	Total
1	<b>Revenue</b>					
	External Revenue	1,385,039,938	3,662,543,306	900,113,208	-	5,947,696,452
	Inter-Segment Revenue	1,577,860,367	67,360,353	-	(1,645,220,720)	-
	<b>Total Revenue</b>	<b>2,962,900,305</b>	<b>3,595,182,953</b>	<b>900,113,208</b>	<b>(1,645,220,720)</b>	<b>5,947,696,452</b>
2	<b>Segment Result</b>					
	Operating Result	(149,653,009)	(842,445,020)	(265,576,776)	(89,051,181)	(1,346,725,987)
	Interest Income					22,556,725
	Interest Expenses					186,003,467
	Exchange Loss - Unallocated					(228,958,804)
	<b>Profit Before Tax</b>					<b>(1,524,830,093)</b>
	Tax Expenses					5,264,418
	<b>Net Profit After Tax</b>					<b>(1,530,094,511)</b>
	Less Exceptional Item					(873,433,667)
	Profit after Exceptional Item					(2,403,528,79)
3	<b>Other Information</b>					
	Segment Assets	7,258,825,126	1,533,943,923	649,520,366	(4,341,896,248)	5,100,393,167
	Segment Liabilities	3,797,509,238	3,019,519,238	940,672,897	(4,827,636,378)	2,930,064,995

**SCHEDULES** forming part of Consolidated Accounts

Depreciation and Amortization	22,114,074	76,572,831	25,935,780		124,622,685
Non Cash Expenses other than Depreciation	2,955,070		-	-	2,955,070
Goodwill on consolidation written off	45,805,417	-	-	-	45,805,417

**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.

**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  
 Shri Sunil Agarwal – Chairman  
 Shri Suresh Punjabi – Director

Relative of Key Managerial Personnel

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

**Enterprises in which Directors are interested:**

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

Nature of Transactions	Key Managerial Person		Relative of Key Managerial Person		Enterprises over which significant influence exercised by Key Managerial Persons			
	2009-10	2008-09	2009-10	2008-09	2009-10		2008-09	
					VGL Softech LTD.	Other	VGL Softech Ltd.	Other
(i) Transaction during the year	-	-	-	-	-	-	-	-
a. Purchases of Goods	-	-	-	-	-	-	-	72,236
b. Sales of Goods	-	-	-	-	-	32,166,096	-	22,173,582
c. Advance Given	-	-	-	-	-	-	-	-
d. Purchase of fixed assets	-	-	-	-	506,679	-	-	-
e. Expenses	-	-	384,512	742,295	-	420,000	20,762,711	420,000
f. Remuneration	19,818,178	26,882,638	2,312,065	2,548,000	-	-	-	-
g. Guarantee*	-	-	-	-	-	-	-	-
(ii) Balances as at 31.03.10	-	-	-	-	-	-	-	-
a. Amount Receivable	-	-	-	-	-	-	-	14,571,509
b. Amount Payable	-	-	-	-	506,679	-	-	-
c. Loan & Advance Receivable	-	-	-	-	-	-	-	-
d. Investments	-	-	-	-	5,207,000	-	5,207,000	-





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