

| 23rd ANNUAL REPORT 2009-2010 | |
|---|---|
| BOARD OF DIRECTORS : | <p>Mr. Kumar C. Bhansali Chairman & Managing Director</p> <p>Mr. Chandrakant M. Bhansali (Resigned w.e.f 22nd June, 2010) Director</p> <p>Mr. Nirav K. Bhansali Whole- time Director</p> <p>Mr. Mayank R. Mehta Whole- time Director</p> <p>Mr. Hiren H. Shah (Resigned w.e.f 22nd June, 2010) Whole-time Director</p> <p>Mr. Yogesh K. Kaji Director</p> <p>Mr. Sumit B. Shah Director</p> <p>Mr. Zubin N. Batliwalla Director</p> |
| AUDITORS : | M/s. A. N. Damania & Co. Chartered Accountants |
| BANKERS : | <p>State Bank of India</p> <p>Canara Bank</p> <p>State Bank of Indore</p> <p>Industrial Development Bank of India Limited</p> <p>Royal Bank of Scotland</p> <p>Indusind Bank Ltd</p> <p>Union Bank of India</p> <p>Standard Chartered Bank</p> <p>Axis Bank</p> |

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2009-2010**

NOTICE

Notice is hereby given that the Twenty Third Annual General Meeting of the members of CLASSIC DIAMONDS (INDIA) LIMITED will be held at Jamnalal Bajaj Seva Trust's Kamalnayan Bajaj Hall, Bajaj Bhavan, Ground Floor, Jamnalal Bajaj Marg, 226, Nariman Point, Mumbai – 400 021 on Wednesday, 22nd September, 2010 at 11.00 a.m. to transact the following business:

1. To receive, consider and adopt the Audited Profit & Loss Account for the year ended 31st March, 2010 and the Balance Sheet as on that date together with the Directors' and Auditors' Reports.
2. To declare a dividend on equity shares.
3. To appoint a Director in place of Mr. Mayank R. Mehta, who retires by rotation and has offered himself for being re-appointed.
4. To appoint a Director in place of Mr. Sumit B. Shah, who retires by rotation and has offered himself for being re-appointed.
5. To re-appoint M/s A. N. Damania & Co. as the statutory auditors of Company for the Year 2010- 2011, and to fix their remuneration.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. PROXIES IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE MEETING.
2. Members/Proxies should bring the attendance slip duly filled in for attending the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday 15th September, 2010 to Wednesday 22nd September, 2010 (Both days inclusive)
4. Dividend on Equity shares as recommended by the Board of Directors for the financial year ended 31st March, 2010, when declared, will be paid to those members, whose names appear on the Company's Register of Members as on 15th September, 2010. In respect of shares held in electronic form, dividend will be payable on the basis of beneficial ownership as per details furnished by NSDL and CDSL for this purpose.
5. Securities & Exchange Board of India (SEBI) has made trading in the shares of the Company compulsory in dematerialized form for all investors with effect from 13th March, 2001. The Equity Shares of the Company have been allotted International Securities Identification Number (ISIN) INE987C01024.
6. Since the Company's shares are in compulsory DEMAT trading, to ensure better service and elimination of risk of holding shares in physical form, we request shareholders holding shares in physical form to dematerialize their shares at the earliest.
7. Equity Shares of the Company are listed on the Stock Exchange, Mumbai (BSE) and on National Stock Exchange of India Limited (NSE). The Company has paid the annual listing fee to the said Exchanges.
8. A brief resume of the directors proposed to be appointed vide item nos. in the Notice are as follows:

Mr. Mayank R. Mehta is associated with the company since its incorporation. He possesses good knowledge of rough and polished diamonds. He manages the Company's Surat Factory.

Mr. Sumit B. Shah has been a Director of the Company since December, 2005 and has prudent business sense especially in the Diamond Industry by virtue of his long association with the industry.

9. As per the provisions of the Companies Act, 1956, facility for making nominations is available to the shareholders in respect of the shares held by them in the prescribed Form No.2B. Shareholders are requested to avail of this facility.
10. Members intending to require information about the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
11. Pursuant to Section 205C, the dividend for the year ended 31st March, 2003(2002-2003) has been transferred to the Investor Education and Protection Fund. All shareholders who have not yet taken the dividend can request for the same along with the dividend warrant for revalidation of dividend.
12. Section 205C of the Companies Act, 1956, provides that the amount of dividend, which has remained unpaid or unclaimed for a period of seven years from the date of transfer to Unpaid Dividend Account of the Company shall be transferred to the Investor Education and Protection Fund set up by the Government of India and no payments shall be made in respect of any such claims by the Fund. Kindly note, that after such transfer, the members will loose their right to claim such dividend. Members, who have not yet encashed their dividend warrant(s) for the financial year ended 31st March, 2004 (2003-2004) onwards, are requested to make their claims to the Company accordingly, without any delay.
13. Members are requested to consolidate the multiple folios existing in the same names and in identical orders so as to facilitate better and efficient service. Consolidation of folios does not amount to transfer of shares and therefore, no stamp duty or other expenses are payable on the same.
14. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, is as follows:

Item No. 3

The term of Mr. Mayank R. Mehta, Director of the Company, expires at this A.G.M. Being eligible for re-appointment Mr. Mayank R. Mehta has offered himself to be re- appointed. None of the Directors except Mr. Mayank R. Mehta is deemed to be concerned and interested in the resolution.

Item No. 4

The term of Mr. Sumit B. Shah, Director of the Company, expires at this A.G.M. Being eligible for re-appointment Mr. Sumit B. Shah has offered himself to be re- appointed. None of the Directors except Mr. Sumit B. Shah is deemed to be concerned and interested in the resolution.

Item No. 5

It is proposed to re-appoint M/s A. N. Damania & Co. as our Statutory Auditors for the Year 2010-2011. Your Directors recommend the aforementioned appointment. None of the Directors are interested in the proposal.

BY THE ORDER OF THE BOARD

Kumar C. Bhansali
Managing Director

Registered Office:
1002, Prasad Chambers,
Opera House,
Mumbai – 400 004

Dated: 11th August, 2010

DIRECTOR'S REPORT

To
The Members,

Your Directors have great pleasure in presenting their Twenty third Annual Report with the Audited Statement of Accounts for the financial year ended 31st March 2010.

1. FINANCIAL RESULTS:

(Rupees in Lacs)

| PARTICULARS | FOR THE YEAR ENDED 31-Mar-10 | FOR THE YEAR ENDED 31-Mar-09 |
|--|------------------------------------|------------------------------------|
| 1. FINANCIAL RESULTS | | |
| Sales (Incl. Exch. Difference) | 65,171.67 | 67,722.26 |
| Other Income | 408.56 | (531.25) |
| Profit before Interest & Depreciation (A) | 5,360.17 | 4,006.64 |
| Less : 1) Interest | 3,047.79 | 2,969.73 |
| 2) Depreciation | 527.69 | 574.41 |
| Total of Interest and Depreciation (B) | 3,575.48 | 3,544.14 |
| Misc items (C) | (15.65) | -- |
| Profit before taxation (A-B-C) | 1,769.04 | 462.50 |
| Provision for & Deferred Taxation | 27.29 | 105.42 |
| Profit after taxation | 1,741.75 | 357.08 |
| Bal in P & L Account brought/forward | 17,145.08 | 16,788.00 |
| | 18,886.83 | 17,145.08 |
| 2. APPROPRIATIONS | | |
| Proposed Dividend (incl Tax) | 45.88 | -- |
| Transfer to General Reserve | 150.00 | -- |
| Balance carried forward | 18,690.95 | 17,145.03 |
| | 18,886.83 | 17,145.08 |

2. DIVIDEND :

The year 2009-10 has shown glimpses of recovery from the past two years where your company had to fulfill contracts at very squeezed margins. This year inspite of a slight downfall in revenues by about 3.77 % your company could achieve better margins than the previous year. Proactively, in order to maintain the balance between the twin objectives of appropriately rewarding shareholders with cash dividends and of retaining capital to maintain healthy capital adequacy ratio so as to support future growth, your Directors recommend a dividend of 5 %.

3. LISTING ON NSE & BSE:

The shares of your company are listed on the Stock Exchange, Mumbai (BSE Code: 523200) and the National Stock Exchange of India, Mumbai (NSE Code: CLASSIC EQ)

4. BUSINESS PROSPECTS:

The year could not see a good revival of business from the US sector, with its Unemployment rates still worsening every quarter especially during the last quarter of calendar 2009 where it had crossed the double digit mark. Further to add fuel to the fire the Bullion prices have sky rocketed to over USD 1220 in Dec 09 as against USD 900 levels as of the beginning of the year. Hence, affecting the demand of Jewellery from this sector. This has led your company to pierce through other lucrative markets such as the Europe, Middle East and Far East.

Your company is now geared up for the production of the larger type of diamonds, which would yield higher margins and a larger array of products for the customers to suit their requirements. The only constraint of this section of the business is that it involves huge amounts on rough procurement. Once the financial position of your company is eased out, this section could add better value to the overall business.

In order to optimize the cost of operations your company intends to shift its operations from the Opera House area of Mumbai to Bandra – The Diamond Bourse within the next year.

We also plan to start up a factory in the SurSEZ situated at Sachin, near Surat. This factory would be in a position to produce Diamonds as well as jewellery for the newer markets.

5. FINANCE:

The company has been successful in materializing its Debtors at a faster pace and also laid out policies of trying to gain better credit terms from its creditors leading to a position which could end up in repaying the bank finance to the extent of over Rs.38 Crores in Rupee terms. All this has improved the Credit rating of your company which had deteriorated in the earlier year due to the given market conditions.

6. DIRECTORS:

The Company has 6 (Mr.Hiren H. Shah & Mr. Chandrakant M. Bhansali resigned w.e.f 22nd June, 2010) Directors of which 3 are Independent Directors. Mr. Mayank R. Mehta and Mr. Sumit B. Shah are liable to retire by rotation and being eligible have offered themselves for re- appointment.

7. AUDITORS:

M/s A.N. Damania & Co., Chartered Accountants will retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. The company has received the certificate from the auditors that their appointment if made, will be within the limits prescribed under Section 224(1) of the Companies Act 1956.

8. CORPORATE GOVERNANCE:

A separate section on Corporate Governance is included in the Annual Report and the certificate from the company's auditors confirm the compliance of conditions on Corporate Governance as stipulated in the said clause 49 of the Listing Agreement annexed thereto.

9. FIXED DEPOSIT:

The company has not invited or accepted any deposit during the year under review under Section 58-A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

10. PERSONNEL:

During the year under review no employee has drawn salary exceeding the limits as stated in Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

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

The information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 is given below:

A. CONSERVATION OF ENERGY

As the company is not covered in the list of industries required to furnish information in Form A relating to conservation of energy, the same is not given.

B. TECHNOLOGY ABSORPTION

Research and Development (R & D)

1. Specific areas in which the company carries out R & D:
The Company has been successful in manufacturing its own Laser Cutting Machine for the Diamond factory.
In the jewellery sector in house design and manufacture of certain consumables are carried out.
2. Benefits derived as a result of the above R & D:
The Company achieves better productivity and cost reduction.
Reduction in Production lead time
Reduction in rework and rejection in the manufacturing process
Total traceability of each piece during the entire manufacturing process through in house software development
3. Future plan of Action:
The company will strive to improvise the manufacturing methodology to effect further cost reduction and increase productivity.
4. Expenditure on R & D:
 - a. Capital)
 - b. Recurring)
 - c. Total R & D expenditure as a) included in the manufacturing cost percentage of total turnover)
5. Efforts in brief made towards Technology absorption and innovation:
The company keeps abreast of global technical developments, innovations and trends in its line of business and strives to constantly reduce costs and improve the quality of its products.
6. Benefits derived as a result of the above efforts e.g. cost reduction, product development and improvement; import substitution etc. will be reflected in precision manufacturing of high quality products and substantial cost reduction.
7. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) following information may be furnished:
The Company has not imported any technology.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Information regarding foreign exchange earnings and outgo is given below:

| | |
|--|---------------------|
| Total Foreign Exchange used | : Rs 28,819.03 Lacs |
| * Total Foreign Exchange earned | : Rs 66,160.96 Lacs |
| * Foreign Exchange earned includes bills to be realized. | |

12. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

- i. that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- ii. that they have selected 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 for that period;
- iii. that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv. that they have prepared the annual accounts on a going concern basis

13. CAUTIONARY STATEMENT

Statements in this Directors Report and Management Discussion & Analysis describing the Companies objectives, projections, estimates, expectations or predictions may be forward-looking statements within the meaning of applicable Securities laws and regulations. Actual results could differ materially from those expressed or implied due to risk of uncertainties associated with our expectations with respect to, but not limited to, changes in Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business, technological changes, exposure to market risks, general economic and political conditions in India and which have an impact on our business activities or investments, the monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, the performance of the financial markets in India and globally and raw material availability and prices, demand & pricing in the Company's principal markets, and other incidental factors.

14. ACKNOWLEDGEMENTS:

The Directors wish to convey their appreciation to all the employees of the company for their personal efforts as well as for the excellent contribution made by all employees of the Company through their commitment, competence, co-operation and diligence to duty their collective contribution in such trying times, which enabled the company to meet the challenges set before it.

Your Directors would like to express their grateful appreciation for the assistance and cooperation received from the banks during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the continued support of customers and suppliers of the company.

Your Directors thank the shareholders for their confidence in the company.

REPORT ON CORPORATE GOVERNANCE

1) COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

CLASSIC DIAMONDS (INDIA) LIMITED has adopted good corporate governance practices and ensures compliance with all relevant laws and regulations. It has lead to the satisfaction and transparency to the shareholders. Company's philosophy is concerned with ethics, values, morals and social responsibility of the Company. The Company remains accountable to shareholders and other beneficiaries for their actions. The Company conducts its activities in a manner that is fair and transparent and perceived to be such by others.

2) BOARD OF DIRECTORS:

a) Composition and size of the Board:

The Board has a required combination of Executive, Independent and Non- Executive directors. The Board is chaired by an Executive Director and total strength of the board was of 8 Directors as on 31st March, 2010.

b) Board Meetings:

14 Board Meetings were held at Mumbai during the year under review.

The Board Meetings were held on 3rd April, 2009; 22nd April, 2009; 15th May, 2009; 29th May, 2009; 25th June, 2009; 26th June, 2009; 31st July, 2009; 17th August, 2009; 9th October, 2009; 28th October, 2009; 30th November, 2009; 8th January, 2010; 30th January, 2010; 22nd March, 2010. The maximum gap between two Board Meetings did not exceed the limits prescribed in clause 49 of the Listing Agreement. The Extra Ordinary General Meeting was held at Jamnalal Bajaj Hall on Monday, 15th June, 2009 at 11.30 a.m. Details of the attendance at Board Meetings, Extra Ordinary General Meeting held on 15th June, 2009 and Annual General Meeting on 14th September, 2009 by the Directors, together with the number of their Directorships and Memberships of the SEBI-designated Board Committees of other companies are as follows:

| Name of Directors | Category of Directors | Board Meetings attended during 2009-10 | Attendance at the A.G.M | Attendance at the E.G.M | No. of other Directorst \$ |
|-----------------------------|--|--|-------------------------|-------------------------|----------------------------|
| Mr. Kumar C. Bhansali | Chairman & Managing Director Executive | 14 | YES | NO | 1 |
| Mr. Chandrakant M. Bhansali | Director Non-Executive Independent | 4 | NO | NO | NIL |
| Mr. Nirav K. Bhansali | Whole-time Director Executive | 5 | YES | YES | 1 |
| Mr Mayank Mehta NT | Whole-time Director Executive | 14 | YES | YES | NIL |
| Mr Yogesh K. Kaji | Director Non- Executive Independent | 9 | YES | YES | NIL |
| Mr Sumit B. Shah | Director Non- Executive Independent | 14 | YES | NO | NIL |
| Mr Zubin N. Batliwalla | Director Non- Executive Independent | 14 | YES | YES | NIL |
| Mr Hiren H Shah | Whole- time Director Executive | 14 | YES | YES | NIL |

\$ This excludes Directorship held in other Private Limited Companies.

C) Share holding of Non-Executive Directors AD ON 31ST March 2010:

| Sr. No. | Name of Directors | Shareholdings in the Company |
|---------|-------------------------|------------------------------|
| 1. | Chandrakant M. Bhansali | 26,81,405 |
| 2. | Zubin N. Batliwalla | NIL |
| 3. | Yogesh K. Kaji | 87,920 |
| 4. | Sumit B. Shah | NIL |
| | TOTAL: | 27,69,325 |

3) COMMITTEES OF DIRECTORS:

The Board has constituted the following three Committees of Directors:

- a) Audit Committee
- b) Remuneration Committee
- c) Investor's Grievance Committee

a) Audit Committee:

Role of Audit Committee and its terms of reference include:

- To focus it's attention on subjects relating to accounting standards, internal controls and financial policies.
- To oversee the Company's financial reporting process and disclosure of its financial information.
- To review the financial statement before submission to the Board of Directors.
- To hold discussion with Management regarding the internal control system.
- To hold prior discussion with external auditors regarding scope and nature of audit before commencement of the audit and also to have post audit discussion on areas of concern.

The Audit Committee met four times during the year on 25th June, 2009; 30st July, 2009; 27th October, 2009 & 29th January, 2010 and was chaired by Mr. Zubin Batliwalla. The composition, names of the members, chairperson of the meeting and attendance of the members during the year are as follows:

| Sr. No | Names of Members | Designation | Category of Director | Attendance at Meeting |
|--------|-------------------------|-------------|----------------------------|-----------------------|
| 1. | Zubin N. Batliwalla | Chairman | Independent Non-Executive | 4 |
| 2. | Chandrakant M. Bhansali | Member | Independent Non-Executive. | 3 |
| 3. | Yogesh K. Kaji | Member | Independent Non-Executive | 4 |

b) Remuneration Committee:

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Managing/Whole time Directors, based on performance and defined criteria. Mr. Yogesh K. Kaji is the Chairman of the Committee. The Committee has been authorized to determine the remuneration package for any Executive Directors as well as remuneration payable to the non-executive Directors from year to year.

The Remuneration Committee has met once during the year on 26th March, 2010. The composition of the committee is as follows:

| Sr. No | Names of Members | Designation | Category of Director |
|--------|-----------------------------|-------------|----------------------------|
| 1. | Mr. Yogesh K. Kaji | Chairman | Chairman Non-Executive |
| 2. | Mr. Chandrakant M. Bhansali | Member | Independent Non-Executive. |
| 3. | Mr. Sumit B. Shah | Member | Independent Non-Executive |

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The Non- Executive Directors are paid sitting fees for each meeting of the Board or Committee thereof attended by them. Other than Sitting fees, no other remuneration is payable to the Non- executive Directors for the year 2009-2010.

Details of Remuneration paid to the directors for the year ended 31st March, 2010 are as follows:

| Director | Relationship with other Directors | Business Relationship | Sitting Fees | Salary/ Perquisites | Contribution To P.F. | Total |
|-------------------------|-----------------------------------|-----------------------|--------------|---------------------|----------------------|-----------|
| Chandrakant M. Bhansali | Father of Kumar Bhansali | Promoter | 20,000 | - | - | 20,000 |
| Kumar.C.Bhansali | Son of Chandrakant Bhansali | Promoter's Family | - | 18,51,724 | 9,360 | 18,61,084 |
| Nirav K. Bhansali | Son of Kumar Bhansali | Promoter's Family | - | 18,58,224 | - | 18,58,224 |
| Zubin Battiwalla | None | None | 32,500 | - | - | 32,500 |
| Mayank R.Mehta | None | None | - | 9,13,700 | 9,360 | 9,23,060 |
| Yogesh Kaji | None | None | 32,500 | - | - | 32,500 |
| Hiren H. Shah | None | None | - | 3,62,900 | 9,360 | 3,72,260 |
| Sumit B. Shah | None | None | 25,000 | - | - | 25,000 |

c) Investors Grievance Committee:

The Company has constituted an Investor Grievance Committee. The terms of reference of the Committee is to redress Shareholders and Investors complaints, to review all matters connected with the share transfers and to review status of legal cases involving the investors where the Company has been made a party.

The Company's Registrar & Share Transfer Agents, M/s Link Intime India Pvt. Ltd. is fully equipped to carry out the transfers of shares and redress Investor complaints.

The Committee met four times during the year on 17th April, 2009; 28th July, 2009; 29th October, 2009; and 19th January, 2010. The composition of the Investor's Grievance Committee and attendance of the Committee members at these meetings were as follows:

| Sr. No | Names of Members | Designation | Category | No. of Meetings Attended during the year 2009-2010 |
|--------|-------------------------|-------------|----------------------------|--|
| 1. | Kumar C. Bhansali | Chairman | Non-Independent Executive. | 4 |
| 2. | Chandrakant M. Bhansali | Member | Independent Non-Executive | 1 |
| 3. | Nirav K. Bhansali | Member | Non-Independent Executive | 4 |

Details in respect of Compliance Officer:

| Sr. No | Name | Designation of Compliance Officer |
|--------|-------------------|-----------------------------------|
| 1. | Kumar C. Bhansali | Chairman & Managing Director |