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*Flawless Diamond  
(India) Ltd.*

**17th ANNUAL REPORT  
2005-2006**

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## 17TH ANNUAL REPORT 2005-2006

### BOARD OF DIRECTORS

Kamal U. Jain	Chairman
Bhawar U. Jain	Managing Director
Anil U. Jain	Director
Rajendra L. Jain	Director
Deepak K. Parekh	Director

### AUDITORS

Suresh Anchaliya & Co.  
Chartered Accountants  
Mumbai.

### BANKERS

The Bank of Rajasthan Ltd.

### REGISTERED OFFICE

120, Prasad Chambers,  
Opera House,  
Mumbai - 400 004.

### BRANCH OFFICE

401, Harsh Park, Kalapesee Street,  
Nanpura, Surat.

### BONDED WAREHOUSE

4<sup>th</sup> Floor, Novelty Chambers,  
M. S. Road, Grant Road,  
Mumbai - 400 007.

### REGISTRAR & SHARE TRANSFER AGENTS

Adroit Corporate Services Pvt.Ltd.  
19, Jaferbhoy Industrial Estate,  
1st Floor, Makwana Road, Marol Naka,  
Mumbai - 400 059.

Phone : 28596060/28594060 Fax : 28503748

### 17TH ANNUAL GENERAL MEETING

ON  
20<sup>TH</sup> September, 2006  
at 3.00 P.M.  
at  
Preview Theatre  
Novelty Chambers,  
Grant Road,  
Mumbai - 400 007.

## FLAWLESS DIAMOND (INDIA) LIMITED

### NOTICE

NOTICE IS HEREBY GIVEN THAT the 17th Annual General Meeting of Flawless Diamond (India) Limited will be held on 20<sup>th</sup> Day of September, 2006 at 3.00 p.m. at Preview Theatre, Novelty Chambers, Grant Road, Mumbai - 400 007 to transact the following business:

#### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and Profit and Loss Account for the year ended on that date and report of Directors and Auditors thereon.
2. To appoint a Director in place of Shri Anil U. Jain who retires by rotation and being eligible offer himself for reappointment.
3. To appoint a Director in place of Shri Deepak K. Parekh who retires by rotation and being eligible offer himself for reappointment.
4. To appoint Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

#### SPECIAL BUSINESS

5. To consider and if thought fit to pass, with or without modification, the following resolution as SPECIAL RESOLUTION.

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, read with Schedule XIII and other applicable provisions, if any of the Companies Act, 1956, and subject to such other approvals, if any as may be required, the consent and approval of the Company be and is hereby accorded to the re-appointment of Mr Bhawar U. Jain as Managing Director of the Company, for a period of five years with effect from 1<sup>st</sup> April 2006 on the terms and conditions as mentioned in Explanatory Statement annexed hereto."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to alter or vary the terms of re-appointment of Mr. Bhawar U. Jain, as it may, at its discretion, deem fit from time to time, so as not to exceed the limits specified in Schedule XIII of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) or any amendment made thereto."

#### Registered Office :

120, Prasad Chambers,  
Opera House,  
Mumbai - 400 004.

#### For and on Behalf of the Board of Directors

**KAMAL U. JAIN**  
CHAIRMAN

Place : Mumbai

Date : 10<sup>th</sup> August, 2006

#### NOTES :

1. A Member entitled to attend and vote is entitled to appoint a Proxy to attend and vote instead of himself and Proxy need not be a member of the Company. However Proxy Forms should be deposited at the Registered Office of the Company not later than 48 hours before commencement of the meeting.
2. The register of members and Share Transfer Books of the Company will remain closed from 10th September, 2006 to 20th September, 2006 (both days inclusive).
3. The Members are requested to :
  - (a) Intimate to the Company's Registrars and Share Transfer Agents - Adroit Corporate Services Pvt. Ltd. (for shares held in physical form) and to their Depository Participants (DP) (for shares held in dematerialized form) the changes, if any, in their Registered Address, Bank Account Number/details etc. at an early date;
  - (b) Quote ledger folio numbers/DP Identity and Client Identity Numbers in all their correspondences;
  - (c) Bring their copies of the Annual Report and the Attendance Slip duly filled in for attending the Annual General Meeting;
  - (d) Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their questions to the Company at the Registered Office address so as to reach at least seven days before the date of the Meeting, to enable the information required to be made available at the Meeting, to the best extent possible.

**17TH ANNUAL REPORT 2005-2006****ANNEXURE TO THE NOTICE**

(EXPLANATORY STATEMENT (PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 )

**In Respect of Item No. 5 :-**

At the Annual General Meeting held on 20<sup>th</sup> September 2001, the members of the Company had approved the appointment and terms of remuneration of Mr. Bhawar U. Jain as Managing Director for a period of five years from 1<sup>st</sup> April, 2001 to 31<sup>st</sup> March, 2006.

The Board at its meeting held on 19<sup>th</sup> April, 2006 re-appointed Mr. Bhawar U. Jain as Managing Director for a further period of five years from 1<sup>st</sup> April, 2006 to 31<sup>st</sup> March, 2011, subject to the approval of the Shareholders.

Mr Bhawar U. Jain is an Industrialist and has vast knowledge and varied experience of over 25 years in the business of Diamond and Jewellery trade. He is the Managing Director of the Company for the last 15 years and carry large experience and his appointment as Managing Director will be beneficial to the Company.

By virtue of the explanation to Section 269 of the Companies Act 1956, appointment of Mr. Bhawar U. Jain to be construed as an appointment of a Managing Director attracting the provisions of the said section. Accordingly, the appointment and payment of remuneration to Mr. Bhawar U. Jain is in accordance with Schedule XIII of the Companies Act 1956. As required by Part II of the said Schedule, the matter is placed before the members for their approval.

The main terms and conditions of his appointment are as under:

**I) OVERALL REMUNERATION**

Subject to the provision of Section 198, 269, and Section 309 of the Companies Act 1956 and other applicable provisions of the Act and modification /amendments thereof, if any, the remuneration payable to the Managing Director shall be as follows.

**1 Salary :-**

Rs 20000/- per month ( with annual increment of Rs 2000/- per month effective from 1<sup>st</sup> April of each financial year commencing from 1<sup>st</sup> April 2007)

**2 Perquisites :-**

- a. Medical Benefits :- Reimbursement of medical expenses for himself and his family actually incurred during his tenure subject to a limit of one month salary per year for the period of his tenure.
- b. Leave Assistance :- Return business class air fare, once in every year of service for himself and his family.
- c. Personal Accident Insurance :- Amount equal to actual accident premium, subject to maximum of one month salary.
- d. Club fees :- Actual fees of clubs, subject to a maximum of two clubs.

**II) MINIMUM REMUNERATION**

Wherein any Financial Year during the currency of the tenure of the Managing Director, the Company has no profit or its profits are inadequate the remuneration payable to the Managing Director by way of salary and perquisites shall not exceed the limits specified in Section II of Part II of Schedule XIII of the Companies Act, 1956.

The Managing Director will not be entitled to sitting fees for the meetings of the Board /Committee attended by him.

**III) TERMINATION OF AGREEMENT**

The Term of Managing Director will be for 5 years from 1<sup>st</sup> April, 2006 to 31<sup>st</sup> March, 2011.

If the Managing Director shall at any time be incapacitated by illness or otherwise from performing his duties for three consecutive months or in the opinion of the Board of Directors, if he becomes unfit to act as such Managing Director, the Company may terminate the agreement by giving two months notice in writing or by paying an amount equivalent to two months salary.

The Managing Director may also resign from his office by giving to the Company two months notice in writing.

Mr. Bhawar U. Jain as the recipient of the remuneration may be regarded as concerned with or interested in the resolution.

Mr. Kamal U. Jain, Mr. Anil U. Jain being the relatives of Mr Bhawar U. Jain may also be regarded as concerned with or interested in the resolution.

**FLAWLESS DIAMOND (INDIA) LIMITED****DIRECTORS' REPORT****TO THE MEMBERS**

Your Directors have pleasure in presenting their 17th Annual Report and Audited Accounts for Financial Year ended 31st March, 2006.

(Rs. In Thousands)

**FINANCIAL RESULTS**

	Year ended 31 <sup>st</sup> March, 2006	Year ended 31 <sup>st</sup> March, 2005
Profit before Depreciation	10217.93	4675.57
Less : Depreciation	<u>982.41</u>	<u>1023.59</u>
<b>Profit before Tax</b>	<b>9235.52</b>	<b>3651.98</b>
Less : Provision for Taxation		
Current	3545.61	1402.48
Deferred Tax	(246.01)	3.55
Income Tax For Earlier Year	70.06	Nil
Fringe Benefit Tax	<u>458.73</u>	<u>Nil</u>
<b>Profit after Taxation</b>	<b>5407.13</b>	<b>2245.95</b>
Add : Balance Brought Forward from the previous year	<u>54002.66</u>	<u>51756.71</u>
Balance Carried to Balance Sheet	<u>59409.79</u>	<u>54002.66</u>

**OPERATIONAL REVIEW**

During the year under review, the Company has achieved turnover of Rs.29537.47 lakhs as compared to Rs.16255.25 lakhs in the previous year. The Business consists mainly of exports of Diamonds and Jewellery amounting to Rs.19599.42 lakhs. The Net Profit of the Company before Taxation is Rs. 92.35. lakhs.

**DIVIDEND**

The Management is doing their sincere efforts to improve the performance of the Company and expecting better results in the coming years. The earlier year profit has been retained for the working capital requirements and to strengthen reserves.

**SHARE CAPITAL**

Pursuant to the approval of members at the Extra Ordinary General Meeting held on 11<sup>th</sup> February 2006 the Company has issued 10800000. Share Warrants of Rs. 10/- each at a price of Rs. 20/- Per Share on a Preferential Allotment Basis to Strategic Investors.

The 10% of issue price has been received by the Company and the balance 90% of the Issue Price will be received within 18 months from the date of allotment of such warrants.

The Proceeds of the Issue will be used for long term working capital requirements of the Company.

**CORPORATE GOVERNANCE**

A separate report on Corporate Governance is enclosed as a part of this Annual Report of the Company. A Certificate from Auditors of the Company regarding compliance of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is annexed to the Report on Corporate Governance.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement. It is hereby confirmed :

- (i) That in the preparation of the annual accounts for the Financial Year ended 31st March, 2006, the applicable accounting standards had been followed.
- (ii) That the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 of the Profit of the Company for the year under review;
- (iii) That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) That the Directors had prepared the accounts for the Financial Year ended 31st March, 2006 on a 'going concern' basis.

**17TH ANNUAL REPORT 2005-2006****DIRECTORS**

Pursuant to Article 164 of the Article of Association of the Company, Shri Anil U. Jain, and Shri. Deepak K. Parekh, Director of the Company, retires by rotation at the forthcoming Annual General Meeting, and being eligible, offers themselves for reappointment.

Shri Uttamchand A. Jain Chairman and Promoter Director of the Company "*renounced the world*" by taking "*Diksha*" on 30<sup>th</sup> April 2006 and became "*Jain Sadhu*". He resigned the Company w.e.f. 19<sup>th</sup> April, 2006.

The Board appreciated his services as a Promoter, a guiding force and a dynamic Chairman who took the Company to great heights and stood with the Company in the prosperity and diversity. We will miss his presence but the road map given by him will be followed in true sense.

The Board of Directors in the meeting held on 19<sup>th</sup> April, 2006 appointed Mr. Kamal U. Jain as Chairman of the Company.

**DEPOSITS**

Your Company has not invited or accepted any fixed deposits from the public during the year under review.

**AUDITORS**

Suresh Anchaliya & Co., Chartered Accountants, the Auditors of the Company who holds Office in accordance with the provisions of the Companies Act, 1956 upto the conclusion of the coming forth Annual General Meeting and being eligible offer themselves for reappointment.

**PARTICULARS FOR EMPLOYEES**

There are no employee covered pursuant to Sec 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended by the Companies Amendment Act, 1988. Hence, no particulars are given.

**DEMATERIALISATION OF SHARES**

65.17% Shares of total equity capital is held in dematerialised form with NSDL and 5.92% Shares of total equity capital is held in dematerialised form with CDSL, as on 31.03.2006.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNING & OUTGO**

The information pursuant to Section 217 (i) (a) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of 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' in relation to conservation of energy, the same is not given.
- B. **Technology Absorption, Research and Development (R&D)** : As the Company is not engaged in any kind of manufacturing activities hence these particulars are not applicable.
- C. **Foreign Exchange Earning & Outgo** : The total exports for the year 2005-2006 amounting to Rs.19599.42 Lakhs. The Company is concentrating more on Export of high value added Polished Diamonds and Designer Jewellery

<b>Total Foreign Exchange used &amp; earned</b>	<b>:</b>	<b>Rs. (In Thousands)</b>
Total Foreign Exchange used	:	1782663.57
Total Foreign Exchange earned	:	2012878.72

**ACKNOWLEDGEMENT**

The Directors wish to thank the Company's Bankers and Employees for the consistent support received from them through periods of prosperity and adversity.

**Registered Office**

120, Prasad Chambers,  
Opera House,  
Mumbai - 400 004.

On Behalf of the Board of Directors

**KAMAL U. JAIN**  
CHAIRMAN

Place : Mumbai  
Date : 10<sup>th</sup> August, 2006

## FLAWLESS DIAMOND (INDIA) LIMITED

### MANAGEMENT DISCUSSION AND ANALYSIS

The Indian Diamond Industry is maintaining its Global Presence and will continue to remain at the top in the field of cut and polished diamond. The Jewellery Industry is also having its presence felt in the local as well as global market.

India continues to impress the world with rapid progress in branded and Designer Jewellery Market. The branded segment is showing amazing growth. The Gem & Jewellery Export Promotion Council alongwith the Government are taking various steps so as to improve Export in Jewellery as well as Diamond. India's working population is growing with lots of disposal income. In the retail market there is lot of demand for branded and Designer Jewellery.

The Company has decided to enter into manufacturing of branded and Designer Jewellery for retail as well as for Exports.

Overall growth in Exports have increased compared to pervious year. Indian market is opening to branded leaders in watches and Designer Jewellery.

The Rupees / Dollar fluctuation is having a lot of impact on the performance of the industry and continue to do so in future also because the exports are linked to dollar. The Company is taking steps regularly to minimize the exchange risk.

The cash flow of the Company are very encouraging with the significant growth in terms of turnover as well as profitability. With the recognized Export House status and as a Merchant Exporter the Company will touch new heights in future.

The Company's policy is to maintain goodwill in the market and perfection at all levels. The Customer's satisfaction is the top most priority.

### REPORT ON CORPORATE GOVERNANCE

(Pursuant to clause 49 of the Listing Agreement)

#### I. Company's Philosophy on Corporate Governance :-

The Company believes that the Corporate Governance is aimed at achieving optimum performance at all levels in the Organization. It endeavors to ensure that highest standards of ethics and transparency are met. The Company continues to review its Corporate Governance practice to ensure that this reflect the best Corporate Governance practices. It takes feed back into accounts in its periodic review of the guidelines so as to ensure its continued relevance and maintain the transparency and accountability to all the concerns.

#### II. Board of Directors

##### (a) Composition of the Board

The Board of Directors comprises of six members, consisting of five Non-Executive Directors and one Executive Director. No Director is member in more than ten Committees and Chairman of more than five committees across all companies in which they are Directors. During the year Ten Board Meetings were held on 27.04.05, 30.04.2005, 30.06.2005, 30.07.2005, 10.08.2005, 30.09.2005, 18.10.05, 10.01.06, 01.02.06 and 23.02.06

Since the retirement of Shri Uttamchand A. Jain w.e.f 19<sup>th</sup> April 2006 the Board of Directors comprises of Five members consisting of Four Non Executive Director and one Executive Director.

The composition of the Board of Directors with reference to Executive and Non Executive Directors, meets the requirement of code of Corporate Governance.