

SARLA GEMS LIMITED**NOTICE**

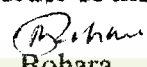
Notice is hereby given that the Seventeenth Annual General Meeting of the Members of **SARLA GEMS LIMITED**, will be held at Block No. 3, Module 1 & 2 (Ground Floor) SDF (E), FERZ, 24 Parganas (S), West Bengal on Wednesday the 27th day of September 2006 at 10 a.m. to transact the following business:

ORDINARY BUSINESS:

1. To Consider and adopt the audited Balance Sheet as at 31st March, 2006 and the Profit & Loss Account for the year ended as on that date together with the reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. B.L. Agarwal who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Auditor, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Board of Directors.

Block No. 3, Module 1 & 2 (ground floor)
SDF(E), FEPZ, 24 Pargana (S),
West Bengal
The 31st day of August 2006

By order of the Board


B.L. Bohara
Director

NOTES:

1. A member entitled to attend and vote is also entitled to appoint a proxy to attend ad vote instead of himself and the proxy need not be a member of the company. The instrument appointing proxy should, however, be deposited at the registered office of the Company not less than firth eight hours before the commencement of the meeting.
2. The Register of Members and the Share Transfer Books of the Company shall remain closed from 21st September to 27th September 2006 (both days inclusive).
3. Queries on Accounts of the company, if any, may please be send to the registered office of the Company seven days in advance of the meeting, so as the answer may be made available at the meeting.
3. Members attending the Annual General Meeting are requested to bring the following with them (as applicable):
 - a. Their folio number/ demat ID

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Director

SARLA GEMS LIMITED

- b. Attendance Slip
- c. Copy of annual report 2005-06
- d. Corporate members intending to send their authorized representative are requested to send a duly certified copy of the board resolution authorizing their representative to attend and vote at the Annual General Meeting.

Block No. 3, Module 1 & 2 (ground floor)
SDF(E), FEPZ, 24 Pargana (S),
West Bengal
The 31st day of August 2006

By order of the Board


B.L. Bohara
Director

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SARLA GEMS LTD


Director

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SARLA GEMS LIMITED**DIRECTORS' REPORT**

To
The Shareholders,

Your Directors have pleasure in presenting their 17th Annual Report together with the Audited Accounts of your Company for the year ended 31st March 2006.

1. Financial results

	For the year Ended 31 st March 2006 (Rs. In lacs)	For the year Ended 31 st March 2005 (Rs. In lacs)
Sales & Other Income	7.00	2604.36
Profit/(Loss) before Depreciation	(0.17)	15.29
Depreciation	0.89	0.89
Net Profit/(Loss) before Tax	(0.72)	14.40
Provision for tax	Nil	(1.13)
Net Profit/(Loss)	(0.72)	13.27
Amount carried to Reserves	Nil	Nil

2. Dividend

The Board of Directors do not recommend any dividend for this year due accumulation of losses of the previous years.

3. Operations

Detailed discussion in relation to the operations of the company has already been done in the Management Discussion and Analysis, separately annexed to the Annual Report.

4. Public Deposits

The Company has not accepted any deposit during the year under review.

5. Industrial Relations

The Company has maintained harmonious industrial relations. The Directors place on record the co-operation extended by the employees in maintaining congenial working environments.

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Director

SARLA GEMS LIMITED**6. Directors**

Ms. Puja Grewal resigned from the Board during the year:

The Board places sincere appreciation Ms. Grewal for their valuable co-operation they extended during her tenure.

Mr. B. L. Agarwal retires by rotation at the ensuing annual general meeting and being eligible offers himself for reappointment.

7. Directors responsibility statement

Pursuant to section 217 (2AA) of the Companies Act' 1956, the Directors confirm that in the preparation of the annual accounts, the applicable accounting standards have been followed, appropriate policies have been selected and applied consistently and judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs at the end of the financial year and of the profit/ or loss of the company for the financial year ended 31st March 2006.

It is being also confirmed that proper and sufficient care has been taken 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.

It is being also confirmed that the annual accounts have been prepared on a going concern basis.

8. Corporate governance

Pursuant to clause 49 of the listing agreement with the stock exchanges, a management discussion and analysis report and corporate governance report together with the certificate from the Auditors of the company certifying compliance of the same have been made a part of the annual report.

9. Auditors

M/s. Maloo & Co., Chartered Accountants, Kolkata, statutory auditors of the Company will retire at the conclusion of the forthcoming annual general meeting and being eligible offer themselves for reappointment.

10. Conservation of energy, technology absorption, foreign exchange earning and outgo.

Your company has no activity relating to conservation of energy or technology absorption. During the year, there was no foreign exchange earning or outgo.

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B. L. Agarwal

Director

SARLA GEMS LIMITED

11. Particulars of employees

None of the employees employed throughout the year or part of the year was in receipt of remuneration the aggregate of which exceeds the limit as prescribed under section 217(2A) of the Companies Act' 1956.

13. Acknowledgement

Your Directors are grateful to the Company's bankers, financial institutions and also to the Central and State Government for their continued support. Your Directors are also grateful to the members for their unstinted support and co-operation.

Block No. 3, Module 1 & 2 (ground floor)
SDF(E), FEPZ, 24 Pargana (S),
West Bengal
The 31st day of August 2006

By order of the Board

B.L. Bohara
B.L. Bohara
Director

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SARLA GEMS LTD.

B.L. Bohara
Director

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SARLA GEMS LIMITED**MANAGEMENT DISCUSSION AND ANALYSIS REPORT****Industry structure and development**

The Gems and Jewellery Industry is performing well and contributing significantly to the exports of the country.

Opportunities and threats

While expansion of exports in the sector was an opportunity, domestic market witnessed a sluggish growth. Rapid change is being experienced in this sector. Introduction of cheap foreign product is a real threat to the industry.

Outlook of the Company

The Directors are keeping constant vigil to come out operational plans to revive the company and reach to its installed capacity.

Risks and Concerns

Your Directors are keeping close watch on risks and concerns facing the Company.

Internal control systems and their adequacy

The internal control system ensures adequate audit and periodic internal/management audit. The audit is undertaken with more accent on business processes rather than the transaction orientation and is subject to review at divisional head level as well as the top management level.

Discussion on financial performance with respect to operational performance

	For the year Ended 31 st March 2006 (Rs. In lacs)	For the year Ended 31 st March 2005 (Rs. In lacs)
Sales & Other Income	7.00	2604.36
Profit/(Loss) before Depreciation	(0.17)	15.29
Depreciation	0.89	0.89
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Provision for tax	Nil	(1.13)
Net Profit/(Loss)	(0.72)	13.27
Amount carried to Reserves	Nil	Nil

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M. G. Han

Director

SARLA GEMS LIMITED**Philosophy on code of governance**

The Board of Directors and management is guided with the broad philosophy of code of corporate governance as envisaged in several meetings of the board of directors and audit committee meetings.

Board of Directors

The Board of Directors comprise of three independent non-executive directors this date.

The composition of the Board of Directors, attendance of Directors at the Board Meetings and at the last Annual General Meeting and also the number of Directorship and committee membership held by them in other companies are given below-

Name of Directors	Category	Board meeting attended	Attendance in the last AGM	Directorship in other Companies		Member in Committee of Directors in other Companies	
				Chairman	Directors	Chairman	Member
Mr.B.L. Agrawal	Independent Director	6	Yes	Nil	Nil	Nil	Nil
Mr. B.L. Bohara	Independent Director	6	Yes	Nil	Nil	Nil	Nil
Mr. M. Singh	Independent Director	Nil	Yes	Nil	Nil	Nil	Nil
Ms. P. Grewal	Independent Director	Nil	Yes	Nil	Nil	Nil	Nil

Mr. B.L. Agrawal being eligible offers himself for reappointment at the ensuing annual general meeting, his brief resume is as under-

Mr. B.L. Agarwal, aged about 60 years, has got adequate exposure in various projects and operational matters in the jewellery industry. The Board considers that having regard of his wide knowledge and rich experience, it will be in the interest of the Company to reappoint him.

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SARLA GEMS LTD.

M. Bohara

Director

SARLA GEMS LIMITED**Audit Committee**

The Company had constituted Audit Committee on 26-04-2002 as stipulated under clause 49 of the listing agreement with Stock Exchange(s) and to meet the requirements of section 292A of the Companies Act' 1956. The Audit Committee also reviews the quarterly and annual financial statements before submission to the Board. The minutes of the Audit Committee meetings are circulated to the Board, and taken note of.

Currently, the Committee comprises of three members, all of them being independent non executive directors. Mr. B.L. Agarwal is the Chairman of the committee. All the members have good knowledge of finance and accounts. Four meeting were held during the year. The composition and the meetings attended by the members are as under:

Name of the Director	No. of Meetings attended
Mr. B.L. Agarwal	4
Mr. B.L. Bohara	4
Mr. Mahendra Singh	4

Share Transfer & Investor Grievances Committee

The Company has constituted a share transfer committee on 13-10-1992. The said committee was reconstituted and renamed as " Share Transfer & Investor Grievances Committee" in compliance with the clause 49 of the listing agreement with stock exchange(s). The function of the said committee is, inter alia, to look into the redress of investor grievances pertaining to share transfers, dematerialization of shares, issue of duplicate shares and other related matters concerning the shareholders/investors.

Mr. B.L. Bohara, non-executive director is the Chairman of the Committee.

24 (Twenty Four) meetings of the committee were held during the year.

The composition and the meetings attended by the members are as under:

Name of the Director	No. of Meetings attended
Mr. B.L. Agarwal	24
Mr. B.L. Bohara	24
Mr. Mahendra Singh	16

The Committee meetings are held on fortnightly basis. The minutes along with details of demat transfers are placed before the board at periodical intervals and taken on record.

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B. L. Bohara

Director

SARLA GEMS LIMITED**Remuneration to directors**

The Non- Executive Directors of the Company are being paid a sitting fees of Rs. 2,500/- for each meeting of the Board of Directors and of the Committee of Directors attended by them. Besides sitting fees, the non- executive directors of the company were not paid any other remuneration or commission.

General Body Meetings

Location & time, where last three AGM were held:

Financial year ended	Date, Time & Location
31-03-2005	30 th September 2005, 10 a.m. at Block No. 3 Module 1 & 2 (Ground Floor) SDF (E), FERZ, 24 Parganas (S), W.B.
31-03-2004	30 th September 2004, 10 a.m. at Block No. 3 Module 1 & 2 (Ground Floor) SDF (E), FERZ, 24 Parganas (S), W.B.
31-03-2003	30 th September 2003, 10 a.m. at Block No. 3 Module 1 & 2 (Ground Floor) SDF (E), FERZ, 24 Parganas (S), W.B.

During the year 2005-06, no resolution was passed by postal ballot.

Disclosures

The particulars of transactions between the Company and its related parties as per the Accounting Standard is set out in Annual Report. However, these transactions are not likely to have potential conflict with company's interests. No penalties have been imposed on the Company by Stock Exchange or SEBI or any other authority, on any matter related to capital markets, during the last three years.

Means of Communication

The quarterly/half yearly financial results of the Company were published during the year under review in the Financial Express and Dainik Lipi.

Management discussion and analysis report forms part of the Annual Report.

General Shareholder's information**1. Annual General Meeting**

Day, Date and Time	Wednesday, 27 th day of September 2006 at 10 am.
Venue	Block No. 3, Module 1 & 2 (ground floor) SDF(E), FERZ, 24 Pargana (S), West Bengal

2. Financial Year 2005-06

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R. Zhan

Director

SARLA GEMS LIMITED

- 3. Book Closure Date** From 21st September 2006 to 27th September 2006
(both days inclusive)
- 4. Dividend Payment Date** Not applicable since dividend has not declared
- 5. Listing** Name of Exchange
Bombay Stock Exchange, The Calcutta Stock
Exchange Association Ltd, The Delhi Stock
Exchange Association Ltd.
- 6. Registrar and Transfer Agent** S.K. Computers
34/1A, Sudhir Chatterjee Street, Kolkata 700 006
033- 22194815/6797

7. Share Transfer System

The Company has appointed M/s. S.K. Computers to act as Registrar and Transfer Agent w.e.f. 1st March, 2003. Shareholders/Investors are requested to send share transfer related documents directly to our RTA, whose address is given at the beginning.

The Company has a share transfer and investor grievance committee to look into various issues relating to the investors including share transfers. This committee meets normally on fortnightly basis. Twenty four meetings were held during the year under review.

8. a) Distribution of shareholding as on 31st March 2006

No. of Equity Shares held	No. of shareholders	% of Shareholder	No. of Shares held	% of shares
Up to 500	18833	97.88	2344000	51.66
501 to 1000	305	1.59	252700	5.57
1001 to 5000	94	0.48	189770	4.19
5001 to 50000	6	0.04	105000	2.31
50001 to 100000	Nil	Nil	Nil	Nil
100001 and above	2	0.01	1645530	36.27
Total	19240	100.00	4537000	100.00

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B. Chatter

Director