

***EIGHTEENTH
ANNUAL REPORT AND ACCOUNTS
2006-2007***



SARLA GEMS LIMITED

SARLA GEMS LIMITED

BOARD OF DIRECTORS

B. L. Bohara
Kashinath Agarwal
Mohan Kumar Tiwari

AUDITORS

M/s. MALOO & CO.
3, Mangoe Lane
2nd Floor
Kolkata - 700 001

REGISTERED OFFICE

Block No. 3, Module 1 & 2 (Ground Floor)
SDF (E), FEPZ, 24 Parganas (S)
West Bengal

REGISTRAR & SHARE TRANSFER AGENTS

S. K. Computers
34/1A, Sudhir Chatterjee Street
Kolkata - 700 006
Phone : (033) 2219-4815/6797

SARLA GEMS LIMITED

NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of the Members of **SARLA GEMS LIMITED**, will be held at Block No. 3, Module 1 & 2 (Ground Floor) SDF(E), FEPZ, 24 Parganas(S), West Bengal on Saturday the 8th September 2007 at 11 a.m to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at 31st March, 2007 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. Bohra 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 remuneration to be fixed by the Board of Directors.

SPECIAL BUSINESS

To pass with or without modification the following resolutions:

As Special Resolution

4. "RESOLVED THAT subject to the confirmation of the Hon'ble High Court at Calcutta, the issued & paid up equity share capital of the Company be and is hereby reduced from Rs. 4,53,70,000 consisting of 45,37,000 equity shares of Rs. 10 each fully paid to Rs. 2,26,85,000 consisting of 45,37,000 equity shares of Rs. 5 each fully paid up by canceling paid up value of Rs. 5/- per equity share of nominal value of Rs. 10/- each aggregating to Rs. 2,26,85,000/- of which required adjustment be carried out against the debit balance of profit and loss account.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to move a petition to the Hon'ble High Court at Calcutta for an order confirming the aforesaid reduction and Mr. B L Bohra, Director of the Company be and is hereby authorized to sign and verify the petition, appoint advocates and to do all such acts, deeds and things as may be necessary for obtaining the order of the High Court to the reduction of capital in terms of the aforesaid resolution.

RESOLVED FURTHER that for the purpose of giving effect to the above, the Directors be and are hereby authorized to give such directions as they may think fit and proper, including directions for settling any questions of difficulties that may arise and to do all acts, deeds, matters and things of whatsoever nature as the Directors in their absolute discretion consider necessary expedient and proper".

As Ordinary Resolution

5. "RESOLVED THAT subject to the confirmation of the Hon'ble High Court at Calcutta, to the reduction of the share capital as conferred in the Resolution no. 4 as above, the paid up equity share capital of the Company of Rs. 2,26,85,000 consisting of 45,37,000 equity shares of Rs.5/- each fully paid up be consolidated by consolidating

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2 (two) such fully paid up equity shares of Rs. 5 each into 1 (one) fully paid equity shares of Rs. 10/- each and the issued, subscribed and paid up share capital of the Company be reorganized to 22,68,500 equity shares of Rs. 10/- each fully paid up".

"RESOLVED FURTHER that the existing Share Certificates issued to the holders of equity shares be cancelled without any further act, deed or instrument and the Board of Directors of the Company be and is hereby authorized to issue fresh share certificates in lieu thereof on the basis of a suitable record date for the purpose of determination of holders of equity shares to whom fresh share certificates will be issued".

6. "RESOLVED THAT Mr. Kashinath Agarwal be and is hereby appointed a Director of the Company whose period of office shall be liable to determined by retirement of Directors by rotation".
7. "RESOLVED THAT Mr. Mohan Kumar Tiwary be and is hereby appointed a Director of the Company whose period of office shall be liable to determined by retirement of Directors by rotation".

Block No. 3, Module 1 & 2 (Ground Floor),
SDF (E), FEPZ, 24 Parganas (S),
West Bengal,
The 14th Day of August , 2007

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 and 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 forty 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 1st September 2007 to 8th September 2007 (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.
4. Members attending the Annual General Meeting are requested to bring the following with them (as applicable):
 - a. Their folio number/ demat ID
 - b. Attendance Slip
 - c. Copy of Annual Report 2006-2007
 - 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.

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West Bengal,
The 14th Day of August, 2007

By Order of the Board

B. L BOHARA
Director

SARLA GEMS LIMITED

Annexure to the Notice

Explanatory Statement pursuant to section 173(2) of the Companies Act'1956

In respect to item no.4

- a) Members are aware that from the initial years of operation the Company has registered consistent losses and as a result, the accumulated losses as on 31st March 2007 stands to Rs. 3,84,41,406.43 which has almost eroded the paid up equity share capital of Rs. 4,53,70,000. Net worth of Sarla Gems Ltd being very unbalanced and there being intense competition within the gems and jewellery industry, Sarla Gems requires substantial funds for maintenance as well as to keep with peer facilities and diversification/ expansion.

Consequent upon consistent effort being taken to control the costs and upgrade the quality and thereby increase the volume of services, the Company has started registering nominal profit since last two years. In view of recent changes in the economic environment of business in the gem and jewellery sector, management of Sarla Gems is hopeful of reviving its affairs provided necessary restructuring of its equity is carried out and accordingly it has now become necessary to reorganize the capital structure of Sarla Gems Ltd by way of reduction to its equity and writing off against accumulated losses. This will make the company viable and with a balanced Balance Sheet it will be able to raise external funds to augment its operations and also to allow the shareholders of the Company who has been long deprived with appropriate returns on their investments in the equity to make some recoveries towards their investments and recapture the losses made in the past to a certain extent.

Therefore it is proposed for a capital reduction of Rs. 2,26,85,000 from the present paid up share capital of Rs. 4,53,70,000 and adjust it against accumulated losses by reducing Rs. 5/- from each paid up equity shares of Rs. 10/- of the Company.

Your directors feel that this reduction being carried out would be in the best interest of the Company and accordingly recommend the passing of the resolution at item no.4 of the accompanying notice. After reduction being approved by the members, the Company will take appropriate steps to get the capital reduction confirmed by the Hon'ble High Court at Calcutta in terms of section 100 of the Companies Act' 1956.

None of the Directors are interested or concerned in this resolution.

In respect to item no.5

- b) It is also proposed under the scheme of capital restructuring, after reduction of share capital being confirmed by the Hon'ble High Court to consolidate the reduced equity share capital of the Company of Rs.2,26,85,000 by consolidating 2 fully paid up equity shares of Rs.5/- each into 1 fully paid up equity share of Rs. 10/- each. This exercise being undertaken, the issued, subscribed and paid up share capital of the Company will stand adjusted to Rs. 2,26,85,000 divided into 22,68,500 equity shares of Rs. 10/- each fully paid up. In order to give effect to this proposal, consent is hereby accorded from the members under section 94 (1) (b) of the Companies Act' 1956.

Your Directors recommend the passing of the resolution at item no.5 of the accompanying notice. None of the Directors are interested or concerned in this resolution.

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The pre and post arrangement (capital reduction and consolidation) capital structure of the Company before and after undertaking and implementing resolution no.4 & 5 in the accompanying notice is as under:-

<u>Capital Structure of the Company</u>	<u>Pre arrangement</u>	<u>Post arrangement</u>
<u>Authorized Capital</u>	(Rs)	(Rs)
50,00,000 equity shares of Rs.10/-each	5,00,00,000	5,00,00,000
<u>Issued Subscribed & Paid Up</u>		
45,37,000 equity shares of Rs 10/- each	4,53,70,000	
22,68,500 equity shares of Rs. 10/- each		2,26,85,000
<u>Reserved and Surplus</u>		
Capital Reserve	20,00,000	20,00,000

The pre and post arrangement (capital reduction and consolidation) shareholding pattern of the Company before and after undertaking and implementing resolution no.4 & 5 in the accompanying notice is as under:-

Category	Pre Arrangement		Post Arrangement	
	No. of Shares	Percentage	No. of Shares	Percentage
Promoter Group	1480530	32.63	740265	32.63
Bank/FI/FIs	100	0	50	0
NRI/OCB	0	0	0	0
Public & Others	3056370	67.37	1528185	67.37
Total	4537000	100	2268500	100

In respect to item no. 6 & 7

- b) Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary, were appointed Additional Directors by the Board on 17th February 2007. The office of both Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary will become vacant on the ensuing Annual General Meeting. Individual notices from shareholders to appoint Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary along with requisite deposit of money has been received by the Company to appoint both of them as rotational directors. Your Directors propose that resolution no. 6 & 7 be passed in the best interest of the Company. Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary are individually interested or concerned in these resolutions. Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary do not hold any shares in the Company as on the date this notice.

Brief resume of Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary is published in the Corporate Governance Report which forms part of this Annual Report.

Block No. 3, Module 1 & 2 (Ground Floor),
SDF (E), FEPZ, 24 Parganas (S),
West Bengal,
The 14th Day of August 2007

By Order of the Board

B.L BOHARA
Director

SARLA GEMS LIMITED

DIRECTORS' REPORT

To,
The Shareholders,

Your Directors have please in presenting their 18th Annual Report together with the Audited accounts of your Company for the year ended 31st March, 2007.

1. **Financial Results**

	For the year Ended <u>31st March 2007</u> <u>(Rs. in Lacs)</u>	For the year ended <u>31st March, 2006</u> <u>(Rs.in lacs)</u>
Sales & Other Income	65.85	7.00
Profit / (Loss) before Depreciation	57.18	0.17
Depreciation	0.89	0.89
Net Profit/ (Loss) before Tax	56.29	(0.72)
Provision for tax	6.51	Nil
Net Profit/ (Loss)	49.78	(0.72)
Amount carried to Reserves	Nil	Nil

2. **Dividend**

The Board of Directors do not recommend any dividend for this year due to 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.

6. **Directors**

During the year Mr. Mahendra Singh and Mr. Bishan Lal Agarwal resigned from Directorship on 17th February 2007. The Board records its appreciation to Mr. Mahendra Singh and Mr. Bishan Lal Agarwal for their unstinted support while on Directorship.

On 17th February 2007, Board appointed Mr. Kashinath Agarwal and Mr. Mohan Kumar Tiwary, as Additional Director of the Company. They retire in the ensuing Annual General Meeting. Individual notices have been received from the shareholders to appoint them as normal rotational director.

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Mr. B.L. Bohara 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/loss of the company for the financial year ended 31st March, 2007.

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.

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.

12. 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 Parganas (S),
West Bengal,
The 14th Day of August 2007

By Order of the Board

B. L. BOHARA
Director

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. The Company is also proposing a capital restructuring plan under which the Directors have proposed a 50% reduction in the issued and paid up share capital of the Company. This is required to shed off huge accumulated losses standing in the Balance Sheet of the Company. If this capital reduction is carried out then the financial position will be somewhat balanced and with a positive net worth the Company will be able to augment sufficient funds for working capital requirement as well as for some capital expenditure. Draft resolution to the reduction of capital which requires members' consent in the general meeting as well as explanatory statement is annexed with this report in the Notice of the ensuing annual general meeting.

Risks and Concerns

Your Directors are keeping close watch on risks and concerns facing the Company. It's obvious that the company requires substantial funds in order to augment working capital requirements and also for capital expenditure for expansion or diversification of business activities.

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 31st March 2007 (Rs. in Lacs)	For the year ended 31st March, 2006 (Rs.in lacs)
Sales & Other Income	65.85	7.00
Profit / (Loss) before Depreciation	57.18	0.17
Depreciation	0.89	0.89
Net Profit/ (Loss) before Tax	56.29	(0.72)
Provision for tax	6.51	Nil
Net Profit/ (Loss)	49.78	(0.72)
Amount carried to Reserves	Nil	Nil