

SARLA GEMS LIMITED



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**NINETEENTH
ANNUAL REPORT
AND ACCOUNTS**

2007-2008

SARLA GEMS LIMITED

BOARD OF DIRECTORS

B. L. Bohara
Kashhinath Agarwal
Mohan Kumar Tiwari

AUDITORS

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

REGISTERED OFFICE

3, Saheed Nityanada Saha Sarani,
Kolkata- 700 001

REGISTRAR & SHARE TRANSFER AGENTS

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

SARLA GEM& LIMITED

NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of SARLA GEMS LIMITED, will be held at the Registered office of the Company at 3, Saheed Nityananda Saha Sarani, Kolkata - 700 001 on Monday the 29th September 2008 at 10:30 a.m to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at 31st March, 2008 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. K.N. 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 remuneration to be fixed by the Board of Directors.

3, Saheed Nityanada Saha Sarani,
Kolkata- 700 001
The 4th day of September, 2008

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 26th September, 2008 to 29th September, 2008 (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 2007-2008
 - 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.

DIRECTORS' REPORT

To,
The Shareholders,

Your Directors have please in presenting their 19th Annual Report together with the Audited Accounts of your Company for the year ended 31st March, 2008.

Financial Results

| | For the Year Ended 31st March 2008 (Rs. In Lacs) | For the Year Ended 31st March 2007 (Rs. In Lacs) |
|-------------------------------------|--|--|
| Sales & Other Income | 2160.88 | 65.85 |
| Profit / (Loss) before Depreciation | 191.79 | 57.18 |
| Depreciation | 0.90 | 0.89 |
| Net Profit/ (Loss) before Tax | 190.89 | 56.29 |
| Provision for tax | 30.66 | 6.51 |
| Net Profit/ (Loss) | 160.22 | 49.78 |
| Amount carried to Reserves | Nil | Nil |

Dividend

The Board of Directors does not recommend any dividend for this year in order to conserve resource.

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.

Public Deposits

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

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.

Directors

Mr. K. N. Agrawal retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

Capital Reduction

The Company received accent to its Scheme of Capital Reduction from Honble High Court at Calcutta vide its order dated 14th January 2008. Accordingly the equity share capital has been reduced with effect from 23rd February 2008 (effective date) to Rs. 2,26,85,000 comprising of 22,68,500 equity shares of Rs. 10/- each from previous 4,53,70,000 comprising of 45,37,000 equity shares of Rs. 10/- each. The Board in its meeting held on 5th April 2008 allotted the existing shares holders, equity shares as per scheme of capital reduction.

SARLA GEMS LIMITED

Director's 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, 2008.

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.

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.

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.

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.

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.

Acknowledgement

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

3, Saheed Nityanada Saha Sarani,
Kolkata- 700 001
The 4th day of September, 2008

By Order of the Board

B.L. Bohara
Director

SARLA GEMS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT**Industry structure and development**

The Gem & Jewellery sector is dominated by this time with huge Indian players with immense market reputation, huge capacity and impeccable financial resources. It has been understood by the Management that in the Gems and Jewellery sector building additional capacities and facilities could give a marginal cash flow which will not help to sustain the Company for its expected growth. The Company does not have cost advantage or potential to operate in low cost Jewellery market as this is dominated by Chinese players. Under the circumstances the Management is in the process to diversify into other profitable ventures. Currently the Company is undertaking trading activity in order to bridge the resource gap.

Opportunities and threats

The Board of Directors is considering several action plans to grab the opportunities in order to augment a revival plan of the Company. The Management has undertaken a detailed SWOT analysis to find out appropriate growth plans to identify the weaknesses and threats.

Outlook of the Company

The Directors are ambitious to come out operational plans to revive the company. The financial restructuring scheme which was outlined has been implemented in its first phase by reducing the equity share capital to the extent of Rs. 2,26,85,000 and writing off against debit balance of profit and loss account. Consequently the debit balance which stood at Rs. 3,84,41,407 as on 31st March 2007 has been totally written off as on 31st March, 2008 after implementation of capital reduction process and registering profit this financial year. Now, the Directors are planning to undertake diversification/new projects and consequent arrangement of finance to make the Company viable.

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 diversification and new 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.

Performance

The financial performance have been discussed in the following lines-

| | For the year Ended 31 st March 2008 (Rs. in Lacs) | For the year Ended 31 st March 2007 (Rs. in Lacs) |
|-------------------------------------|--|--|
| Sales & Other Income | 2160.88 | 65.85 |
| Profit / (Loss) before Depreciation | 191.79 | 57.18 |
| Depreciation | 0.90 | 0.89 |
| Net Profit/ (Loss) before Tax | 190.89 | 56.29 |
| Provision for tax | 30.66 | 6.51 |
| Net Profit/ (Loss) | 160.22 | 49.78 |
| Amount carried to Reserves | Nil | Nil |

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REPORT ON CORPORATE GOVERNANCE

Philosophy on code of Governance

Your Company believes in conducting its affairs with highest level of integrity, with proper authorizations, accountability and transparency. The business operations are being conducted not to benefit of any interest group but for benefit of all stakeholders.

Board of Directors

The Board of Directors currently comprise of three independent non-executive directors. The Board of Directors met on 30th June 2007, 31st July 2007, 14th August 2007, 15th September 2007, 31st October 2007, 30th January 2008 and 6th March 2008. The composition of 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 | Designation | Board Meetings Attended | Whether attended AGM | Directorship in other Companies | Committee Membership/ Chairmanship In other Companies | No of Shares held in the Company |
|------------------|------------------------|-------------------------|----------------------|---------------------------------|---|----------------------------------|
| Mr. B.L. Bohara | Non-Executive Chairman | 7 | Yes | Nil | Nil | Nil |
| Mr. M.K. Tiwari | Non-Executive Director | 7 | Yes | Nil | Nil | Nil |
| Mr. K.N. Agarwal | Non-Executive Director | 7 | Yes | Nil | Nil | Nil |

Directors Appointed/Reappointed

Mr. K.N. Agarwal being eligible offers himself for reappointment at the ensuing annual general meeting. His brief resume is as under:-

Mr. Kashinath Agarwal, aged about 59 years, is a Commerce Graduate and has adequate experience in finance and accounting in joint stock companies. The Board considers that having regard to his rich expertise in finance, it will be in the interest of the Company to appoint him as a rotational Director. Mr. Agarwal does not hold any shares or convertible instruments in the Company either in his own name or for other persons on a beneficial basis. He does not hold relationship with any Director of the Company or with any person employed one level below the Board.

Code of Conduct for Directors

The Company has laid down the Code of Conduct for Directors and annual affirmation from each of the Directors about adherence to the said Code of Conduct by the Directors is being obtained on a yearly basis and placed before the Board.

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 Bohara is the Chairman of the committee. All the members have good knowledge of finance and accounts. Audit Committee met on 30th June 2007, 31st July 2007, 14th August 2007, 31st October 2007 and 30th January 2008. The composition and the meetings attended by the members are as under-

| Name | Category | Number of meetings attended |
|------------------|---------------------------|-----------------------------|
| Mr. B.L. Bohara | Non-Executive independent | 5 |
| Mr. K.N. Agarwal | Non-Executive independent | 5 |
| Mr. M.K. Tiwari | Non-Executive independent | 5 |

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 exchanges (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 | Category | Number of meetings attended |
|------------------|---------------------------|-----------------------------|
| Mr. B.L. Bohara | Non-Executive independent | 24 |
| Mr. K.N. Agarwal | Non-Executive independent | 24 |
| Mr. M.K. Tiwari | Non-Executive independent | 24 |

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.