

A new thrust for the
hallmark of trust



AGEE GOLD REFINERS LTD.

Annual Report 1999 - 2000



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Dear Stakeholders,

A picture or a symbol can truly say more than a thousand words. And the emblem you see on the cover announces your company's new thrust. At the last Extraordinary General Meeting of the shareholders, the name of your Company was changed to reflect a new and aggressive quantum leap into the future.

Specially for you – our shareholders – we have assembled in this report some valuable information to enable you to sieve through the vast untapped potential and understand the post-liberalisation business opportunity in GOLD.

All these years, due to gold control and the absence of a world class refinery for gold and silver, a few European, South African and American refineries have been catering to this huge Indian demand valued at over Rs.40,000 crores per annum. With the setting up of a world class refinery in India, the stage is set for 'Zee Gold' to power its way into this market by providing the three vitally needed determinants for success:

- One, a world class refinery which can give hallmarked purity in gold and silver.
- Two, a hub and spoke distribution system to cover key cities and rural feeder markets, where 70% of the gold is consumed.
- Three, the goodwill and brand equity of ZEE – a brand which is known and trusted in millions of homes in India and in over 50 countries around the world.

My colleagues on the Board and I feel confident that the Company has the right strategy in place. The company's business model is based on the new age paradigm of 'alliance building' to enhance customer value. We have brought in the world's best technology for the refinery. We have also imported world class assaying and testing facilities. At the Company's showrooms we have tied up with Reuters – the world's most reliable and respected news service – to change the way everyone – from the biggest jewellers to the smallest goldsmiths can get real time global pricing and thus move away from the commodity system to the branded system of buying their gold and silver. And at Shirpur – a very strategic location - a top flight team is working round-the-clock to put India's first and only gold refinery of global standard on stream by October 2000.

I am sure you will be happy to read this report and be part of another success story.

With all my esteem

Dilip Kumar
Chairman

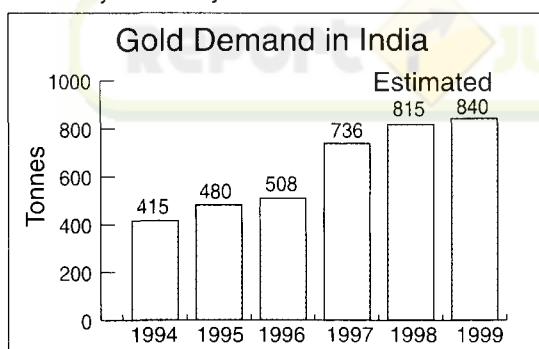
AGEE GOLD REFINERS LTD.



The demand scenario

GOLD

For over 6000 years, gold has reigned as the king of precious metals because it is virtually indestructible. Almost all the gold ever mined – in excess of 1,37,000 MT – remains in existence today. The Geneva based World Gold Council (WGC) which tracks gold demand worldwide, estimates that India will remain the largest and fastest growing gold market globally. Last year (1999) India consumed 840 MT in the year i.e., close to 2.3 MT (or 2300 kgs) of gold per day. The myth that gold can ever lose its popularity among Indians is exploded by the actual statistics which show that the Indian market has been breaking all records year after year.



What the chart shows

- 1997 broke all previous records with 45% growth
- 1998 hit another peak of 815 MT
- Last year (1999) the figure rose again to reach 840 MT i.e. Rs. 37,800 crores.



Market catered to by a few international brands... ready opportunity for an Indian brand

What market surveys show

- Just a few overseas brands cater to most of the demand in India since there is no hallmarked Indian gold brand offering 99.99% purity
- Approximately 80% of the gold is sold in the form of TT (Ten Tola) bars and Kilo bars which the AGEE GOLD refinery will produce.

SILVER

Silver is 'the common man's gold'. It is purchased for ornaments as well as investment value by the lower middle class and weaker sections, including huge tribal belts. The sheer numbers have made India one of the biggest consumers of silver in the world.

According to the World Silver Survey 1999 conducted by the Silver Institute, Washington DC, India is also one of the largest users of silver for industrial applications like plating, pharma, electricals, electronics, photography, utensils etc. In this respect India ranks third in the world, after USA and Japan.

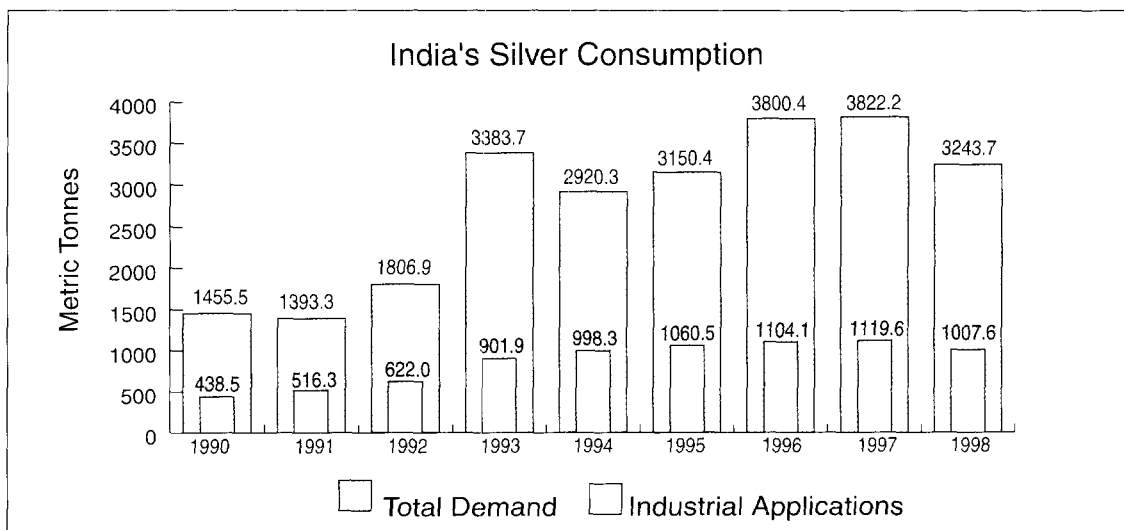


growth and total demand has stabilized and crossed the 3,200 MT mark (approx Rs. 2,560 crores per annum) in the last few years.

India's silver consumption

(metric tonnes)

As the chart below shows, there has been steady



The supply scenario

GOLD

The unsatiable Indian demand for gold is met largely by imports (accounting for 85% of demand). The balance is met by recycling (15%) and mine production (almost negligible).

The product mix (largely in the form of TT bars/Kilo bars) is catered to by a few large international players who limit their involvement to supplies through designated import agencies (under OGL).



up of a domestic refinery (of international standards). The other need is for a further

Supply Sources-Gold		1997		1998	
<i>(Source:Gold Field Mining Survey-GFMS)</i>		MT	Rs.(crs.)	MT	Rs.(crs.)
• Imports		645.34	29,040	688.56	30,985
• Indian mine Production*		2.72	122	2.34	105
• Recycled <i>(From indigenous stocks)</i>		185.00	8,325	185.00	8,325
Total Annual Supply		833.06	37,487	875.9	39,415

* 99.5% purity only since there is no Indian refinery to meet the international hallmark standard of 99.99% purity

What the figures show

• India is forced to import refined gold because there is no refinery which can import raw gold directly from the mines and supply 99.99% purity, hallmarked gold.

SILVER

The silver scenario is still more dismal. Supplies are largely in the form of KILO bars and the same anomalies exist. The size of the market is approximately Rs. 2,560 crores per annum.

Need gap

Clearly the Indian market (by far the largest in the world) remains immature and in the hands of a few international players.

A major step in the maturity curve is the setting

relaxation of official policies. The Government of India has already set the ball rolling by liberalising the Gold and Silver regime and initiating the Assaying and Hallmarking Scheme (under the aegis of the BIS scheme). Mechanisms for Futures trading and derivatives are also being worked out.

An Indian refinery (of international standards) would support and give a boost to the Government's efforts and help bring a level of maturity to the Rs.38,000 cr. plus market. It would also assist in broadening the product mix spectrum by offering hallmarked products of all ranges including lower weight products like wafers and coins where international retail level premiums are as high as 60%.

Refining of recirculated and recycled gold

India's gold stock is conservatively placed at between 25,000 to 30,000 tonnes.

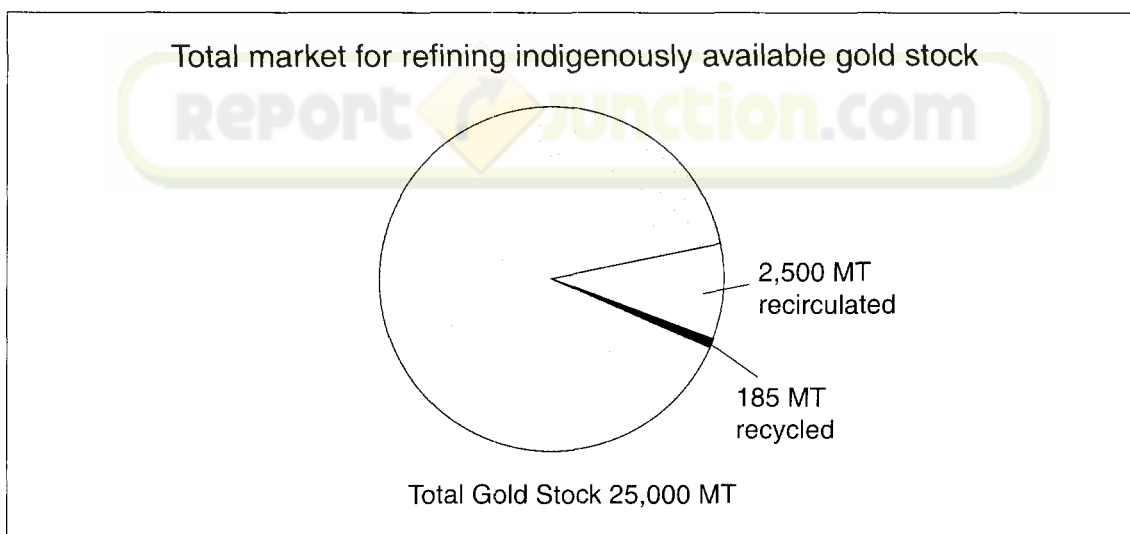
Bullion analysts estimate that every year, about 10% of the gold comes back into the market for recirculation, remaking into ornaments etc.

Similarly 185 MT came back for recycling in 1998.

This is despite there being no refinery as a result of which caratage gets progressively downgraded due to primitive, small volume (bhatti) refining.



at 217 tonnes is not even 10% of the current need. Goldsmiths who currently operate thousands of small volume kilns do so out of sheer compulsion. They also know that caratage is being



Point to note

Total need for annual refining capacity in terms of recirculated/recycled gold is around 2685 metric tonnes at a very conservative estimate.

The AGEE GOLD capacity for gold refining

downgraded with every remelting operation and they would be able to obtain 99.99% purity by switching over to gold from the AGEE GOLD refinery.



Factors which will continue to drive Indian demand

There are two broad avenues which continue to drive the demand for precious metals and provide a huge business opportunity to an international class refinery in India:

- Investment demand
- Fabrication demand

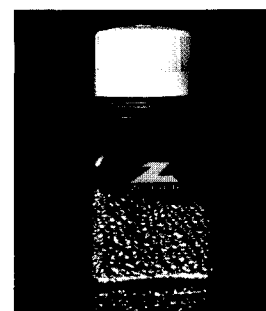
Investment demand

• Gold regime has been liberalised. There is no longer any stigma or barriers to holding wealth in the form of gold bars, coins and wafers (just as investors do in any other part of the world). Demand is therefore 'official'. An indicator of the future trend is the fact that the official

import bill for gold has zoomed and is set to overtake the total import bill for oil.

A local refinery will be able to meet this hunger for gold which is hallmarked to international standards (and so far was only available through imports)

• People who currently hold gold in the form of hoarded stock or ornaments will melt their lower caratage gold and upgrade it to 99.99% purity (which was not possible so far because of the absence of a world class indigenous refinery)

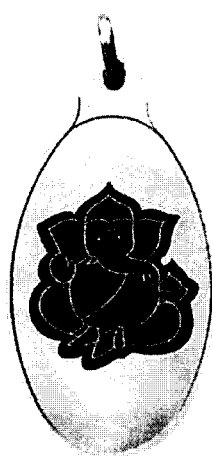
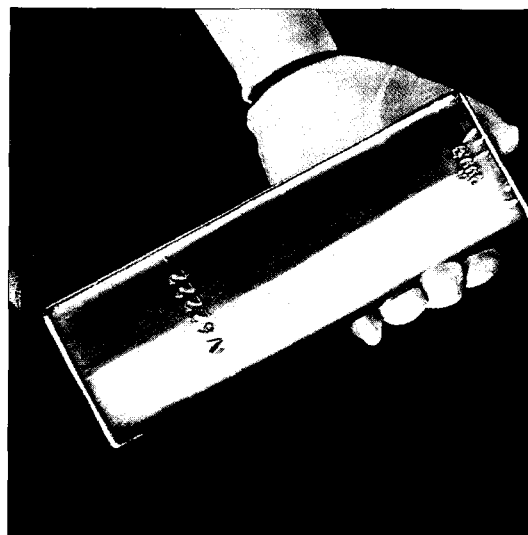


'India's gold is estimated officially at 13,000 tonnes and valued at about Rs. 5,50,000 crore (@ Rs. 4200 for 10 gms). That is equal to 75% of the deposits of the entire banking system.

Add to this the stupendous amount of unofficial gold (roughly three times the official figure) and the numbers turn even more mind boggling'

Dereck Machado, Regional Director (India), World Gold Council.

- Now that the government has relaxed the policy, savings institutions can issue instruments denominated in gold (e.g. Gold bonds, Gold deposit schemes). This is very common in other countries. It will enable India's huge gold stocks to gradually come back into the official system and this will further boost investment demand.



- Ganeshas like these come all the way from Italy, Switzerland or Singapore because there is no world class refinery and fabrication unit to tap the huge demand in India.

- In Japan, fine gold cards like this are minted specially for Christmas.

India's potential for religion based and commemorative coins is massive. Festivals like Lakshmi Puja, Ganesh Puja, Onam, Guru Nanak Jayanti, Christmas and others see a surge of demand in these products. Similarly occasions like marriage, etc. also have vast potential demand. A world class refinery and fabrication unit will be able to tap this lucrative demand segment with 'hallmarked', international quality products which jewellers can retail.



Fabrication demand

An indigenous refinery will be able to cater to four sectors of ready demand viz:

- Huge countrywide network of jewellers, manufacturers of branded jewellery and goldsmiths who currently work with imported or recycled gold.
- Industrial segment
- Fabricated items (coins, wafers, medallions and gift articles)
- Exports

Each of the above sectors offers immediate potential for a local refinery. The needs are analysed below.

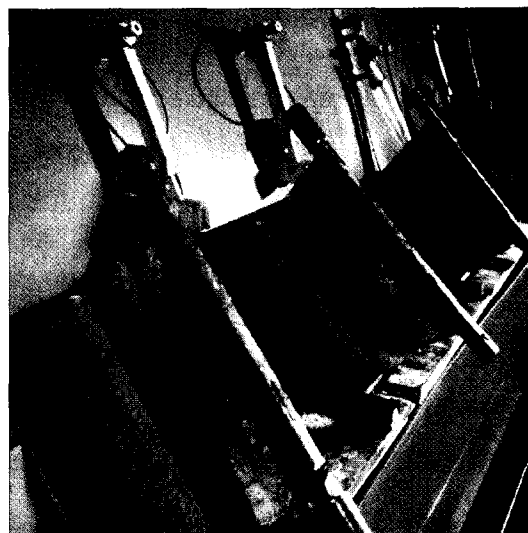
• Jewellers, manufacturers of branded jewellery and goldsmiths

This is the main source of demand for an indigenous refinery which can partly substitute the imported products by offering hallmarked gold of 99.99% purity.

A survey was conducted earlier by RESEARCH INTERNATIONAL, India. This survey covered five key gold hubs viz. Mumbai, Delhi, Calcutta, Chennai and Ahmedabad. The total sample of 745 respondents included a statistically relevant cross-section of bullion merchants, jewellery retail shops/ goldsmiths and consumers. The results are summarised in the box alongside.

• Industrial segment

There is a small but ready industrial segment which needs an indigenous refinery. This includes sectors



like copper smelters who currently send their gold bearing scrap overseas for refining. They would save costs of transportation, insurance and third party intermediation.

Highlights of the survey findings

- Jewellers and goldsmiths were overwhelmingly positive that they would buy indigenously hallmarked (branded) gold provided it offered 99.99% purity.

Acceptance scores ranged from 77% to 91% (across cities)

- Market is unorganised; supply sources are fragmented – just 4 to 5 international brands cater to the huge demand and intermediaries pocket their own margins at every stage.
- Over 90% gold products sold currently are of 'under caratage'