



Sovereign
Diamonds Ltd.

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31st
ANNUAL REPORT
2004 - 2005

Sovereign Diamonds Limited**THIRTY-FIRST ANNUAL GENERAL MEETING**

on Saturday, 24th September, 2005
 at Sovereign House,
 11-A Mahal Industrial Estate,
 Mahakali Caves Road,
 Andheri (East), Mumbai 400 093.
 Time: 12.30 P.M.

REGISTERED OFFICE:

Sovereign House,
 11-A Mahal Industrial Estate,
 Mahakali Caves Road, Andheri (East),
 Mumbai 400 093.
 Ph. No.: 56923872/73.

BOARD OF DIRECTORS:

Mr. Ramesh Hotchand Gehani	- Managing Director
Mr. Ajay R. Gehani	- Managing Director
Mr. Sanjay R. Gehani	- Whole-time Director
Mr. Ramesh C. Sheopuri	- Director
Mr. Vijay G. Kalantri	- Director
Mr. Chandru Punjabee	- Director (Resigned as Director w.e.f. 8 th June, 2005)
Mr. Mohanram Pai	- Director (Appointed as Director w.e.f. 8 th August, 2005)

BANKERS:

Corporation Bank

STATUTORY AUDITORS

M/s. J. D. Zatakia & Co.
 109, Vyapar Bhavan,
 P. D'Mello Road,
 Mumbai 400 009.

REGISTRAR & TRANSFER AGENTS

Mondkar Computers Private Limited
 21, Shakil Niwas, Opp. Satya Saibaba Temple,
 Mahakali Caves Road,
 Mumbai - 400 093.

Tel.No. : 28 25 76 41.
 Fax No : 28 21 19 96.

NOTE : As a measure of economy the shareholders attending the Annual General Meeting are requested to bring alongwith them this copy of the Annual Report.

Sovereign Diamonds Limited**NOTICE**

NOTICE is hereby given that the Thirty-first Annual General Meeting of the Members of SOVEREIGN DIAMONDS LIMITED will be held on Saturday, 24th September, 2005 at the registered office of the company at Sovereign House, 11-A, Mahal Industrial Estate, Mahakali Caves Road, Andheri (East), Mumbai – 400 093 at 12.30 p.m. to transact the following business:

ORDINARY BUSINESS

- 1) To receive, consider and adopt the Audited Balance Sheet and the Audited Profit and Loss Account for the year ended 31st March, 2005 together with Report of Directors and Auditors thereon.
- 2) To appoint a Director in place of Mr. Vijay Kalantri, who retires by rotation and being eligible offers himself for re-appointment.
- 3) To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

- 4) To Consider and if, thought fit, to pass with or without modification, the following resolution as an Ordinary Reslution.

“RESOLVED THAT Mr. Mohanram Pai, who was appointed as an Additional Director under Article 116 of articles of Association of the Company and who by virtue of Section 260 of the Companies Act, 1956, holds office upto the date of this Annual General Meeting, but being eligible, offers himself for re-appointment and in respect of whom the Company has received Notice in writing under Section 257 of the Companies Act, 1956 from certain members proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company”.

- 5) To Consider and if, thought fit, to pass with or without modification, the following resolution as a Special Resolution.

“RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, including Schedule XIII of the said Act as amended up-to-date, consent and approval be and is hereby accorded to the re-appointment of and the remuneration and perquisites being paid or provided to Mr. Ramesh H. Gehani as Managing Director of the Company for a period of five years with effect from 1st September, 2005 at a remuneration of Rs. 60,000/- per month and other perquisites as per Annexure and with such increase in remuneration and perquisites, if permissible as per the provisions of the Act and as may be decided by the Board of Directors (hereinafter referred to as “the Board” which term shall include its Committee constituted for the purpose) from time to time and on the terms and conditions set out in draft Letter of Appointment a copy whereof initialed by Mr. Ajay H. Gehani, Director of the Company, for the purpose of identification has been placed before this Meeting, which draft Letter of Appointment is hereby specifically approved.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary or increase the remuneration and perquisites including the monetary value thereof as specified in the said draft Letter of Appointment to the extent the Board of Directors may consider appropriate and as may be permitted or authorised in accordance with any provision under the Act for the time being in force provided, however, that the remuneration payable to Mr. Ramesh H. Gehani shall be within the limits set out in the said Act including the said Schedule XIII to the Act or any amendments thereto or any modification(s) or statutory re-enactment(s) thereof and / or any rules or regulations framed thereunder and the terms of the aforesaid Letter of Appointment between the Company and Mr. Ramesh H. Gehani shall be suitably modified to give effect to such variation or increase as the case may be.

RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year of the Company during the term of Mr. Ramesh H. Gehani's office as Managing Director, the remuneration and perquisites set out in the aforesaid draft Letter of Appointment be paid or granted to Mr. Ramesh H. Gehani as minimum remuneration provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the ceiling provided in Section II (1) (A) (iii) of Part II of Schedule XIII to the said Act or such other amount and perquisites as may be provided in the said Schedule XIII as may be amended from time to time or any equivalent statutory re-enactment(s) thereof”.

Sovereign Diamonds Limited

- 6) To Consider and if, thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.
- “RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, including Schedule XIII of the said Act as amended up-to-date, consent and approval be and is hereby accorded to the re-appointment of and the remuneration and perquisites being paid or provided to Mr. Ajay R. Gehani as the Managing Director of the Company for a period of five years with effect from 1st April, 2004 at a remuneration of Rs. 55,000/- per month and other perquisites as per Annexure and with such increase in remuneration and perquisites, if permissible as per the provisions of the Act and as may be decided by the Board of Directors (hereinafter referred to as “the Board” which term shall include its Committee constituted for the purpose) from time to time and on the terms and conditions set out in draft Letter of Appointment a copy whereof initialed by Mr. Ramesh H. Gehani, Managing Director of the Company, for the purpose of identification has been placed before this Meeting, which draft Letter of Appointment is hereby specifically approved.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary or increase the remuneration and perquisites including the monetary value thereof as specified in the said draft Letter of Appointment to the extent the Board of Directors may consider appropriate and as may be permitted or authorised in accordance with any provision under the Act for the time being in force provided, however, that the remuneration payable to Mr. Ajay R. Gehani shall be within the limits set out in the said Act including the said Schedule XIII to the Act or any amendments thereto or any modification (s) or statutory re-enactment (s) thereof and / or any rules or regulations framed thereunder and the terms of the aforesaid Letter of Appointment between the Company and Mr. Ajay R. Gehani shall be suitably modified to give effect to such variation or increase as the case may be.

RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year of the Company during the term of Mr. Ajay R. Gehani's office as Managing Director, the remuneration and perquisites set out in the aforesaid draft Letter of Appointment be paid or granted to Mr. Ajay R. Gehani as minimum remuneration provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the ceiling provided in Section II (1) (A) (iii) of Part II of Schedule XIII to the said Act or such other amount and perquisites as may be provided in the said Schedule XIII as may be amended from time to time or any equivalent statutory re-enactment(s) thereof”.

Report

**By Order of the Board of Directors
For SOVEREIGN DIAMONDS LIMITED**

Registered Office :
11-A, Mahal Industrial Estate,
Mahakali Caves Road,
Andheri (East),
Mumbai – 400 093

RAMESH H. GEHANI
MANAGING DIRECTOR

Place : Mumbai
Date : 8th August, 2005.

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2. THE INSTRUMENT APPOINTING A PROXY SHOULD, HOWEVER BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. Explanatory Statement Pursuant to Section 173 (2) of the Companies Act, 1956, in respect of Item Nos. 4 to 6 are annexed.
4. The Register of Members and the Share Transfer Register of the Company shall remain closed from Saturday, 17th September, 2005 to Saturday, 24th September, 2005 (both days inclusive).
5. The members are requested to :
 - a) Intimate changes, if any, in their Registered address to the Registrar and Share Transfer Agents of the Company.
 - b) Quote ledger folio numbers in all their correspondence.
 - c) Get the multiple folios consolidated and also get the shares transferred in joint names if they are held in single name to avoid inconvenience in future and
 - d) Bring their copies of the Annual Report and the Attendance Slips with them at the Annual General Meeting.
 - e) Write atleast 10 days prior to the date of Meeting, any information which they desire on the accounts, to enable the management to keep the information ready.



Sovereign Diamonds Limited

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

ITEM NO. 4

Mr. Mohanram Pai was appointed as an Additional Director under Article 116 of the Articles of Association of the Company on 8th August, 2005, pursuant to Section 260 of the Companies Act, 1956. As per the term of appointment, his term as Director expire at the forthcoming Annual General Meeting. The Company in turn has received notice from member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to appoint him as Director of the Company liable to retire by rotation. Your Directors recommends his appointment in the best interests of the Company.

None of the Directors except Mr. Mohanram Pai of the Company are in any way concerned or interested in this Resolution.

ITEM NO. 5 and 6

The Company has re-appointed Mr. Ramesh H. Gehani as Managing Director and Mr. Ajay R. Gehani as Managing Director, w.e.f. 1st September, 2005 for a period of 5 years. The terms and conditions of their appointments are given below :

S. No.	Name of Director	Designation	Responsibility
1	Mr. Ramesh H. Gehani	Managing Director	The overall management of the Company.
2	Mr. Ajay R. Gehani	Managing Director	Production and Marketing.

The Company proposes to pay following remuneration and perquisites w.e.f. 1st September, 2005.

A. REMUNERATION

S. No.	Name of Director	Designation	Remuneration
1	Mr. Ramesh H. Gehani	Managing Director	Rs. 60,000/- per month
2	Mr. Ajay R. Gehani	Managing Director	Rs. 55,000/- per month

B. PERQUISITES

Name	Mr. Ramesh H. Gehani	Mr. Ajay R. Gehani
Designation	Managing Director	Managing Director
Perquisites		
HRA	60% of Salary i.e. Rs. 36,000/- p.m.	60% of Salary i.e. Rs. 33,000/- p.m.
Gas, Electricity, and furnishing.	10% of Salary i.e. Rs. 6,000/- p.m.	10% of Salary i.e. Rs. 5,500/- p.m.
Medical	1 month salary i.e. Rs. 60,000/- p.a.	1 month salary i.e. Rs. 55,000/- p.a.
LTA	Leave Travel concession for self and family once in a year incurred in accordance with the Rules of the Company for the time being in force.	
Personal Accident Insurance	Premium not to exceed Rs. 10,000/-	
Others	Car with Driver for office use (not consider at perquisites). Telephone at residence at Company's cost, subject to personal long distance call to be reimbursed (not consider at perquisites). Club Fees restricted to two club fees.	

C. INCREMENTS :

The Board of Directors shall decide the increments payable to each of the Directors at the end of March, every year within the overall ceiling laid down in the Schedule XIII so that the total remuneration by way of salary, perquisites and other allowances including increments shall not exceed the ceiling provided in Section II (1) (A) (iii) of Part II of Schedule XIII to the said Act or such other amount and perquisites as may be provided in the said Schedule XIII as may be amended from time to time or any equivalent statutory re-enactment(s) thereof.

D. PERQUISITES : Non monetary ceiling perquisites

The following perquisites shall be payable to Managing Director and Whole Time Director and which shall not be included in the computation on ceiling of remuneration as per Schedule XIII of the Companies Act, 1956.

Sovereign Diamonds Limited**i. Provident Fund:**

The Company's contribution to Provident Fund, as per the rules of the Company. Contribution to Provident Fund will not be included in the computation of the ceiling on perquisites to the extent it is not taxable under the Income Tax Act, 1961.

ii. Gratuity :

Gratuity not exceeding one-half months' salary for each completed year of service.

iii. Superannuation

Superannuation premium as applicable and to the extent it is not taxable under the provisions of the Income Tax Act, 1961.

iv. Leave Encashment

Leave salary as per the rules of the Company and Encashment of Leave shall be at the end of the tenure.

E. MINIMUM REMUNERATION

1. The above remuneration and perquisites has been fixed on the basis of inadequate profits as per the audited balance sheet as on 31st March, 2004 and has been fixed as provided in Section II (1) (A) (iii) of Part II of Schedule XIII to the said Act or such other amount and perquisites as may be provided in the said Schedule XIII as may be amended from time to time or any equivalent statutory re-enactment(s) thereof and shall be considered as minimum remuneration.
2. During the tenure of their appointments, if the Company earns profits in excess of the limits prescribed under Schedule XIII or if the profits are adequate in any financial year, as per the provisions of Section 198, 309 and any other applicable provisions of the Companies Act, 1956, then the remuneration and commission, if any, of Mr. Ramesh H. Gehani and Mr. Ajay R. Gehani shall be paid as per the profits earned by the Company in that particular financial year.

The Explanatory Statement together with the accompanying Notice should be treated as an abstract of the terms of the Letter of Appointment and Memorandum of concern or interest under Section 302 of the Companies Act, 1956.

The resolutions are being recommended for the approval of the members.

None of the Directors except Mr. Ramesh H. Gehani, Mr. Ajay R. Gehani and Mr. Sanjay R. Gehani, Directors of the Company is in any way concerned or interested in this Resolution.

**By Order of the Board of Directors
For SOVEREIGN DIAMONDS LIMITED**

Registered Office :
11-A, Mahal Industrial Estate,
Mahakali Caves Road,
Andheri (East),
Mumbai – 400 093

RAMESH H. GEHANI
MANAGING DIRECTOR

Place : Mumbai
Date : 8th August, 2005.

Sovereign Diamonds Limited**DIRECTORS' REPORT**

To
The Members,

The Directors present their Thirty-first Annual Report together with the Audited Accounts for the year ended 31st March, 2005.

A. FINANCIAL RESULTS

	Year Ended 31 st March, 2005	(Rs. in Lakhs) Year Ended 31 st March, 2004
Income from Operations	492.16	937.40
Other Income	109.96	3.13
Expenditure	547.12	900.80
Interest	7.25	10.86
Gross Profit	47.76	28.87
Depreciation	23.83	26.80
Profit before Tax	23.93	2.07
Provision for Taxation	10.00	3.75
Add : Deferred Tax	2.62	1.38
Net profit after tax	11.31	(3.06)
Less : Transfer to General Reserve	—	—
Less : Prior Year Income Tax	—	0.14
Balance brought forward from last year	46.90	50.10
Balance carried forward to the Balance Sheet	58.20	46.90

B. DIVIDEND

Your Directors do not recommend any dividend for the year as the profits earned need to be ploughed back into the operations of the company.

C. WORKING OF THE COMPANY

Turnover of the Company for the year under review is Rs. 577.31 Lakhs compared to Rs. 928.85 Lakhs in the previous year. This is mainly due to rises and competition. The Company is exploring the possibility of more sales and better results in near future. The Directors are also Traveling a lot to add more customers and more areas for exports. The Directors are hopeful for better results in future.

D. DIRECTORS

Mr. Vijay Kalantri, Director retire by rotation at the ensuing Annual General Meeting and being eligible offer himself for re-appointment.

Mr. Chandru J. Punjabee had resigned from the Board w.e.f. 8th June, 2005. The Board of Directors wish to place on record their appreciation of the services rendered by Mr. Chandru J. Punjabee during his tenure as a Director of the Company.

Mr. Mohanram Pai was appointed as an Additional Director under Article 116 of the Articles of Association of the Company on 8th August, 2005. As per Section 260 of the Companies Act, 1956 their terms as Directors expires at the forthcoming Annual General Meeting. The Company has also received notices alongwith the requisite fee from a member under Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Mohanram Pai as a Director of the Company. The Directors recommend their appointment in the best interests of the Company and appropriate resolution was incorporated in the Notice convening Annual General Meeting

Mr. Ramesh H. Gehani has been re-appointed by the Board as Managing Director for a period of 5 years w.e.f. 1st September, 2005, the term of his appointment and remuneration are set out at item no. 4 of the accompanying Notice convening the Annual General Meeting which your Directors recommend for approval.

Mr. Ajay R. Gehani has been re-appointed by the Board as Managing Director for a period of 5 years w.e.f. 1st September, 2005, the term of his appointment and remuneration are set out at item no. 5 of the accompanying Notice convening the Annual General Meeting which your Directors recommend for approval.

Sovereign Diamonds Limited**E. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUT GO:****CONSERVATION OF ENERGY**

The activity of the Company does not require large scale consumption of energy & the Company is not covered in the list of Industries required to furnish information in Form A relating to conservation of Energy.

TECHNOLOGY ABSORPTION, ADOPTION & INNOVATION

Research and Development : The Company carries out general Research and Development in the manufacture of Jewellery as per international standards, in developing new range of products, manufacturing process etc.

This has helped in better quality output, with improved productivity.

The Company has not imported any technology.

FOREIGN EXCHANGE: EARNINGS AND OUTGO

		(Rs. IN LACS)
	2004 - 2005	2003 - 2004
A. Earnings (FOB value)	540.76	910.92
B. Outgo Imports (CIF)	1.07	165.67
Traveling / Exhibition Charges	117.99	167.10

F. INFORMATION PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956.

Information in accordance with the section 217(2A) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in report of Board of Directors) Rules, 1988 and forming parts of the Director's Report for the year ended 31st March, 2005 is not given as no employee is in receipt of remuneration in excess of Rs. 2,00,000/- p.m. or Rs. 24,00,000/- p.a.

G. DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the requirement Under Section 217 (2AA) of the Companies Act, 1956 with respect to the Directors Responsibilities Statement, it is hereby confirmed;

- i) That in the preparation of the Annual Accounts for the financial year 31st March, 2005, the applicable accounting standards have been followed alongwith proper explanation relating to material departures.
- ii) That the Directors have selected such accounting policies and applied them consistently and made judgment 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 or loss of the Company for the year under review.
- iii) That the Directors have 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 have prepared the Accounts for the financial year ended 31st March, 2005 on a going concern basis.

H. LISTING OF SHARES

The company's shares are listed on Mumbai Stock Exchange and the Company has paid the listing fees for the same.

I. CORPORATE GOVERNANCE

A separate section on Corporate Governance is included in the Annual Report and the Certificate from the Company's auditors confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges is annexed hereto.

J. AUDITORS

M/s. J. D. Zatakia & Co., Chartered Accountants retires at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment. You are requested to appoint them and fix their remuneration.

**By Order of the Board of Directors
For SOVEREIGN DIAMONDS LIMITED**

Registered Office :

11-A, Mahal Industrial Estate,
Mahakali Caves Road,
Andheri (East),
Mumbai 400 093

**RAMESH H. GEHANI
MANAGING DIRECTOR**

Place : Mumbai

Date : 8th August, 2005.

Sovereign Diamonds Limited**REPORT ON CORPORATE GOVERNANCE****Company's Philosophy on Corporate Governance**

The Company's philosophy on Corporate Governance strives for attaining the optimum level of transparency and accountability in all facets of its operations and all dealings which is shareholders, employees, lenders, creditors, customers and the government. The Board of Directors by considering itself by trustee of its Shareholders aims at maximizing shareholders value and protecting the interest of other stakeholders

I. Board of Directors

The present strength of the Board is 6 (six) Directors. The Board comprises of 1 (one) Managing Director, 2 (two) Whole-time Directors and 3 (three) Non-Executive independent Directors. The independent Director does not have any material or pecuniary relationship or transaction with the Company, its promoters or its management, which may affect their judgement in any manner.

The Meeting of the Board of Directors are chaired by Mr. Ramesh Gehani or in his absence Mr. Ajay Gehani.

The Board met 6 times during the period from April, 2004 to March, 2005, i.e. 30th April, 2004, 15th June, 2004, 20th July, 2004, 23rd July, 2004, 25th October, 2004 and 31st January, 2005.

The attendance of each Director at the Board Meetings and the last AGM is given below;

Name of the Director	Category of Directorship	Attendance particulars	
		Board Meeting	Last AGM
Mr. Ramesh Gehani	Managing Director	6	Yes
Mr. Ajay Gehani	Whole-time Director	1	Yes
Mr. Sanjay Gehani	Whole-time Director	5	No
Mr. Ramesh Sheopuri	Independent	2	No
Mr. Vijay Kalantri	Independent	3	No
*Mr. Chandru Punjabee	Independent	3	No
**Mr. Mohanram Pai	Independent	NIL	No

*Mr. Chandru Punjabee was resigned as Director on 8th June, 2005.

**Mr. Mohanram Pai was appointed as Director on 8th August, 2005.

Directors with materially peculiarly or business relationship with Company.

There has been no material relevant peculiarly transaction or relationships between the Company and its non-executive director.

II. Audit Committee

The following Directors have been appointed as Members of the Audit Committee;

Mr. Ramesh Gehani	-	Chairman
Mr. Ramesh Sheopuri	-	Member
Mr. Vijay Kalantri	-	Member
Mr. Chandru Punjabee	-	Member

The Audit Committee has met periodically during the year 2004 – 2005 and gave its reports and recommendations to the Board of Directors for Corporate Governance and overall improvement in the functioning of the Company.

There were 3 meetings of the Audit Committee during the year 2004 - 2005. The attendance of each member of the Committee is given below;

Name of the Director	-	No. of Meetings attended
Mr. Ramesh Gehani	-	3
Mr. Ramesh Sheopuri	-	3
Mr. Vijay Kalantri	-	3
Mr. Chandru Punjabee	-	3

As per the terms of reference prescribed by the Board as stipulated in Clause 49(II)(d) of the Listing Agreement, the committee performs such duties and tasks as are assigned to it by the Board. The Committee has access to all records of the Company. The committee reviews the report of the internal and statutory auditors, internal audit systems and procedures, internal control systems, etc. and also addresses the requirements of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges.