



Sovereign
Diamonds Ltd.

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32nd
ANNUAL REPORT
2005 - 2006

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

on Friday, 25th August, 2006
 at Sovereign House,
 11-A Mahal Industrial Estate,
 Mahakali Caves Road,
 Andheri (East), Mumbai 400 093.
 Time: 12.00 P.M.

REGISTERED OFFICE:

Sovereign House,
 11-A Mahal Industrial Estate,
 Mahakali Caves Road, Andheri (East),
 Mumbai 400 093.
 Ph. No.: 66923872/73.

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. Mohanram Pai	- Director (Appointed as Director w.e.f. 8 th August, 2005)

BANKERS:

Corporation Bank

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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-Second Annual General Meeting of the Members of SOVEREIGN DIAMONDS LIMITED will be held on Friday, 25th August, 2006 at the registered office of the company at Sovereign House, 11-A, Mahal Industrial Estate, Mahakali Caves Road, Andheri (East), Mumbai – 400 093 at 12.00 noon 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, 2006 together with Report of Directors and Auditors thereon.
- 2) To appoint a Director in place of Mr. Ajay Gehani, who retires by rotation and being eligible offers himself for re-appointment.
- 3) To appoint Auditors 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 : 30th June, 2006.

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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. The Register of Members and the Share Transfer Register of the Company shall remain closed from Friday, 18th August, 2006 to Friday, 25th August, 2006 (both days inclusive).
4. 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.

**DIRECTORS' REPORT**

To
The Members,
The Directors present their Thirty-Second Annual Report together with the Audited Accounts for the year ended 31st March, 2006.

A. FINANCIAL RESULTS

	Year Ended 31st March, 2006	Year Ended 31st March, 2005
		(Rs. in Lakhs)
Income from Operations	920.17	492.16
Other Income	45.19	109.96
Expenditure	921.35	547.12
Interest	10.03	7.25
Gross Profit	33.97	47.76
Depreciation	24.09	23.83
Profit before Tax	9.89	23.93
Provision for Taxation	14.20	10.00
Add : Deferred Tax	(5.48)	2.62
Net profit after tax	1.17	11.31
Less : Transfer to General Reserve	-	—
Add : Prior Year Income Tax	0.15	—
Balance brought forward from last year	58.20	46.90
Balance carried forward to the Balance Sheet	59.52	58.20

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. 920.83 lacs compared to Rs. 577.31 lacs in the previous year. This is due to efforts made by the directors for change of products and designs. The Company is exploring the possibility of more sales and better results in near future. The Directors are also traveling lot to add more customers and more areas for exports. The Directors are hopeful for better results in future.

D. DIRECTORS

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

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.

Sovereign Diamonds Limited**FOREIGN EXCHANGE: EARNINGS AND OUTGO**

	(Rs. IN LACS)	
	2005 - 2006	2004 - 2005
A. Earnings (FOB value)	733.41	540.76
B. Outgo Imports (CIF)	Nil	1.07
Traveling / Exhibition Charges	42.48	117.99

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, 2006 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, 2006, 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, 2006 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 Practising Company Secretary confirming the compliance of conditions on Corporate Governance as stipulated in revised Clause 49 of the Listing Agreement with the Stock Exchanges is annexed hereto.

J. AUDITORS

M/s. J. D. Zatakia & Co., Chartered Accountants retire at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment. The Company has received a certificate from them to the effect that their re-appointment, if made would be within the prescribed limits specified under Section 224(1B) of the Companies Act, 1956.

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

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

**RAMESH H. GEHANI
MANAGING DIRECTOR**

Place : Mumbai
Date : 30th June, 2006.

Sovereign Diamonds Limited**REPORT ON CORPORATE GOVERNANCE**

The Mumbai Stock Exchange Limited has implemented the revised provisions of Clause 49 of the Listing Agreement from December 31, 2005, the Company has already taken steps to comply with the revised provisions to the maximum extent possible.

As per the Clause 49 of Listing Agreement, incorporate certain mandatory disclosure requirements with regard to Corporate Governance. In pursuance of the requirements of Corporate Governance, the Board of Directors reports the following;

I. 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

II. BOARD OF DIRECTORS**i) Board Composition:**

The strength of the Board was 6 Directors as on 31st March, 2006. The composition and category of Directors on the Board of the Company are:

Executive Director

Mr. Ramesh Gehani (Chairman)

Mr. Ajay Gehani

Mr. Sanjay Gehani

Non-executive Director

Mr. Ramesh C. Sheopuri (Independent)

Mr. Vijay Kalantri (Independent)

Mr. Mohanram Pai (Independent)

*Mr. Chandru Punjabee (Independent)

* Resigned w.e.f. 8th June, 2005.

The independent Directors do 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.

ii) Other Directorship and Membership of Board Committees:

None of the Directors hold Directorship in more than the permissible no. of Company under the relevant provision. Further, none of the Directors on the Board is a member of more than Ten Committees or Chairman of more than Five Committees.

iii) Board Meetings:

The Board met 8 times during the period from April, 2005 to March, 2006, i.e. 29th April, 2005, 8th June, 2005, 20th July, 2005, 8th August, 2005, 22nd October, 2005, 14th December, 2005, 28th January, 2006 and 6th March, 2006.

iv) The attendance of each Director at the Board Meeting and the last AGM in 2005 - 2006 is given below ;

Name of the Director	Category of Director ship	No.of Meetings Held	Attendance particulars	
			Board Meeting	Last AGM
Mr. Ramesh Gehani	Managing Director	8	8	Yes
Mr. Ajay Gehani	Managing Director	8	7	Yes
Mr. Sanjay Gehani	Whole-time Director	8	1	No
Mr. Ramesh Sheopuri	Independent	8	5	No
Mr. Vijay Kalantri	Independent	8	7	No
*Mr. Chandru Punjabee	Independent	8	Nil	No
**Mr. Mohanram Pai	Independent	8	4	Yes

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

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

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v) Code of Conduct:

The Board has formulated a code of conduct for the Board members and senior management of the Company. All Board members and senior management have affirmed their compliance with the code. A declaration to this effect signed by the Managing Director of the Company is given elsewhere in the Annual Report.

III. Audit Committee

The Audit Committee was re-constituted in the board Meeting held on 8th August, 2005 and the following Directors have been appointed as Members of the Audit Committee:

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

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 statutory auditors and procedures, internal control systems, etc. and also addresses the requirements of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges.

The Audit Committee of the Company meets before the finalization of accounts each year and also meets each quarter before the results of that quarter is published in the newspaper and informed to the Stock Exchanges as required under Clause 41 of the Listing Agreement.

There were 4 meetings of the Audit Committee during the year 2005 – 2006. The attendance of each member of the Committee is given below;

<u>Name of the Director</u>	<u>No. of Meetings attended</u>
Mr. Ramesh Sheopuri	4
Mr. Vijay Kalantri	4
Mr. Ramesh Gehani	4

IV. REMUNERATION COMMITTEE

The Company has not constituted a separate committee to determine the terms of reference and remuneration package for its managerial personnel.

The Board of Directors determines the remuneration of Managing Director and Whole Time Directors within the framework as approved by the Shareholders and also decide on the sitting fees to be paid to the Non-Executive Directors for attending the Board Meetings.

The remuneration payable to Mr. Ramesh H. Gehani, Managing Director and Mr. Ajay R. Gehani, Managing Director was approved by the Board of Directors at its meeting held on 8th August, 2005 and proposed to be approved by the members at the ensuing Annual General Meeting to be held on 24th September, 2005. The remuneration paid to Mr. Sanjay R. Gehani, Whole Time Director was approved by the members at the Annual General Meeting held on 14th September, 2002.

The aggregate value of remuneration and perquisites paid to the Managing and Whole - Time Directors for the year ended 31st March, 2005, were as under;

Sl. No.	Name of Director	Salary	Perquisites	Sitting Fees
1.	Mr. Ramesh Gehani	Rs. 396000.00	Rs. 277200.00	Rs. NIL
2.	Mr. Ajay Gehani	Rs. 378000.00	Rs. 264600.00	Rs. NIL
3.	Mr. Sanjay Gehani	Rs. 180000.00	Rs. NIL	Rs. NIL
4.	Mr. Ramesh Sheopuri	Rs. NIL	Rs. NIL	Rs. 14400.00
5.	Mr. Vijay Kalantri	Rs. NIL	Rs. NIL	Rs. 27600.00
6.	Mr. Mohanram Pai	Rs. NIL	Rs. NIL	Rs. 9600.00

NOTES:

- The Company has not paid any compensation except sitting fees to the independent non-executive director.
- The Company does not pay bonus, pension and incentives to the Executive Director. The Company so far has not issued any stock options to Executive / Non-executive / independent Director.
- Equity shares of Sovereign Diamonds Limited held by non-executive Directors are as follows:

Directors	No. of shares held as on 31st March, 2006	No. of shares held as on 31st March, 2005
Mr. Ramesh Sheopuri	NIL	NIL
Mr. Vijay Kalantri	NIL	NIL
Mr. Mohanram Pai	NIL	NIL

Sovereign Diamonds Limited**V. SHAREHOLDERS / INVESTORS GRIEVANCES COMMITTEE**

The Company has constituted the Shareholders / Investors' Grievances Committee at the Board meeting held on 14th December, 2005, the following Directors have been appointed as members of the committee.

- i. Mr. Ramesh Sheopuri - Chairman & Non Executive Independent Director
- ii. Mr. Vijay Kalantri - Member & Non Executive Independent Director
- iii. Mr. Ramesh Gehani - Member & Executive Director

The Committee has delegated the power to approve the transfer to the Registrar & Transfer Agent. The shareholders of the Company are serviced by Mondkar Computers Private Limited, the Registrar & Transfer Agent. The Committee also monitors redressal of investors' grievances. The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 10. There were no complaints pending as on March 31, 2006.

As required by the Stock Exchanges, the Company has appointed Mr. Nandkumar V. Ghadigaonkar as the Compliance Officer to monitor the share transfer process and liaise with the regulatory authorities.

During the year 2005 – 2006 the Shareholders / Investors' Grievances Committee has met once after its constitution on 31st December, 2005 and all the members of the Shareholders / Investors' Grievances Committee remain present.

VI. General Body Meetings

Date time and venue for the last 3 Annual General Meetings are given below;

Financial Year	Date	Time	Venue
31-03-2003	29-09-2003	12.30 p.m.	Registered Office
31-03-2004	28-09-2004	12.30 p.m.	Registered Office
31-03-2005	24-09-2005	12.30 p.m.	Registered Office

Notes:

1. There were no special resolutions passed by the Company at any of the above meetings.
2. There were no special resolutions passed through postal ballot last year.
3. At the ensuing Annual General Meeting, there are no resolutions proposed to be passed through postal ballot.

VII. DISCLOSURES

- i. The Company has not entered into any materially significant related party transaction during the year that may have potential conflict with the interests of the Company at large.
- ii. There has been no incidence of non-compliance by the Company of any statutory regulations nor any penalty or stricture imposed by the Stock Exchange or SEBI or any other statutory authority, on any matter relating to the capital market over the last three years.
- iii. The details of all transactions with related parties are placed before the Audit Committee on quarterly basis.
- iv. In the preparation of financial statements, the Company has followed the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable.
- v. The constitution of whistle blower policy is a non mandatory requirement. However the Company affirms that no employee has been denied access to the Audit Committee during the financial year 2005 – 2006.
- vi. The Company has complied with all mandatory requirements of clause 49 of Listing requirements.

VIII. MEANS OF COMMUNICATION

The company's quarterly results in the format prescribed by the Stock Exchanges are approved and taken on record by Board within the prescribed time frame and send immediately to the Stock Exchange on which the company's shares are listed. These results are published in the News Papers, i.e., The Free Press Journal (English Language) and Navshakti (Marathi Language).