



Sovereign Diamonds Ltd.

36th

**ANNUAL REPORT
2009 - 2010**

THIRTY-SIXTH ANNUAL GENERAL MEETING

on Thursday, 2nd September, 2010
at Sovereign House,
11-A, Mahal Industrial Estate,
Mahakali Caves Road,
Andheri (East), Mumbai – 400 093.
Time : 11.00 A.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	- Executive Chairman
Mr. Ajay R. Gehani	- Managing Director
Mr. Vijay G. Kalantri	- Director
Mr. Mohanram Pai	- Director

BANKERS:

Corporation Bank

STATUTORY AUDITORS

M/s. J. D. Zatakia & Co.
306, Rupa Plaza, Jawahar Road,
Ghatkopar (E), Mumbai - 400 077.

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.

**NOTICE**

NOTICE is hereby given that the Thirty-Sixth Annual General Meeting of the Members of SOVEREIGN DIAMONDS LIMITED will be held on Thursday, 2nd September, 2010 at 11.00 A.M. at the registered office of the company at Sovereign House, 11-A, Mahal Industrial Estate, Mahakali Caves Road, Andheri (East), Mumbai – 400 093 to transact the following business:

ORDINARY BUSINESS

- 1) To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2010, Audited Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and the 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 re-appoint Statutory Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS:

4. To Consider and if, thought fit, to pass with or without modification, the following resolution as an Special Resolution.

“RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 (hereinafter referred to as Act), 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 payment of remuneration and perquisites to Mr. Ramesh Gehani as the Executive chairman of the Company for a period of five years with effect from 1st September, 2010.

RESOLVED FURTHER THAT Mr. Ramesh Gehani shall be paid remuneration and perquisites upto Rs. 1,10,000/- per month.

RESOLVED FURTHER THAT the terms and conditions of the letter of appointment which is placed before the meeting and signed by Mr. Ajay Gehani, Managing Director of the company for the purpose of identification be hereby approved.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary or increase the remuneration and perquisites to the extent the Board of Directors may consider appropriate and as may be permissible in accordance with the provisions of the 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 provided that the terms of the letter of appointment between the company and Mr. Ramesh 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 office of Mr. Ramesh Gehani as Executive chairman, the remuneration and perquisites set out in the aforesaid letter of appointment be paid or granted to Mr. Ramesh Gehani as minimum remuneration provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the ceiling provided in Part II Section II of Schedule XIII to the said Act or any amendments thereto or any modification(s) or statutory re-enactment(s) thereof and / or any rules or regulations framed thereunder.”

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

“RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 (hereinafter referred to as Act), 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 payment of remuneration and perquisites to Mr. Ajay Gehani as the Managing Director of the Company for a period of five years with effect from 1st September, 2010.

RESOLVED FURTHER THAT Mr. Ajay Gehani shall be paid remuneration and perquisites upto Rs. 1,25,000/- per month.

RESOLVED FURTHER THAT the terms and conditions of the letter of appointment which is placed before the meeting and signed by Mr. Ramesh Gehani, Executive chairman of the company for the purpose of identification be hereby approved.



RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary or increase the remuneration and perquisites to the extent the Board of Directors may consider appropriate and as may be permissible in accordance with the provisions of the 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 provided that the terms of the letter of appointment between the company and Mr. Ajay 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 office of Mr. Ajay Gehani as Managing Director, the remuneration and perquisites set out in the aforesaid letter of appointment be paid or granted to Mr. Ajay Gehani as minimum remuneration provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the ceiling provided in Part II Section II of Schedule XIII to the said Act or any amendments thereto or any modification(s) or statutory re-enactment(s) thereof and / or any rules or regulations framed thereunder.”

**By Order of the Board of Directors
For SOVEREIGN DIAMONDS LIMITED
sd/-
AJAY R. GEHANI
MANAGING DIRECTOR**

Place: Mumbai

Date: 29th July, 2010

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY FORM IS ENCLOSED ALONG WITH THIS NOTICE.
2. The Proxy Form, in order to be effective, should be duly completed, stamped and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. For the convenience of the shareholders, Attendance Slip is annexed to this notice. Shareholders/Proxy Holders are requested to fill in and affix their signatures at the space provided therein and surrender the same at the venue.
4. The Register of Members and Share Transfer Register of the Company will remain closed from Monday, 30th August, 2010 to Thursday, 2nd September, 2010 (both the days inclusive).
5. Corporate Members intending to send their authorized representatives at the Meeting are requested to send a certified true copy of the Board Resolution authorizing their representative to attend and vote on their behalf at the Meeting.
6. In case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
7. Members who hold shares in dematerialized form may kindly note that their Bank Account details, as furnished by their depositories to the company, will be printed on their dividend warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such Members for deletion of or change in such Bank Account details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in electronic form. Members who wish to change such Bank Account details are therefore requested to advised their Depository Participants about such change with complete details of Bank Account.
8. Members are requested to immediately notify any change of address to their Depository Participants (DPs) in respect of their holdings in electronic form and to the Secretarial department at the Registered Office of the company or to the Registrar and Transfer Agents in respect of their holding in physical form.
9. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the Annual Report.



EXPLANATORY STATEMENT
(Pursuant to Section 173(2) of the Companies Act, 1956)

That following explanatory statement sets out the material facts referring to Item No. 4 and 5 of the Notice convening the Annual General Meeting of the Company.

ITEM NO. 4 & 5

The Board of Directors of the Company has re-appointed Mr. Ramesh Gehani as Executive chairman and Mr. Ajay Gehani as Managing Director, w.e.f. 1st September, 2010 for a period of 5 years. The terms and conditions of their re-appointment are given below:

Name of Director	Designation	Responsibility
Mr. Ramesh Gehani	Executive chairman	The overall management of the Company.
Mr. Ajay Gehani	Managing Director	Production and Marketing.

The Company proposes to pay following remuneration and perquisites w.e.f. 1st September, 2010,

A. REMUNERATION & PERQUISITES

S. No.	Name of Director	Designation	Remuneration & Perquisites
1	Mr. Ramesh Gehani	Executive chairman	Rs. 1,10,000/-
2	Mr. Ajay Gehani	Managing Director	Rs. 1,25,000/-

B. 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 Schedule XIII to the Act as may be amended from time to time or any equivalent statutory re-enactment(s) thereof.

C. PERQUISITES: Non monetary ceiling perquisites

The following perquisites shall be payable to all the three Directors and which shall not be included in the computation of the ceiling of remuneration as per Schedule XIII of the Companies Act, 1956.

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.

D. MINIMUM REMUNERATION:

- The above remuneration and perquisites has been fixed on the basis of profits as per the audited balance sheet as on 31st March, 2010 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.
- 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 Gehani and Mr. Ajay Gehani shall be paid as per the profits earned by the Company in that particular financial year.

E. OTHER CONDITIONS:

- i. For all other terms and conditions not specifically spelt out above, the rules and order of the Company shall apply.
- ii. The Managing Director shall hold office as such, subject to the provisions of Section 283(1) of the Companies Act, 1956.
- iii. The re-appointment of Managing Director has been approved by the Remuneration Committee of the Company.

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

The resolutions are being recommended for approval of the members.

No Director of the company except to the extent of Mr. Ramesh Gehani and Mr. Ajay Gehani shall be concerned or interested in the resolutions.

By Order of the Board of Directors
For SOVEREIGN DIAMONDS LIMITED
sd/-
AJAY R. GEHANI
MANAGING DIRECTOR

Place: Mumbai

Date: 29th July, 2010

**DIRECTORS' REPORT**

To

The Members,

The Directors present their Thirty-Sixth Annual Report together with the Audited Accounts for the year ended 31st March, 2010

A. FINANCIAL RESULTS

	(Rs. in Lakhs)	
	Year Ended 31 st March, 2010	Year Ended 31 st March, 2009
Income from Operations	1215.22	1707.30
Other Income	2.22	4.70
Total Income	1217.44	1712.00
Expenditure	1137.64	1624.67
Interest	45.83	55.06
Depreciation	31.67	31.28
Total Expenditure	1215.14	1711.01
Profit(+) Loss(-)	2.29	.99
Provision for Taxation	3.00	5.75
Fringe Benefit Tax	0.00	5.50
Add : Deferred Tax	2.95	3.06
Net profit after tax	2.24	-7.2
Less : Transfer to General Reserve	—	—
Less : Prior Year Income Tax	—	—
Balance brought forward from last year	58.69	65.83
Balance carried forward to the Balance Sheet	60.93	58.63

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

During the year the company has achieved turnover of Rs.1278.23 lacs as against Rs.1712.52 lacs in the previous year. The increase in turnover is due to fluctuation in Dollar rate. The Company is entering into the Indian Jewellery Retail Market and supplying to big jewellery stores in Metro cities. This will results in higher turnover for the Company.

D. DIRECTORS

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

The present term of Mr. Ramesh Gehani and Mr. Ajay Gehani as Managing Director is expiring on 15th September, 2010. The Board of Directors proposed to re-appoint them for a period of 5 years and the necessary resolution has been incorporated in the notice.


E. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUT GO

The disclosures in terms of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, **(Referred to as the rules)** are as follows:

A. Conservation of Energy:

The activity of the Company does not require large scale consumption of energy. Hence, the Company has not taken any energy conservation measures. There are no additional investments and proposals, for reduction of consumption of energy. The Company does not fall within the category of list of industries mentioned in Schedule forming part of the rules. Hence, no disclosures are required to be given in Form A as annexed to the rules.

B. Technology Absorption:

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. The disclosures required to be given in Form B as annexed to the rules are as follows:

Form for Disclosure of Particulars with respect to absorption Research & Development (R & D):

Specific Areas in which R & D carried out by the Company.	Manufacture of Jewellery
Benefits derived as a result of the above R & D.	Helped in better quality output, with improved productivity.
Future Plan of Action	Development of new designs in Jewellery.
Expenditure on R & D:	The Company carries out the R & D work in-house.
(a) Capital	Nil
(b) Recurring	Nil
(c) Total	Nil
(d) Total R & D expenditure as a percentage of Total Tur over	Nil

Technology absorption, adaptation and innovation

Efforts, in brief, made towards technology absorption, adaptation & innovation	We use the latest laser technology and all automatic casting machines in order to achieve a very high level of finish and setting quality. This combined with mirror polish in our jewellery makes it one of the finest collection in the country
Benefits derived as a result of above efforts	Due to this finish we are able to work with the leading retailers and wholesalers in India and Europe and they have achieved tremendous success with our product line
Imported Technology	The Company has not imported any technology.

C. Foreign Exchange Earning and Outgo:

	2009-2010	2008-2009
Foreign Exchange Earnings/Outgo:		
Foreign Exchange Earned:	239.76	453.91
Foreign Exchange Outgo:	7.98	19.78
Travelling / Exhibition Charges	80.12	45.60

F. FIXED DEPOSITS

The Company has not accepted any deposit from the public.

**G. 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, 2010 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.

H. 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, 2010, 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, 2010 on a going concern basis.

I. LISTING OF SHARES

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

J. 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.

K. 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 :

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

**Sd/-
AJAY GEHANI
MANAGING DIRECTOR**

Place : Mumbai
Date : 29th July, 2010

**CORPORATE GOVERNANCE REPORT* (under Clause 49 (VI) (i) of Listing Agreement)*****(For The Financial Year 31st March, 2010)****I. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE**

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

II. BOARD OF DIRECTORS**i) Composition and Category of Directors:**

The Board consists of 4 Directors, out of which 2 are Independent Directors. Composition of the Board and category of Directors are as follows:

Name	Executive/ Non Executive	Promoter / Independent	Relationship with Directors
Mr. Ramesh Gehani	Executive -Chairman	Promoter	Father of Mr. Ajay Gehani
Mr. Ajay Gehani	Executive - Managing Director	Promoter	Son of Mr. Ramesh Gehani
Mr. Vijay Kalantri	Non Executive	Independent	Not Related to any Director
Mr. Mohanram Pai	Non Executive	Independent	Not Related to any Director

ii) Attendance of each Director at the Board Meeting and Last Annual General Meeting:

Date of Board Meetings	Ramesh Gehani	Ajay Gehani	Vijay Kalantri	Mohanram Pai
2 nd June, 2009	Present	Present	Absent	Present
15 th July, 2009	Present	Present	Present	Present
31 st July, 2009	Present	Present	Present	Present
23 rd October, 2009	Present	Present	Present	Present
29 th January, 2010	Present	Present	Present	Present
Total Attendance (Out of 5 Meetings)	5	5	4	5
Attendance at Last AGM	Present	Present	Absent	Present