



VAIBHAV GEMS LIMITED

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FORWARD LOOKING STATEMENT

All statements that address expectations or projections about the future, product development, market position, expenditures and financial results, are forward looking statements. Forward-looking statements are based on certain assumptions and expectations of future conditions. The Company cannot guarantee the accuracy of these assumptions and expectations. Therefore, actual performance may differ from the projected performance as there are certain factors affecting the Company's performance such as international market conditions, Government policies and laws, changes in the economic conditions affecting demand and supply etc. The Company does not take any responsibility to change/modify any forward-looking statement on the basis of any subsequent developments or events.



Board of Directors

- ❖ Sunil Agrawal - Chairman
- ❖ Suresh Punjabi - Director
- ❖ Rahimullah - Managing Director
- ❖ Nirmal Kumar Bardiya - Director
- ❖ Anandi Lal Roongta - Director
- ❖ Mitha Lal Mehta - Director
- ❖ Surendra Singh Bhandari - Director
- ❖ Sheela Agrawal - Director

Company Secretary

- ❖ Mukesh Khetan

Statutory Auditors

- ❖ Haribhakti & Co., Mumbai
- ❖ B. Khosla & Co., Jaipur

Report

Registrar & Share Transfer Agents

- ❖ Karvy Computershare (P) Limited
17-24, Vittal Rao Nagar, Madhapur
Hyderabad-500 081

Bankers

- ❖ Punjab National Bank, Jaipur
- ❖ State Bank of Bikaner & Jaipur, Jaipur
- ❖ Union Bank of India, Jaipur
- ❖ IDBI Bank, Jaipur

Registered Office

- ❖ K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302004
Tel: 91-141-2601020; Fax: 91-141-2603228/2010

Corporate Office

- ❖ E-68, EPIP, Sitapura, Jaipur-302022
Tel: 91-141-2770648; Fax: 91-141-2770510

Our Vision

To be the most preferred global jewellery company for all stakeholders worldwide

Our Mission

Mission B14X

Our Core Values

I will serve my customers with passion.

I will keep my word.

I will be respectful to all.

I will always help my team.

I will keep an open mind and improve everyday.

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CHAIRMAN'S MESSAGE

Dear Shareholders,

I present you the Annual Report of Vaibhav Gems Limited for Financial Year 2008-09.

Financial Year 2008-09 presented many challenges for entire Global Economy. Your company also faced many challenges during the year. On one hand consumer spending on discretionary items such as Jewellery slowed to a crawl due to rising unemployment and falling consumer confidence and on the other hand huge deficit spending by Governments to counter the severe recession led to widespread inflation fears resulting in prices of counter-inflation commodities like, Gold, Silver and Platinum to skyrocket. This severely impacted Jewelry sales and margins.

To handle the situation pro-actively, management of your company undertook various restructuring exercises. We decided to close the businesses that we did not think, would generate cash in coming few quarters. We consolidated various operations to reduce overheads. We renegotiated contracts with various service providers to reduce operational costs. We reduced the workforce at various operating units to match expected demand.

Above steps resulted in your company to exit German TV retail market and Caribbean and Alaska B&M Retail markets. We exited Japan wholesale market and closed our Thailand manufacturing operations. We consolidated our Gemstone manufacturing operations in Jaipur with our Jewellery manufacturing unit to save on costs and to get better productivity. We recently consolidated our US wholesale operations with our US TV operations in Austin to further save on costs. Renegotiation of various contracts like air-time, rents, shipping costs etc has resulted in substantial savings for coming times.

To counter the current economic conditions in our two key markets- UK and US, we have changed our product mix substantially. On one hand, we have continued to strengthen our high end brands ILIANA and Rhapsody consisting of 18kt gold and Platinum to address investment market. On other hand, we introduced many lower price point product ranges to address lower discretionary spending by consumer on jewellery. Such ranges include our exclusive 'Platinum Overlay Sterling Silver' jewellery being manufactured in our India plant. Management of your company is keeping itself abreast with change in fashion and trends in the target markets. We will continue to bring new product ranges to address those trends.

The Company is confident of its business operations in USA and UK. The size of these markets is substantially big. Electronic retail is the fastest growing segment in these markets. With our reduced operating costs, focused teams and great product lineup to suit market conditions, we are confident that we will be able to sail through these difficult times.

In the end, on behalf of the Board of Directors, I would like to sincerely thank our employees around the world for their commitment, hard work and dedication. I would also like to thank our customers and bankers for their continued support.

Warm Regards,

Sunil Agrawal
Chairman
Vaibhav Gems Limited

BOARD PROFILES**Mr. SUNIL AGRAWAL, Chairman**

He is a commerce graduate with an MBA from Columbia University. A first generation entrepreneur, he established Vaibhav Enterprises in 1980 with the objective to trade in gemstones. He has travelled widely, and gained an immense knowledge of gemstones and jewellery. He has brought this expertise to bear on the success of the company. He has represented the company at all major international trade shows and jewellery fairs. He is credited with the pioneering commercialization of popular gemstones like Tanzanite.

**Mr. SURESH PUNJABI, Director**

After establishing his gems trading business in Hong Kong, he became well known internationally within the trade. He has widely travelled and has visited the most prominent mines in the world. He possesses an in-depth knowledge of the gemstone industry and its supply chain and the high-end jewellery business.

**Mr. RAHIMULLAH, Managing Director**

Beginning his career in his emerald trading and export business, he has gained considerable experience and knowledge in this field, and has travelled extensively in Africa, Europe and the Far East to source rough stones. He brings with him 35 years of industry experience. His dedication, vision and acumen have been responsible for the company's impressive growth.

**Mr. NIRMAL KUMAR BARDIYA, Director**

One of the most renowned jewellers of Jaipur with a vast experience in the manufacture of coloured gemstones, he is associated with the Company since 2001. He is highly specialised in high volume gemstones and beads, and is one of the leading global players in this segment.

**Mr. ANANDI LAL ROONGTA, Director**

A post-graduate in Economics and Law, he is a retired IAS officer and worked with the government of Rajasthan, the Government of India and various public sector units. He held prestigious positions like Managing Director of the Rajasthan Finance Corporation, Chairman-cum-Managing Director of the Rajasthan State Industrial Development and Investment Corporation Limited and was also the Industry Advisor to the Government of Rajasthan.

**Mr. M.L. MEHTA, Director**

A retired IAS officer and a renowned public administrator, social activist and human resource developer, he is a gold medalist and a Post Graduate in Physics from the University of Rajasthan, he is a P.G. Diploma Holder in urbanisation from the University of London with merit and a Graduate from the National Defence College in New Delhi. He has served in senior government positions such as the Chief Secretary of the Government of Rajasthan, Additional Secretary of the Ministry of Home Affairs and Director of NABARD. He has won prestigious awards like Indira Gandhi Priyadarshni Vriksha Mitra Award (1986), Acharya Jai Mal Gyan Award (1988) and Mewar Gaurav Award (1994).

**Mr. SURENDRA SINGH BHANDARI, Director**

One of the senior most Chartered Accountants of Rajasthan and a senior partner of M/s S. Bhandari & Co., he is one of the leading management consultants to various companies in the areas of banking and tax assignments, corporate restructuring, amalgamation and mergers, besides handling audit assignments in various renowned companies and financial institutions. Presently, he is on the Board of Reliance Capital Trustee Co. Ltd. and Asian Hotels Ltd.

**Smt. Sheela Agrawal, Director**

An active social worker, she possesses great acumen and business understanding. She is a religious lady and is the mother of Mr. Sunil Agrawal, Chairman

Vaibhav Gems Limited

DIRECTOR'S REPORT**Dear Shareholders**

Your directors present the 20th Annual Report on the Company's operations and performance together with the audited financial statements for the year ended 31st March 2009.

FINANCIAL HIGHLIGHTS:*(Rupees in Lacs)*

Particulars	Standalone	
	2008-09	2007-08
Sales and Other Income	17,907	31,398
Less : Cost of Sales	18,511	28,904
Operating Profit/PBDIT	(604)	2,493
Less : Interest	1,460	827
Less : Depreciation & Amortization	150	175
Profit Before Taxes	(2,215)	1,490
Less : Provision for Taxes		
(Including FBT)	11	11
Deferred Tax charged	(39)	(26)
Net Profit after Tax but before Extra-ordinary Items	(2,265)	1,504
Less : Extra- ordinary Items – (Diminution in the value of Investments)	(23,152)	19,911
Profit after Tax and Extra-ordinary Items	(25,418)	(18,406)
Add: Balance brought forward from the previous year	(9,149)	9,257
Total Profits available for Appropriations	(34,568)	(9,149)
Appropriations :		
Dividend on Preference Share Capital	-	-
Proposed Dividend on Equity Shares	-	-
Tax on Dividend	-	-
General Reserve	-	-
Total	-	-
Balance to be carried forward	(34,568)	(9,149)

DIVIDEND:

Your Directors have not recommended any dividend for the current financial year due to inadequacy of Profits.

SUBSIDIARIES:

Your Company has 8 subsidiaries and 7 step down subsidiaries, (excluding Der Schmuckkanal Deutschland GmbH, Germany, which is under liquidation) which are spread across the world covering 5 continents & 14 countries. These subsidiaries are engaged in manufacturing as well as marketing of colored gemstones and colored gemstone and diamond studded and plain gold, platinum and silver Jewellery.

Due to the on-going global market turmoil your Company has restructured its business operations throughout globe. The following restructuring process/action has been taken during the year:

1. Manufacturing and marketing operations were closed at STS Gems Thai Ltd and STS Creations Thai Ltd, Bangkok, Thailand, wholly owned subsidiaries engaged in manufacturing and marketing of Gems & Jewellery.
2. Manufacturing and marketing operations were closed at STS Gems Japan Limited, Japan, a wholly owned subsidiary of the company engaged in marketing of Gems & Jewellery,
3. Indo Mexico CO. S, DE, R.L.DE, C.V., Mexico wholly owned subsidiary operating 8 retail stores of the company in Mexico have closed down its operations.
4. Jewel Gems USA Inc, wholly owned subsidiary of the company operating 4 retail stores in Alaska have closed down its operations.
5. Genoa Jewelers (STT) Ltd., St. Thomas, Genoa Jewelers SXM N.V., St Maarten and Genoa Jewelers (St Kits) Ltd., St Kits, wholly owned step down subsidiaries of the company operating in Retail (Brick and Mortar) business in Caribbean Islands and running 7 retail stores under the store brand "Milano Diamond Gallery" have closed their operations.
6. In the wholesale segment also, the company has consolidated its operations and has closed the operations in STS Gems USA Inc, and STS Canada Inc. These companies are wholly owned step down subsidiaries of Vaibhav Gems Limited and are subsidiaries of STS Jewels Inc, USA.
7. Further, the Company, looking into the grim economic outlook in Germany and in compliance to the local laws of Germany, filed liquidation petition in Germany for its wholly owned step down subsidiary Der Schmuckkanal Deutschland GmbH, Germany. The company was engaged in marketing of Gems & Jewellery through its 24 hour online Jewellery TV Shopping Channel in Germany. Hon'ble Court in Germany has appointed an official liquidator to carry on the activities of liquidation of the company in compliance of the laws.

8. Also, as a drive to focus upon the company's policy of being a low cost high value provider of goods, the company has changed the name of its Jewellery Shopping TV Channel in USA from, The Jewelry Channel to The Liquidation Channel.
9. Shifting of manufacturing activities from Adarsh Nagar to Sitapura, Jaipur under one umbrella for efficiency increase and cost reduction.
10. Construction of new manufacturing factory at Sitapura to reduce the cost of administration and operation to achieve increased level of efficiency and to have everything under one umbrella.

The Company has evaluated the possible impact of the aforesaid restructuring of its business and provided the same in its books of accounts.

After restructuring your company will be continuing with the following business activities:

Wholesale Segment: The Company will be operating its wholly owned subsidiaries STS Jewels Inc. USA and STS Gems Limited, Hong Kong. These companies will cater the demand for the wholesale segment by selling to the major departmental stores and TV Channels in USA, Europe, Asia and Africa.

Retail TV Channel Segment: The Company will be operating its wholly owned step down subsidiaries The Jewellery Channel Limited, UK and The Liquidation Channel, USA in the retail TV Channel Segment in UK and USA, respectively. The Holding company for these TV Channels and the wholly owned subsidiary of Vaibhav Gems Limited, Genoa Jewelers Limited, BVI, will also be operational.

ON-LINE TV CHANNEL:

The financial year 2008-09 was very difficult for the company. It presented many challenges for online Gems & Jewelry TV channels due to the global economic turmoil, resulting in global economic slowdown/recession. Slowing consumer spending on discretionary consumer items such as Gems & Jewelry and rising gold prices had impacted the industry demand and margin.

As the online marketplace gains attraction, your company will be established as the trusted and knowledgeable source for genuine gemstone jewelry.

Your Company is operating 24 hour Online TV Shopping Channel through its wholly owned subsidiary - The Liquidation Channel, USA and The Jewellery Channel Ltd., UK

These channels can be reached out on the Internet also, at:

United Kingdom: www.thejewellerychannel.tv,
The Liquidation Channel: www.liquidationchannel.com

EMPLOYEE STOCK OPTION PLAN 2006:

During the year, the compensation committee in their meeting held on 28th January 2009, granted 3,00,000 stock options to its employees under the Employees Stock Option Scheme 2006 (VGL ESOP 2006). The details of the options granted are set out in Annexure I to the Directors' Report.

AWARDS AND RECOGNITION:

Your Company has, once again, been awarded with the coveted **GJEPIC Export Award**, the **fourteenth** successive award for being the largest Indian exporter of coloured gemstones.

DIRECTORS:

During the year, on 10th November 2008, your Company has appointed Smt. Sheela Agrawal as an additional Director to remain as a Director up to the date of the ensuing Annual General Meeting.

During the year, on 28th February 2009, Shri Pulak Chandan Prasad, Director of your company has resigned from his directorship due to personal pre- occupation.

During the year, on 30th June, 2009, Shri Sanjeev Agrawal and Shri Ikramullah, Directors of the company have resigned from their directorships due to their pre-occupation.

As per Article 61 of Articles of Association of the Company, Shri A.L.Roongta, and Shri Suresh Panjabi, retires by rotation at the ensuing Annual General Meeting. Being eligible, offer themselves for reappointment.

A brief resume of the above Directors together with the nature of their expertise in specific functional areas and names of companies in which they hold the directorship and the membership/chairmanship of committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, is given as an annexure to the notice of Annual General Meeting.

AUDITORS:

The Joint auditors M/s Haribhakti & Company, Chartered Accountants, Mumbai and M/s B. Khosla & Co., Chartered Accountants, Jaipur retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

Members are requested to consider their re-appointment for financial year ending 31st March 2010 on remuneration to be decided by the Board of Directors of your Company.

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Members are requested to refer note no. 10 of the Notes to Accounts attached to the financial statements of the Company for the remark made by the Statutory Auditors in point no. 4(f) of the Auditors Report.

CONSOLIDATED FINANCIAL STATEMENTS:

Your directors present the consolidated financial statement, forming the part of the Annual Report. The consolidated financial statements are prepared in accordance with Accounting Standard prescribed by the Institute of Chartered Accountants of India.

PARTICULARS REQUIRED AS PER SECTION 212 OF THE COMPANIES ACT, 1956:

As per section 212 of the Companies Act, your Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries with its annual financial statements. Since the audited consolidated financial statements are presented in the Annual Report, your Company had made an application to the Central Government seeking exemption from attaching the Reports and Accounts of its subsidiary companies with the Balance Sheet. The approval for the same has been received. Further, we believe that the consolidated accounts present a full and fair picture of the state of affairs of the Company as a whole and are accepted globally. Accordingly, the Annual Report does not include the financial statements of the subsidiaries. However, as per the terms of the exemption by the Central Government, a statement containing brief financial details of the Company's subsidiaries for the year ended 31st March 2009 is included in the Annual Report. Moreover, the accounts of the subsidiary companies will be made available for inspection to any member of the company at its registered office on any working day during business hours.

OUTLOOK:

As industry survey stated, during 2008-2009 and since October 2008 India's exports started declining and are likely to continue with the downward slide for sometime due to demand contraction in the developed markets such as the US and the EU,. However, very recent figures and increase in consumer confidence across globe have boosted the industry confidence and experts are hoping for quick revival of consumer demand and growth in industry.

The growing and developed economies are showing some positive signs but the difficult phase is not yet over and the following difficulties are still experienced by the sector:-

1. Significant inventory build up.
2. Postponement / cancellation of orders across the sector, due to which liquidity of the sector as well as economy is impacted.

3. Rising pressure on receivables and operating margins.
4. Volatility in the Indian rupee/US Dollar exchange rate.

Under the Interim Indian Foreign Trade Policy 2009-10, the Government of India has come out with various steps to promote Gems & Jewellery Industry for doing business in International markets :-

- Import restrictions on worked corals have been removed to address the grievance of Gems & Jewellery exporters.
- Re-imbursement of additional duty of excise levied on fuel under the Finance Acts would be admissible in respect of EOUs.
- Export obligation period against advance authorizations has been extended up to 36 months in view of the present global economic slowdown.
- Supply of an Intermediate product by the domestic supplier directly from their factory to the Port against Advance Intermediate Authorization, for export by ultimate exporter, has been allowed.
- In case of Advance Authorization for Annual Requirement where Standard Input-Output Norms are not fixed, the provisions in Customs Notification have been amended in line with Foreign Trade Policy.

Sources : www.pr.com, www.indianyellowpages.com,
www.gjpc.org

INTERNAL CONTROL AND AUDIT:

Your Company has an active Internal Audit Team .The Internal Audit team independently reviews the internal and financial controls, business processes and the financial transactions to provide the reasonable assurance of the integrity, confidentiality and availability of critical information and the effectiveness and efficiency of operations, safeguarding of assets and compliance with rules and regulations.

It is also satisfactory to state that problems are identified proactively and to minimize unnecessary lapses and maximize best practices, prompt follow up action are taken. Timely identification and containment of business risks are also ensured.

The internal Auditor report is placed to the Audit Committee and appropriate corrective action is being taken. The internal control procedures are well documented and are applied across the entire operations of your Company.

The Internal Audit and the Internal Control procedures adopted in your Company are adequate and commensurate with the size and complexity of its business.

HUMAN RESOURCE DEVELOPMENT:

Your Company takes pride in its highly motivated and trained human resource, which has contributed its best for the Company to achieve newer heights. The total Manpower of the company as on 31st March 2009 was **889**.