

ANNUAL
REPORT
2009 - 2010



VAIBHAV GEMS LIMITED

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.



Vaibhav Gems Limited

Board of Directors

- | | |
|---------------------------|---------------------|
| ❖ Sunil Agrawal | - Chairman |
| ❖ 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

Registrar & Share Transfer Agents

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

Bankers

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

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,

What an eventful year this has been! The worldwide financial crisis started in '08-'09 and continued through out most of '09-'10. While consumer spending on discretionary items such as your company's gems and jewelry continued to be subdued, prices of our main inputs like gold, platinum, silver and diamonds remained at elevated levels. Such a difficult situation demanded out of the box thinking. As advised in my last AGM address, we continued with our efforts to consolidate our operations and reduce our operating costs in the first part of the year. We also radically changed our product mix bringing in entirely new; lower price point product ranges to our customers. This new product mix lowered our average price point to \$ 41/pc from \$ 132 only two years ago. While continuing to bring our price points low with such great new products, we continued our relentless focus on quality and customer service. We cultivated the EEO (Exceptional Quality, Exquisite Designs and Outstanding Value) mantra throughout our operation, and customers have started to respond to such changes. UK TV fully turned around in FY 2009-10 and the US has begun to turn around towards end of FY 2009-10.

During the year in review, one of our main competitors, Gems TV, closed its US operations and sold its UK operations to another of our competitors. While this has given us some maneuvering room, markets still remain fragile. Consumer confidence in the US and UK

is still low, high deficits in both countries continue to invite fears of inflation, and precious metal prices are still very high. We recognize the state of the economy and continue to manage the company with frugality and caution.

Although we barely turned around in 2009-10, I am highly confident of our direct-to-consumer business model, with our keen focus on quality and product selection. With the combined jewellery market of \$60 billion in the US and UK available to us, I am confident that we will see substantial growth in your company in the years to come.

On behalf of the VGL board of directors, I sincerely thank the VGL group employees around the world for their remarkable dedication and hard work during these years of crisis. Without their support, it would have been nearly impossible to make it through these tough times. I'd also like to thank our customers and bankers for their continued support. Lastly, I would like to acknowledge the continued support by you, the valued shareholders of the company.

Thank you and best 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. 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 36 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 Asian Hotels (East) Ltd. and Asian Hotels (West) 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

DIRECTOR'S REPORT

Dear Shareholders

Your directors present the 21st Annual Report on the Company's operations and performance together with the audited financial statements for the year ended 31st March 2010.

FINANCIAL HIGHLIGHTS:		
Particulars	<i>(Rupees in Lacs)</i>	
	Standalone	
	2009-10	2008-09
Sales and Other Income	12,151.96	17,907.02
Less : Cost of Sales	12,111.93	18,511.73
Operating Profit/PBDIT	40.13	(604.67)
Less : Interest	1,280.75	1,460.53
Less : Depreciation & Amortization	120.77	150.13
Profit Before Taxes	(1,361.39)	(2,215.33)
Less : Provision for Taxes	(17.57)	50.43
Net Profit after Tax but before Extra-ordinary Items	(1,343.82)	(2,265.76)
Less : Extra- ordinary Items – (Provision for Doubtful debt)	1,557.60	(23,152.73)
Profit after Tax and Extra-ordinary Items	213.90	(25,418.49)
Add: Balance brought forward from the previous year	(34,568.08)	(9,149.59)
Total Profits available for Appropriations	(34,354.18)	(34,568.08)
Appropriations :		
Dividend on Preference Share Capital	–	–
Proposed Dividend on Equity Shares	–	–
Tax on Dividend	–	–
General Reserve	–	–
Total	–	–
Balance to be carried forward	(34,354.18)	(34,568.08)

DIVIDEND:

Due to inadequacy of profits your Directors have not recommended any dividend for the current financial year.

SUBSIDIARIES:

Your Company has 8 subsidiaries and 7 step down subsidiaries. To conserve resources and successful turnaround of business your company closed the business operations of 5 of its direct subsidiaries and 5 step down subsidiaries. Brief detail of the operating subsidiaries is provided below:

Operating Subsidiaries:

1. STS Jewels Inc., USA, a 100 per cent subsidiary is engaged in the wholesale segment and market jewellery to the departmental stores, TV channels and others in USA.
2. STS Gems Limited, Hong Kong, a 100 per cent subsidiary is engaged in outsourced manufacturing for the group and marketing of Jewellery in Europe and America.
3. The Jewellery Channel Ltd. UK (TJC UK), (www.thejewellerychannel.tv) a wholly owned step down subsidiary of Vaibhav Gems Limited, is engaged in marketing jewellery through electronic media and operates a dedicated 24 hours jewellery TV shopping channel and Internet Jewellery shopping website in the UK.
4. The Liquidation Channel, USA (TJC USA), (www.liquidationchannel.com) a wholly owned step down subsidiary of Vaibhav Gems Limited is engaged in marketing jewellery through electronic media and operates a dedicated 24 hours jewellery TV shopping channel and Internet Jewellery shopping website in the USA.

EMPLOYEE STOCK OPTION PLAN 2006:

During the year, the compensation committee in their meeting held on 29th January 2010, granted 2,97,500 stock options to the eligible employees of the company and its subsidiaries 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 bestowed with the coveted **GJEPC Export Award**, the **fifteenth successive** award for being the largest Indian exporter of coloured gemstones on realization basis.

DIRECTORS:

During the year, on 29th January 2010, Shri Suresh Panjabi, Director of your company has resigned from the directorship of the company due to his personal pre-occupation. The Board recorded its appreciation for the valuable services rendered by him during his tenure.

During the year, on 30th June, 2009, Shri Sanjeev Agrawal and Shri Ikramullah, Directors of the company had resigned from the directorship of the company due to their personal pre-occupations. The Board recorded appreciation for the valuable services rendered by them during their tenure.

As per Article 61 of Articles of Association of the Company, Shri M.L. Mehta and Shri S.S. Bhandari, retire 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, retiring at the ensuing Annual General Meeting; 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 2011 on remuneration to be decided by the Board of Directors of your Company.

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, 1956, your Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries with its annual financial statements. We had applied to the Government of India for an exemption from such attachment as we present the audited consolidated financial statements in the annual report. We believe that the consolidated accounts present a full and fair picture of the state of affairs and the financial condition and are accepted globally. We will make available the audited annual accounts and related information of subsidiaries, where applicable, upon request by any of our investor.

Further, as required, the brief financial data of the subsidiaries has been furnished under the head "Statement pursuant to section 212(8) of the Companies Act, 1956, related to Subsidiary Companies" forming part of the Annual Report.

OUTLOOK:

Buoyancy in the economy, growing consumer aspiration in the urban India and a flurry of new products has provided a strong foundation for the growth of Indian Gems and Jewellery industry in recent past. Some of the main highlights for the financial year 2009-2010 are as follows:

GROWTH TRENDS:

The growth trends reported for the financial year 2009-2010 are:

- From export figures of US \$ 24,495.58 million in the FY 2008-09, the exports in FY 2009-10 have shown considerable increase and have registered an export of US \$ 28,414.64 million. This indicates an increase

of 16 per cent in the total gems and jewellery exports. The performance of this industry is critical as it contributes 13 per cent to India's total merchandise exports.

- Colored gems stone export increased by 10.55 per cent to US \$ 286.65 million in 2009-10 compared to US \$ 259.29 million in the previous fiscal, while gold jewellery exports rose by 9.38 per cent to US \$ 9.42 billion during the period under review compared to US \$ 8.61 billion in 2008-09.
- Gold Jewellery exports have also been on a rise accounting for 9.38 per cent increase in FY 2009-10, with exports increasing from US \$ 8,616.43 million in 2008-09 to US \$ 9,424.33 million in 2009-10.

The Indian Government has provided an impetus to the booming gems and jewellery industry with favorable Foreign Trade Policy 2009-2014:

- It has been decided to neutralize duty incidence on gold jewellery exports, to allow duty drawback on such exports.
- To promote export of gems and jewellery products, the value limits of personal carriage have been increased from US \$ 2 million to US \$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has been increased from US \$ 0.1 million to US \$ 1 million.

Sources : <http://www.pr.com>, <http://www.indianyellowpages.com>, <http://www.gjepc.org>, <http://www.commodityonline.com>

INTERNAL CONTROL AND AUDIT:

The Corporate Audit function plays a key role in providing an objective view and reassurance of the overall control systems and effectiveness of the risk management process across Vaibhav Gems Limited and its Subsidiaries to both the operating management and the Audit Committee of the Board. Internal control system also assesses opportunities for improvement in the business processes and provides

recommendations designed to add value to the operations and the group as a whole.

Strong internal control and their rigorous testing is one of the strengths of Vaibhav. Vaibhav's Audit Committee along with Management oversees financial controls and their implementation. 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.

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.

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.

Training and Development are being given paramount importance in your company and regular training and development opportunities are provided to the employees based on the need and requirements.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

Information in accordance with the provisions 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.

A. Conservation of Energy

The operations of your Company are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy efficient equipments. We regularly evaluate and use new energy efficient technologies and make necessary investment in these to make our infrastructure more energy-efficient.