

Report on Corporate Governance
(Pursuant to Clause 49 of the Listing Agreement)

A. Mandatory Requirements

The Board of Directors of the Company gives due support to the principles behind the good Corporate Governance. Given below is a report on Corporate Governance:

1. Company's philosophy on code of Corporate Governance

Corporate Governance is an integral part of value, ethics and best business practices followed by the Company. The core values of the Company are commitment to excellence and customer satisfaction, maximizing long-term value for stakeholders, socially valued enterprise and caring for people and environment.

Statutorily, Corporate Governance involves transparency, full disclosure, independent monitoring the state of affairs and being fair to all shareholders. The company's philosophy of corporate governance is not only to meet statutory requirements but also to go beyond that and to attain a high level of transparency and accountancy in the functioning of the Company and the conduct of the business both internal and external. This is done with the sole view to enhance share holder's value.

2. Board of Director

2.1 Composition of the Board:

The Board of Directors of the Company comprised 4 Non Executive Independent Directors. The Directors also comprised four independent directors. The Chairman is an Executive Director.

Name of Director	Category of Director
Mr. Dipankumar Babulal Patwa	Chairman & Jt. Managing Director
Mr. Manish Jaysukhlal Janani	Managing Director
Mr. Jeeyan Dipankumar Patwa	Executive director
Mr. Ravindra Chandulal Sanghavi	Independent and Non Executive Director
Mr. Ajit Mangaldas Shah	Independent and Non Executive Director
Mr. Bhavesh Shashikant Sheth	Independent and Non Executive Director
Mr. Pankajkumar Vrajlal Shah	Independent and Non Executive Director

2.2 Responsibilities of the Board

The responsibility such as policy formulation, performance review and analysis and control, direction and management of the affairs of the company is vested in the Board of Directors presided over by the Chairman and Managing Director. The Board has delegated some of its

powers to the executives of the company. The Board reviews from time to time such delegated powers and their utilization for effective functioning of the Company.

2.3 Meeting and Attendance Record of Directors

The meetings of the Board of Directors are held at periodical intervals and are generally at the registered office of the Company. The meeting dates are decided well in advance and the agenda and notes on agenda are circulated in advance to the directors. All material information is incorporated in the notes on agenda for facilitating meaningful and focused discussion at the meeting. Where it is not perusable to attach supporting or relevant documents to the agendas, the same is tabled before the meeting. In case of business exigencies or urgency of matters, resolutions are passed by circulation. Senior Management persons are often invited to attend the Board Meetings and provide clarifications as and when required.

During the year under review, the Board met 11 times on the following dates:

25/05/2013, 30/05/2013, 20/07/2013, 12/08/2013, 14/08/2013, 20/09/2013, 31/10/2013, 19/12/2013, 30/01/2014, 15/02/2014, 13/03/2014.

c. Attendance of Directors at Meetings of Board of Directors and last AGM:

Name of Director	Category of Directorship	No. of Meetings Attended	Attendance at the last AGM
Mr. Manish Jaysukhlal Janani	Managing Director	10	NO
Mr. Dipankumar Babulal Patwa	Chairman & Jt. Managing Director	11	YES
Mr. Jeeyan Dipankumar Patwa	Executive director	10	NO
Mr. Ravindra Chandulal Sanghavi	Independent and Non Executive Director	11	YES
Mr. Ajit Mangaldas Shah	Independent and Non Executive Director	11	YES
Mr. Bhavesh Shashikant Sheth	Independent and Non-Executive Director	11	YES
Mr. Pankajkumar Vrajlal Shah	Independent and Non-Executive Director	11	YES

2.4 Details of Directors seeking re-appointment at the ensuing Annual General Meeting

As per the provisions of the Companies Act, 2013, two third of the directors of a company should be retiring directors, of which one third of such directors are required to retire every year and if eligible, they qualify for re-appointment.

Mr. Dipankumar Babulal Patwa and Mr. Jeeyan Dipankumar Patwa, Directors of the Company who retire by rotation at the ensuing Annual General Meeting and offer themselves for re-appointment.

Profile of Mr. Dipankumar Babulal Patwa, Director being appointed u/s 152(6) of the Companies Act, 2013

Name	Mr. Dipankumar Babulal Patwa
Date of Birth	24/12/1963
Date of Appointment	20/03/2009
No. of shares held in the company	2517500
No. of warrants held in the company	Nil
Directorship in other company	Nil

Profile of Mr. Jeeyan Dipankumar Patwa, Director being appointed u/s 152(6) of the Companies Act, 2013

Name	Mr. Jeeyan Dipankumar Patwa
Date of Birth	14/08/1989
Date of Appointment	23/06/2009
No. of shares held in the company	Nil
No. of warrants held in the company	Nil
Directorship in other company	Nil

2.5 Details of Directors who are as Chairman and Directors in other Public Companies

None of the Directors on the Board is a member of more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49 (C) (ii) across all the Companies in which he is a director. The necessary disclosures regarding Directorship and Committee position have been made by the Company.

Directors who are on the Board of the Company as on 31st March, 2014 and the same is reproduced herein below:

Sr. No.	Name of Director	No of Directorship in other Public Companies	No. of Committees positions held as Chairman on other public Companies	No. of Committees positions held as member in other public Company
1.	Mr. Manish Jaysukhlal Janani	--	--	--
2.	Mr. Dipankumar Babulal Patwa	--	--	--
3.	Mr. Jeeyan Dipankumar Patwa	--	--	--
4.	Mr. Ravindra Chandulal Sanghavi	--	--	--
5.	Mr. Ajit Mangaldas Shah	--	--	--
6.	Mr. Bhavesh Shashikant Sheth	--	--	--
7.	Mr. Pankajkumar Vrajlal Shah	--	--	--

3. COMMITTEE OF BOARD:

The Company had Three Board Committees. These are

1. Audit Committee
2. Remuneration Committee
3. Share Transfer & Shareholders/Investor Grievance Committee

Moving with various committees formed and reported in the previous Annual Report and in line with the requirements of SEBI and Stock Exchanges, the Board has formally constituted the following committees of Directors.

3.1 Audit Committee:

The Audit committee constituted by the Board of directors as per the provisions of Clause 49 of the listing Agreements as well as in Section 177 of the Companies Act, 2013, comprises of Three members viz. Non Executive and Independent Director Mr. Ajit Mangaldas Shah, Mr. Ravindra Sanghavi and Mr. Bhavesh Shashikant Sheth who are well versed with finance, accounts, management and corporate affairs. Two members constitute the quorum of the said Audit Committee Meeting. Mr. Ajit Mangaldas Shah is the Chairman of the committee.

The Audit Committee of the Board of Directors of the Company, Inter-alias, provides assurance to the Board on the adequacy of the internal control systems and financial disclosures.

The audit committee while reviewing the Annual Financial Accounts ensures compliance of the Accounting Standard (AS) issued by the Institute of Chartered Accountants of India.

TERMS OF REFERENCE:

The scope of activities of the Audit Committees includes the following:

- A. Overseeing the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- B. Recommending the appointment and removal of external auditor, fixation of audit fees and also approval for payment of any other Consultancy services provided by the statutory auditor.
- C. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on:
 - Any changes in accounting policies and practices.
 - Major accounting entries abased on exercise of judgment by management.
 - Qualifications in draft audit report.
 - Significant adjustments arising out of audit.
 - The going concern assumption
 - Compliance with accounting standards
 - Compliance with stock exchange and legal requirements concerning financial statements

- Any related party transactions i.e transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interest of company at large.
- D. Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- E. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department. Reporting structure, coverage and frequency of internal audit.
- F. Discussion with internal auditors any significant findings and follow up there on.
- G. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control system of a material nature and reporting the matter to the board.
- H. Discussions with external auditors before the audit commences, the nature and scope of audit, as well as conduct post audit discussions to ascertain any area of concern.
- I. Reviewing the company's financial and risk management policies.
- J. To look into the reasons for substantial defaults in the payment to the depositors, shareholders (in case of nonpayment of declared dividend) and creditors.

Executive summary of the Audit Committee Meetings are placed before the immediate next Board Meetings held after the Audit Committee for deliberations and the full minutes of the same are placed before the following Board Meeting for recode. The Board of Directors, regularly appraised on the recommendations for the Audit Committee, further, at the beginning of the financial year, the Committee discuss the plan for the internal audit and statutory audit.

Dates of the Audit Committee Meetings are fixed in advance and agenda is circulated to the Directors at least seven days before the meeting.

As required under Clause 49(III)(E) of the Listing Agreement, the Audit Committee had reviewed the following information:

- Management Discussion and analysis of financial condition and results of operations.
- Statement of significant related party transactions submitted by management
- Management letters/letters of internal controls, weaknesses issued by the Statutory Auditors.
- Internal Auditors Reports relating to internal control weaknesses.
- Appointment, removal and terms of remuneration of the internal auditors.

During the year under review, the 4 Audit Committee was held during Financial Year 2013-14. The dates on which the said meetings were held as follows:

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30/05/2013	12/08/2013	31/10/2013	30/01/2014
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The necessary quorum was present at the meetings.

3.2 Remuneration Committee

The remuneration committee of the Company comprises of Non Executive and Independent Director Mr. Bhavesh Shashikant Sheth, Mr. Pankajkumar Vrajlal Shah, Mr. Ravindra Sanghavi and Mr. Ajit Mangaldas Shah.

Mr. Manish Janani was resigned from membership of remuneration Committee and in place of him Mr. Bhavesh Shashikant Sheth was appointed and Mr. Pankajkumar Vrajlal Shah was also appointed as member of the remuneration committee.

The Remuneration Committee reviewing the overall compensation policy, service agreements and other employments and other employment conditions of Managing / Whole time Directors and Managing Director etc.

There are four meetings of Remuneration Committee held during the Financial Year 2013-14.

25/05/2013	20/07/2013	14/08/2013	15/02/2014
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Details of Remuneration of Executive / Non-Executive Directors for the financial year ended 31st March, 2014

(In Lakhs)

Name	Executive / Non-Executive	Salary	Bon us	Contribution to PF	Perq uisite s	Total
Manish Jaysukhlal Janani	Executive	2400000	0.00	0.00	0.00	2400000.00
Dipankumar Babulal Patwa	Executive	2400000	0.00	0.00	0.00	2400000.00
Jeeyan Dipan Patwa	Executive	600000	0.00	0.00	0.00	600000.00
Ravindra Chandulal Sanghavi	Non-Executive	0.00	0.00	0.00	0.00	0.00
Ajit Mangaldas Shah	Non-Executive	0.00	0.00	0.00	0.00	0.00
Bhavesh Shashikant Sheth	Non-Executive	0.00	0.00	0.00	0.00	0.00
Pankajkumar Vrajlal Shah	Non-Executive	0.00	0.00	0.00	0.00	0.00

3.3 Share Transfer & Shareholders'/Investor Grievance Committee:

The Share Transfer & Shareholders'/Investor Grievance committee comprises as under:

Sr. No.	Name	Status	Position
1	Mr. Ravindra Sanghavi	Independent and Non- Executive	Chairman
2	Mr. Manish J. Janani	Managing Director	Member
3	Mr. Ajit Shah	Independent and Non- Executive	Member

The committee is responsible for approving and monitoring transfers, transmission, splitting and consolidation of shares issued by the Company. In addition to that, the committee also monitors redressal of complaints from shareholders relating to transfer of shares, non-receipt of balance sheet etc., No sitting fees is paid to the committee members.

The status of shareholders' complaints received so far/number not solved to the satisfaction of shareholders/number of pending share transfer transactions (as on 31st March, 2014 is given below):

Complaints Status: 01.04.2013 to 31.03.2014

- Number of complaints received so far : NIL
- Number of complaints solved : NIL
- Number of pending complaints : NIL

Compliance Officer:

Mrs. Neelam Maheshwari is Compliance Officer for the purpose of complying with various provisions of Securities and Exchange Board of India (SEBI), Listing Agreement with Stock Exchanges, Registrar of Companies and for monitoring the share transfer process etc.

4. GENERAL BODY MEETINGS:

(a) The location and time, where last three years Annual General Meetings are as follows :

Year	Venue	Date	Time
2010-11	306, Mahavir Chambers, Taratia Hanuman Gally, Mahidhar Pura, Surat Gujrat-395 003	30/09/2011	11:30 A.M.
2011-12	306, Mahavir Chambers, Taratia Hanuman Gally, Mahidhar Pura, Surat Gujrat-395 003	29/09/2012	11:30 A.M.
2012-13	2nd Floor, Diamond Park Building, Opp. Ambika Nagar Society, Dargah Road, Navsari – 396445	27/09/2013	11:30 A.M.

(b) All the resolutions including special resolutions set out in the respective notices were passed by the shareholders. The following special resolutions were passed in previous three Annual General Meeting for the following three consecutive financial years:

2013

Not any Special Resolutions had been passed in the Annual General Meeting

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2012

Following Special Resolutions had been passed in the Annual General Meeting:

- (1) Shifting of Registered office of the Company 306, Mahavir Chambers, Taratia Hanuman Galli, Mahidharpura, Surat To 2nd Floor, Diamond Park Building, Opp. Ambika Nagar Society, Dargah Road, Navsari – 396445
- (2) Approval of Managerial Remuneration Given To Mr. Jeeyan Patwa, Director of the Company.
- (3) Approval for increase in NRI holding ceiling limit from 5% to 24% of the paid up capital.

2011

Following Special Resolutions had been passed in the Annual General Meeting:

- (1) Increase borrowed capital Limit up to ` 10,00,00,00,000 as per Section 293(1)(d) of the Companies Act, 1956.
- (2) Issue Bonus shares by capitalization of ` 7,02,00,000/- out of Share Premium Account to the equity shareholders in the proportion of 1 (One) equity share for every 1 (One) equity shares held by them.
- (3) Change in terms of Appointment of Mr. Manish Janani as Managing Director of the Company.
- (4) Change in terms of Appointment of Mr. Dipankumar Patwa as Jt. Managing Director of the Company.
- (5) Appointment of Mr. Bhavesh Shashikant Sheth as Director of the Company under Section 260 of the Companies Act, 1956.
- (6) Appointment of Mr. Pankajkumar Vrajlal Shah as Director of the Company under Section 260 of the Companies Act, 1956.

EXTRA ORDINARY GENERAL MEETING DURING THE YEAR 2013-2014

No Extra Ordinary General Meeting held during the financial year under review.

POSTAL BALLOT RESOLUTION PASSED DURING THE YEAR 2013-14

No Postal Ballot Resolution passed during the Year.

5. DISCLOSURES:

There were no significant or material related party transactions that have taken place during the year which have any potential conflict with the interest of the company at large. The detailed related party information and transactions have been provided in Schedule 25 Note 8 of Notes to Accounts.

CEO/CFO CERTIFICATION:

(Under Clause 49(V) of Listing Agreement)

We Certify that --

a. We have reviewed the financial statements and the cash flow statement for the year 2013-14 and that to the best of our knowledge and belief:

- These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- These statements together present true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations;

b. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year 2013-14 which are fraudulent, illegal or violative of the Company's code of conduct;

c. We accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of the internal control, if any, of which we are aware of and the steps we have taken or propose to take to rectify these deficiencies.

d. We have indicated to the Auditors and the Audit Committee -

- Significant changes in internal control over the financial reporting during the year 2013-14;
- Significant changes in accounting policies during the year 2013-14 and that the same have been disclosed in the notes to the financial statements; and
- Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over the financial reporting.

6. MEANS OF COMMUNICATION:

The presentation as to the Company's performance etc., are made to the Institutional Investors/Financial Analysts as and when felt expedient.

The Company's financial results and official news releases are displayed on the Company's website i.e www.lypsa.in

The Management Discussions and Analysis Report forms part of the Directors Report and is given separately.

7. GENERAL SHAREHOLDERS' INFORMATION:

a. Annual General Meeting: Date, Time and venue: 04TH September, 2014 at 11.30A.M. at the Registered Office of the Company.

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- b. Financial Year: 1st April 2013 to 31st March 2014.
- c. Financial Calendar:
- i. 1st quarterly results – Second week of August, 2013.
 - ii. 2nd quarter results – Fourth week of November, 2013.
 - iii. 3rd quarter results – Fourth week of February, 2014.
 - iv. 4th quarter results – Fourth week of May, 2014.
- d. Date of Book Closure: 13th August, 2014 to 14th August, 2014.
- e. (i) Dividend Payment Date: 04th September, 2014
(ii) Due date for Transfer of Unclaimed Dividend to IEPF:

Sr. No	Financial Year	Date of Declaration	Dividend Declare	Dividend Paid	Unclaimed Dividend	Due date for Transfer to IEPF
1	2009-10	30/09/2010	7020000.00	6270100.00	749900.00	30/09/2017
2	2010-11	30/09/2011	7020000.00	6193000.00	827000.00	30/09/2018
3	2011-12	29/09/2012	7020000.00	6458145.00	561855.00	29/09/2019
4	2013-14	27/09/2013	7020000.00	6436863.00	583137.00	27/09/2020

- f. Listing of Equity Shares on Stock Exchanges: The Company applied for voluntary delisting from Ahmedabad Stock Exchange Limited and gets delisted from the same on 31st March, 2014.

The Company is listed on Bombay Stock Exchange limited Annual listing fees for the financial Year up to 2014-15 has been paid. The Company is also listed on National Stock Exchange Limited w.e.f. 5th November, 2013.

- g. Stock Code: BSE - 534532
NSE - LYPSAGEMS
- h. Demat ISIN number: INE142K01011
- i. High / Low of Monthly Market Price of the Companies Equity Shares traded on Bombay Stock Exchange during the financial year 2013-14 are furnished below:

Month	High Price (Rs.)	Low Price (Rs.)
April 2013	137	130.35
May 2013	137	128
June 2013	150	133.90
July 2013	143	131
August 2013	140.75	133.05
September 2013	143	135
October 2013	149.80	137

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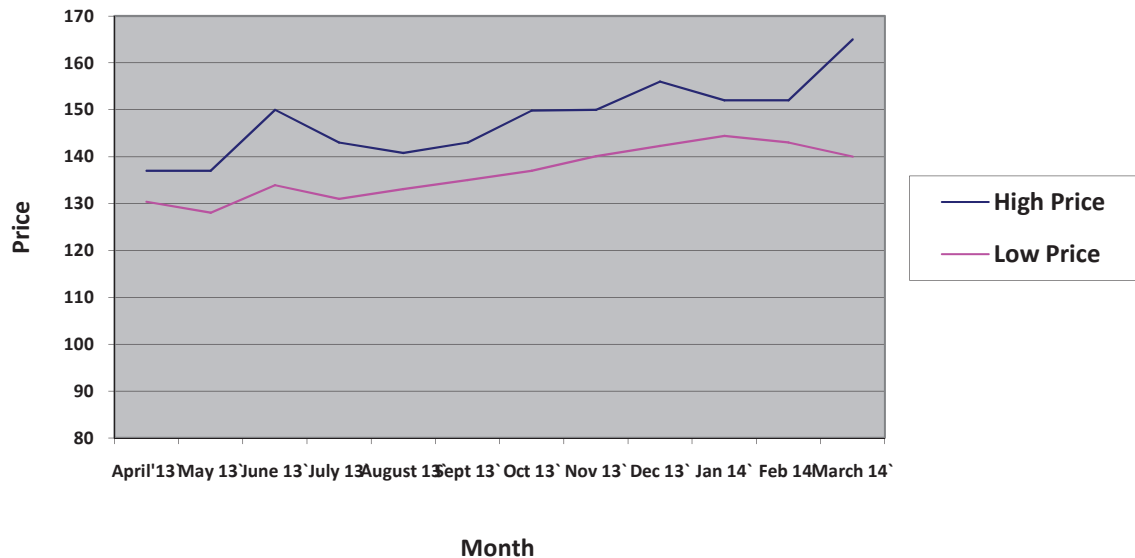


November 2013	150	140.10
December 2013	156	142.30
January 2014	152	144.40
February 2014	152	143
March 2014	165	140

j. High / Low of Monthly Market Price of the Companies Equity Shares traded on National Stock Exchange of India Limited during the financial year 2013-14 are furnished below:

Month	High Price (Rs.)	Low Price (Rs.)
November 2013	156	146
December 2013	163	130
January 2014	154	143
February 2014	156	143
March 2014	184.40	140

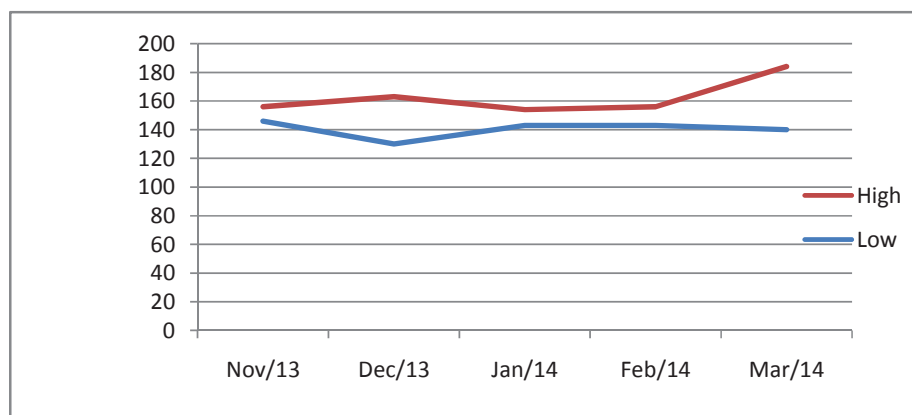
k. (i) Performance of the Company's shares in comparison with broad-based indices as BSE's Sensex:



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(ii) Performance of the Company's shares in comparison with broad-based indices as NSE's Sensex:



- l. Registered and Transfer Agent: The Company has appointed M/s. Purva Sharegistry (India) Pvt. Ltd. No-9, Shiv Shakti Industrial Estate, Ground Floor, J. R. Boricha Marg, Opp. Kasturba Hospital, Lower Parel, Mumbai - 400 011.
- m. Share Transfer System: All work related to transfer in physical form and Demat complete in all respects were approved and registered within the stipulated period by R & T of the Company.
- n. Distribution of Shareholding as on 31.03.2014

Share Holding of Nominal Value		Share Holders		Share Amount	
Rs.	Rs.	No.	% to total	In Rs.	% to total
upto	5000	1,932	87.58	7551060	5.38
5,001	10,000	77	3.49	680250	0.48
10,001	20,000	39	1.77	757000	0.54
20,001	30,000	4	0.18	101000	0.07
30,001	40,000	2	0.09	80000	0.06
40,001	50,000	8	0.36	376000	0.27
50,001	1,00,000	22	1.00	1909990	1.36
1,00,001	and above	122	5.53	128944700	91.84
Total		2206	100.00	140400000	100.00

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o. Shareholding pattern as on 31.03.2014

a. Promoters and persons who may be deemed to be acting in concert including promoter /directors group		
Companies	5040000	35.90
b. Foreign Institutional Investors	40000	0.28
c. Other bodies corporate	3868583	27.55
d. Indian public	4432548	31.57
e. HUF	511751	3.64
f. NRI	147118	1.05
TOTAL	14040000	100.00

p. Top 10 Shareholders as on 31st March, 2014 (Other than Promoters)

Sr. No	Name of Shareholders	Shareholding	%
1	Amritlal Haridas Shah	146618	1.04
2	Jignesh Ramniklal Sheth	100200	0.72
3	Harsha Manoj Shah	100200	0.72
4	Pooja Ashok Manek	100200	0.72
5	Manoj Jamnadas Shah	100000	0.71
6	Poonam Jayant Parekh	100000	0.71
7	Jayantilal Rughnath Janani	100000	0.71
8	Ajay Himatlal Shrimankar	100000	0.71
9	Parbat Raja Patel	99800	0.71
10	Pratik Manoj Shah	99800	0.71
	Total	1046818	7.46

Dematerialization of shares: As on 31-03-2014 Demated shares accounted for 72.39% (1,01,63,698 Equity Shares) of total equity.

Outstanding GDR / ADR / Warrants: Not Applicable

Address for communication:

1. M/s. Purva Sharegistry (India) Pvt. Ltd.

No-9, Shiv Shakti Industrial Estate,
Ground Floor, J. R. Boricha Marg,
Opp. Kasturba Hospital, Lower Parel,
Mumbai - 400 011

Tele No. : 022-2301 6761 / 2301 8261 Fax No. : 022-2301 2517

E-mail :busicomp@vsnl.com

2. Lypsa Gems & Jewellery Ltd

2nd Floor, Diamond Park Building,
Opp. Ambika Nagar Society,
Dargah Road, Navsari - 396445

Email Id: info@lypsa.in

Website: www.lypsa.in

Declaration of compliance with the code of conduct

In accordance with clause 49 of the Listing Agreement with the Stock Exchanges, Mr. Manish Janani, Managing Director of the Company, hereby declare that the Board Members and senior Management Personnel have affirmed compliance with the said Code of Conduct, as mentioned in this report, for the year ended 2014.

Date: 30/05/2014

Place: Navsari

S/d
(Manish Janani)
Managing Director
(DIN: 02579381)

For Lypsa Gems & Jewellery Ltd

S/d
(Dipan Patwa)
Chairman
(DIN: 2579405)

S/d
(Jeeyan Patwa)
Director
(DIN: 02579469)

MANAGEMENT DISCUSSION AND ANALYSIS

ANNEXURE “A” TO DIRECTORS’ REPORT

Overview:

The purpose of this discussion is to provide an understanding of LYPSA GEMS & JEWELLERY LTD’s financial results and business performance by focusing on changes in certain key measures from year to year. This Report includes discussion on the following matters within the limits set by the Company’s competitive position:

Diamonds, which for centuries have symbolized love and eternity, are found in some of the world’s oldest pieces of jewelry. De Beers drew on that ancient symbolic legacy to make diamond engagement rings a token of romance and lifelong commitment—captured in the memorable catchphrase “a diamond is forever”—and in the process created the modern diamond industry.

Indian Overview:

<http://www.ibef.org/industry/gems-jewellery-india.aspx>

Driven by an array of cultural, social and demographic aspects, the jewellery industry is one of the fastest growing industries in India. It propels India’s foreign exchange earnings forming about 14% of total exports. The gems and jewellery industry contribution to India’s foreign exchange treasury stands at USD 2,132.82 million in 2012-13, a growth of 154% over the last financial year (Source: Gems and Jewellery Export Promotion Council). The industry provides employment to around 3.40 million workers. The market size is estimated to grow at a CAGR of 12-15% to reach Rs 3,000 billion by 2013-14.

Escalating inflation, Reserve Bank of India’s (RBI) stern outlook on interest rates and high fiscal deficit played spoilsport. Government has taken several reforms to tackle the deteriorating scenario. Such initiatives include Foreign Direct Investment (FDI) in retail sector, sugar decontrol, petrol and diesel price hikes and others. RBI has also changed its policy with repo rate being reduced thrice and cash reserve ratio once till June, 2013. These measures are likely to revive the economy from the dark shadows of economic slowdown.

Industrial Structure and Development:

The consumption of gold and jewellery products grew 10-15% per annum over the years; the Indian market is estimated at US\$ 30 billion. India boasts of a very competitive gems and jewellery market because of its low production cost, skilled artisans, government incentives and establishment of special economic zones (SEZs). India and China are expected to account for 30% of the global diamond market by 2015. India’s gems and jewellery sector is expected to grow at a CAGR of around 16.26 % between 2011- 12 and 2016-17 on account of increasing government efforts and incentives coupled with private sector initiatives (Source: Ministry of Commerce & Industry). The shipment of gems and jewellery makes up about 14% of India’s total exports, and the sector employs about 3.4 million workers, with the Middle East taking most of the market (Source: Indian Brand Equity Foundation-IBEF). The overall demand of gold in the country was 986.3 tones in 2011, which dipped by 12% in 2012 to 864.2 tones mainly on account of higher import duties, jeweller’s strike over proposed measures to curb imports and a sharp

rise in the domestic prices (Source: The Economic Times) . Imports declined by 21.125% in 2012. Imports in India touched 800 tones compared to 969 tones a year earlier.

The Global Economy and the Diamond Industry

The financial year 2013-14 saw various challenges emanating from the Eurozone crisis, the US fiscal cliff and slowdown in the emerging economies. The economic activities remained subdued with diverging growth trajectories across different economies. However, there have been signs of revival with the economic indicators gaining traction in the US and improving customer sentiments in Euro zone. Emerging economies are also showing resilience. Amid adversities, China witnessed GDP growth of around 7.50% for two consecutive quarters of 2013. With the commitment of the governments of various countries to long-term growth, things are likely to improve going ahead.

The global economy has not had a bumper year. The extent to which growth in emerging markets can compensate for weaknesses in mature ones has diminished with each crisis. The Euro-zone catastrophe has spread across European borders, along with resulting concerns about its global impact. Similarly, trends in the U.S. have done little to spur confidence. U.S. is teetering on another recession as job growth fails to materialize; government spending remains high and the last round of quantitative easing did little to stimulate growth. Output in the Euro zone continues to slump as the debt crisis just won't go away.

These results have impacted growth projections in important emerging economies such as China. The World Bank revised its forecast for the Chinese economy predicting growth of 9.3 percent in 2011 and 8.7 percent in 2012. Growth is still strong in developing East Asia, but continues to moderate mainly due to weakening external demand. Increasingly, China is expected to strengthen its own domestic consumption to compensate for a slowdown in exports to the U.S. and Europe.

More relevant now is the impact that a global economic slowdown may have on the diamond industry. By most measures, growth in the trade outpaced that of other sectors and the general economy in 2011, driven by the strong trading in the first half of the year and despite weak consumer confidence. The diamond industry is enjoying a period of rising customers due to the increasing emergence of markets in India and China.

However, in the current economic environment, the fact is that in the diamond market a lower volume of goods is being traded for higher values. For example, while Hong Kong's polished diamond imports by value rose 33 percent year on year to \$13.32 billion in the first nine months of 2011, by volume they fell 2 percent to 20.962 million carats. The average price of these goods was up 36 percent from a year earlier.

If global economic growth is set to slow in 2012, it will impact demand, prices and, most importantly, sentiment in the diamond industry throughout the year, as it did in the latter half of 2011. The new economic environment makes for stressful, but interesting, times indeed. A correction in diamond prices might strengthen to consumer demand.

Outlook

The global economic environment in 2012 remained uncertain with an average growth of between 2% to 3%. There are signs of improving consumer confidence and of major policy changes in some of the

developed markets which may provide the required momentum to spurt global growth and kick start the path of recovery. However, the situation in the emerging markets is more upbeat with strong consumer spending and investment sentiment driving economy between 5% to 8% in the current year. The US economy is definitely showing signs of steady recovery followed by Japan which is embarking on an ambitious policy of reflecting its long moribund economy.

Company's Goal

Lypsa intends to become a fully integrated and profitable diamond company in the next few years. We intend to go down the value chain and become closer to the customer through retail diamond and jewelry sales and thereby increase profit margins. We intend to build a well-managed corporate organization with standard processes and controls, competent management and reduced dependency on the promoters to generate revenue – features that are quite unique to Indian diamond companies.

Business Model

Lypsa is in the process of increasing production capacity at its new factory in Navsari, Gujarat. The company has acquired a Factory Building and Machineries at Chhapi, Gujarat to expand its manufacturing activities to produce small sized diamonds at affordable cost. This year will see substantial revenue from manufacturing activities. This is in line with our aim of generating maximum revenue from the manufacturing activities that allows higher value-addition than the trading activities.

In house manufacturing reduces the variance in cutting standards and allows the steady production of a high quality standard product, which is valued higher by traders, jewelers and consumers. It also safeguards against the possibility of theft and malpractice, which are a common occurrence in outsourced diamond production.

Lypsa's position in the Diamond Value Chain

The core activity of Lypsa is cutting and polishing of rough diamonds to convert them into finished stones that can be sold to traders and jewelers. Apart from this, Lypsa also sells rough diamonds in the open market that it procures from its sources if it feels that the profit on rough diamond sale is going to be larger than when post-processing. Thus, Lypsa is present in the stages from Rough Diamond Sales to Polished Diamond Sales. As stated above, these activities enjoy relatively lower profit margins than retailing and production. Acknowledging this, Lypsa has decided to expand into the retail segment through a foray into jewellery which will allow high profit margins.

SWOT ANALYSIS

Strengths

- Promoters enjoy more than 20 years of experience in the industry.
- Low cost of manufacturing owing to a frugal approach towards infrastructure building.
- Possibility to scale production without large Capex.
- Good combination of technical as well as advisory personnel in the management.
- Good network at the grassroots level as well as with top companies.

- Increasing diversity in consumer base.

Weaknesses

- Organizational development processes at relatively initial phase.
- Relatively large reliance on promoters for overall management.
- Lack of first hand supply of rough diamonds from the producers.

Opportunities

- Further strengthen manufacturing base with latest manufacturing and product development technologies.
- Entry into higher value-add jewellery industry.
- Increasing product portfolio to include bigger stones and fancy cuts.
- Develop patented cuts of diamonds through R&D and market the unique product to allow greater margins.

Threats

- Volatility of rough diamond prices.
- Volatility in gold prices impacting jewellery demand and hence diamond demand.
- Advent of man-made diamonds in the market.

Risk and Concerns

Lypsa Gems & Jewellery Limited is exposed to various risks that are particular to its businesses and environment within which it operates including loss of key managerial personnel, increase in input costs, political instability, changes in economies or government policies, geographic concentration risk, raw material risk, seasonality risk and government regulations. The completion factor also affects the performance of the Company. The Company's current and fixed assets as well as products are adequately insured against various risks. The Company's risk management and control procedures involve prioritization and continuing assessment of these risks and devise appropriate controls, evaluating and reviewing the control mechanism. Through this approach, the Company strives to identify opportunities that enhance organizational values while managing or mitigating risks that can impact its future performance.

Internal Control System and their Adequacy

Your Company has in place adequate systems and processes to safeguard and protect its data and knowledge resources. The systems are updated and monitored on a continuous basis so as to ensure complete alignment with evolving technological requirements. The Company has a well-documented data security policy with pre-defined levels of access authorizations. To ensure safety and security of its strategic locations, the Company employs a comprehensive system of electronic surveillance and physical controls. The products manufactured and dealt in by the Company, as well as major production inputs are high value in nature. To ensure physical security of such products, the Company has multi-tier security and tracking mechanisms. Regular internal audit is conducted to ensure that all systems and procedures are in place and are followed regularly. Your Company maintains adequate insurance against unforeseeable risks, given the nature of its products.

Material Developments in Human Resources/Industrial Relations front including number of people employed

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Human Resources are most valuable assets of the Company. The Company's Human Resource Policy primarily aims at talent management and leadership development, safety and health of its employees. The Company has well-experienced, creative, talented and motivated staff to cater to the business demands in terms of better designs, quality and precision in manufacture with minimum possible loss and consistency to meet international standards. The Company provides an environment, which encourages initiatives, innovative thinking and reward performance. The Company also focuses on development of employees at all levels and supports them with safe, pollution free and favorable working conditions. As a result, the employees of the Company have played a crucial role in contributing to the growth of the Company.

Cautionary Statement

Statements in Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable securities laws and regulations. Actual Results could differ materially from those expressed or implied due to variations in prices of raw materials, seasonal demand and pricing in the Company's principle markets, changes in Government regulations, tax regimes, economic developments and other incidental factors.

Future Plans

Research has been commissioned to plan the entry of Lypsa in the jewellery space. The growing demand of branded jewellery, higher profit margins than loose diamonds and the broad customer base make the jewellery industry a very attractive forward integration option. At the end of the year, we expect the launch of the jewelry venture.

Increasing production capacity has been proposed through expansion of the current facility and setting up of a new factory in Gujarat. A program has been initiated to cut down manufacturing costs without compromising on quality.

Setting up of an R&D unit is also on the cards to develop unique diamond cuts. These cuts will be proprietary to Lypsa and will be marketed to retailers.

For Lypsa Gems & Jewellery Ltd

Date: 30/05/2014

Place: Navsari

S/d
(Manish Janani)
Managing Director
(DIN: 02579381)

S/d
(Dipan Patwa)
Chairman
(DIN: 2579405)

S/d
(Jeeyan Patwa)
Director
(DIN: 02579469)

Doshi Maru & Associates

Chartered Accountants

**9, Shreepal Building,
S N Road, Tambe Nagar,
Mulund – (West),
Mumbai – 400 080.
Tel: (O)23472578
(R) 25654859**

AUDITORS' REPORT ON CORPORATE GOVERNANCE

To,
The Members,
LYPSA GEMS & JEWELLERY LIMITED
2nd Floor, Diamond Park Building,
Opp. Ambika Nagar Society,
Dargah Road,
Navsari, Gujrat- 396 445

We have examined the compliance of Corporate Governance by Lypsa Gems & Jewellery Limited for the year ended on 31st March, 2014, as stipulated in clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate Governance. It is neither an audit nor an expression of to opinion on the financial statement of the Company.

In our opinion and to the best of our information and according to the explanations given to us we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance(s) is/ are pending for a period exceeding for one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

**Date: 30TH May 2014
Place: Mumbai**

**For M/s. Doshi Maru & Associates
Chartered Accountants
FRN. No. 112187W**

**Sd/-
Atul B. Doshi
(Partner)
M. No. 102585**