

Report on Corporate Governance

(Pursuant to Clause 49 of the Listing Agreement)

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 Direct

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 a Executive Director.

Name of Director	Category of Director
Mr. Dipankumar Babulal Patwa	Chairman
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 19 times on the following dates:

05/04/2011, 15/04/2011, 17/05/2011, 15/07/2011, 08/08/2011, 10/08/2011, 28/09/2011, 10/10/2011, 15/10/2011, 31/10/2011, 07/11/2011, 09/11/2011, 12/11/2011, 20/12/2011, 30/12/2011, 20/01/2012, 01/03/2012, 06/03/2012, 15/03/2012.

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. Dipankumar Babulal Patwa	Chairman	19	YES
Mr. Manish Jaysukhlal Janani	Managing Director	19	YES
Mr. Jeeyan Dipankumar Patwa	Executive director	19	YES
Mr. Ravindra Chandulal Sanghavi	Independent and Non Executive Director	19	YES
Mr. Ajit Mangaldas Shah	Independent and Non Executive Director	19	YES
Mr. Bhavesh Shashikant Sheth	Independent and Non-Executive Director	19	YES
Mr. Pankajkumar Vrajlal Shah	Independent and Non-Executive Director	19	YES

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

As per the provisions of the Companies Act, 1956, 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. Jeeyan Patwa and Mr. Ravindra Sanghavi, Directors of the Company who retire by rotation at the ensuing Annual General Meeting and offer themselves for re-appointment.

Profile of Mr. Jeeyan Patwa, Director being appointed u/s 255 and 256 of the Companies Act, 1956

Name	Mr. Jeeyan 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

Profile of Mr. Ravindra Sanghavi, Director being appointed u/s 255 and 256 of the Companies Act, 1956

Name	Mr. Ravindra Sanghavi
Date of Birth	03/07/1960
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, 2012 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 292A of the Companies Act, 1956, comprises of Two members viz. 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-alia, 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 non payment 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 apprised 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 were held during Financial Year 2011-12. The dates on which the said meetings were held as follows:

15/04/2011	15/07/2011	15/10/2011	20/01/2012
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The necessary quorum was present at the meetings.

3.2 Remuneration Committee

The remuneration committee of the Company comprises of Mr. Manish Janani, Mr. Ravindra Sanghavi and Mr. Ajit Mangaldas Shah.

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 2011-12

17/05/2011, 24/08/2011, 19/10/2011, 11/01/2012

3.3 Share Transfer & Shareholders'/Investor Grievance Committee:

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

Sr. No.	Name	Position
1	Mr. Ravindra Sanghavi	Chairman
2	Mr. Manish J. Janani	Member
3	Mr. Ajit Shah	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, 2012 is given below):

Complaints Status: 01.04.2011 to 31.03.2012

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

Compliance Officer:

Mr. Manish Janani 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
2008-09	B 1 Harikrupa Aprt, Nr. Naranpura Railway Cross, Exchange C G Road, Naranpura, Gujarat India - 380013	30/09/2009	12:30 P.M.
2009-10	306, Mahavir Chambers, Taratia Hanuman Gally, Mahidhar Pura, Surat Gujrat-395 003	30/09/2010	11:30 A.M.
2010-11	306, Mahavir Chambers, Taratia Hanuman Gally, Mahidhar Pura, Surat Gujrat-395 003	30/09/2011	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:

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.

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- (4) Change in terms of Appointment of Mr. Dipankumar Patwa as 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.

2010

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

- (1) Change in terms of Appointment of Mr. Manish Janani as Managing Director of the Company
- (2) Appointment of Mr. Dipankumar Babulal Patwa as Managing Director of the Company
- (3) Issue of equity shares on preferential basis

2009

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

- (1) Shifting of Registered Office from B 1, Harikrupa Apt., Nr. Naranpura Railway Cross Exchange, C G Road, Navrangpura- 380013, Gujarat to 306, Mahavir Chambers, Taratia Hanuman Gally, Mahidhar Pura, Surat 395 003 with effect from 30/09/2009
- (2) Appointment of Mr. Manish Janani as Managing Director of the Company.

EXTRA ORDINARY GENERAL MEETING DURING THE YEAR 2011-2012

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

POSTAL BALLOT RESOLUTION PASSED DURING THE YEAR 2011-12

Resolution for Change of Name From "Maloo Gems & Jewellery Limited to "Lypsa Gems & Jewellery Limited" passed through postal ballot and its results are declared at Board Meeting held on 12th November, 2011.

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 Note 1(xi) of Schedule P 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 2011-12 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 2011-12 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 2011-12;
 - Significant changes in accounting policies during the year 2011-12 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.

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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: 29th September, 2012 at 11.30 a.m. at the Registered Office of the Company.
- b. Financial Year: 1st April 2011 to 31st March 2012.
- c. Financial Calendar:
 - i. 1st quarterly results – last week of June, 2011.
 - ii. 2nd quarter results – last week of September, 2011.
 - iii. 3rd quarter results – last week of December, 2011.
 - iv. 4th quarter results – last week of March, 2012.
- d. Date of Book Closure: 19th September, 2012 to 28th September, 2012.
- e. Dividend Payment Date: 29th September, 2012
- f. Listing of Equity Shares on Stock Exchanges: The Ahmedabad Stock Exchange Limited and Bombay Stock Exchange limited Annual listing fees for the financial Year upto 31-03-2012 has been paid.
- g. Stock Code: ASE 34628
BSE 534532
- 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 2011-12 are furnished below:

The Company has received trading permission Bombay Stock Exchange Limited w.e.f 2nd July, 2012.
- j. Performance of the Company's shares in comparison with broad-based indices as BSE's Sensex:

The Company has received trading permission Bombay Stock Exchange Limited w.e.f 2nd July, 2012. Thus, the Company has nothing to report on this matter for the year 2011-12.

- k. 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
- l. 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.
- m. Distribution of Shareholding as on 31.03.2012

Share Holding of Nominal Value		Share Holders		Share Amount	
Rs.	Rs.	No.	% to total	In Rs.	% to total
upto	5000	1,877	87.87	7508000	5.35
5,001	10,000	72	3.37	634000	0.45
10,001	20,000	35	1.64	700000	0.50
20,001	30,000	2	0.09	56000	0.04
30,001	40,000	2	0.09	80000	0.06
50,001	1,00,000	19	0.89	1698000	1.21
1,00,001	and above	129	6.04	129724000	92.40
Total		2136	100.00	140400000	100.00

- n. Shareholding pattern as on 31.03.2012

Category	No of Shares held	% of Shareholding
a. Promoters and persons who may be deemed to be acting in concert including promoter/directors group Companies	5040000	35.90
b. Other bodies corporate	3550200	25.29
c. Indian public	4999800	35.61
d. HUF	450000	3.21
TOTAL	14040000	100

Dematerialization of shares: As on 31-03-12 Demated shares accounted for 81.68% (1,14,68,200 Equity Shares) of total equity.

Outstanding GDR / ADR / Warrants: Not Applicable

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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
306, Mahavir Chambers, Taratia Hanuman Gally,
Hatl~faliyuM, ahidhar Pura, Surat – 395003
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, Chairman & 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 2012.

For Lypsa Gems & Jewellery Limited.

Date: 31/07/2012

Place: Surat

S/d	S/d	S/d
(Dipan Patwa)	(Manish Janani)	(Jeeyan Patwa)
Chairman	Managing Director	Executive Director

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:

The Global Economy and the Diamond Industry

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 Eurozone 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

In the short term, we expect rough diamond prices to fall and price stability to return. We also don't see a major decline in polished diamond prices. These two factors together shall ensure a healthy profit margin in the diamond manufacturing and polishing business.

We also expect a revival in demand from Hong Kong and Mainland China. America has not seen a major decline in demand and has been supportive unlike during 2008 and this has been a big positive. We expect American demand to remain stable. The Indian diamond market should also see an increase in demand as we approach the wedding and festival season.

Company's Goal

Lypsa intends to become a fully integrated and profitable diamond company in the next 3 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.

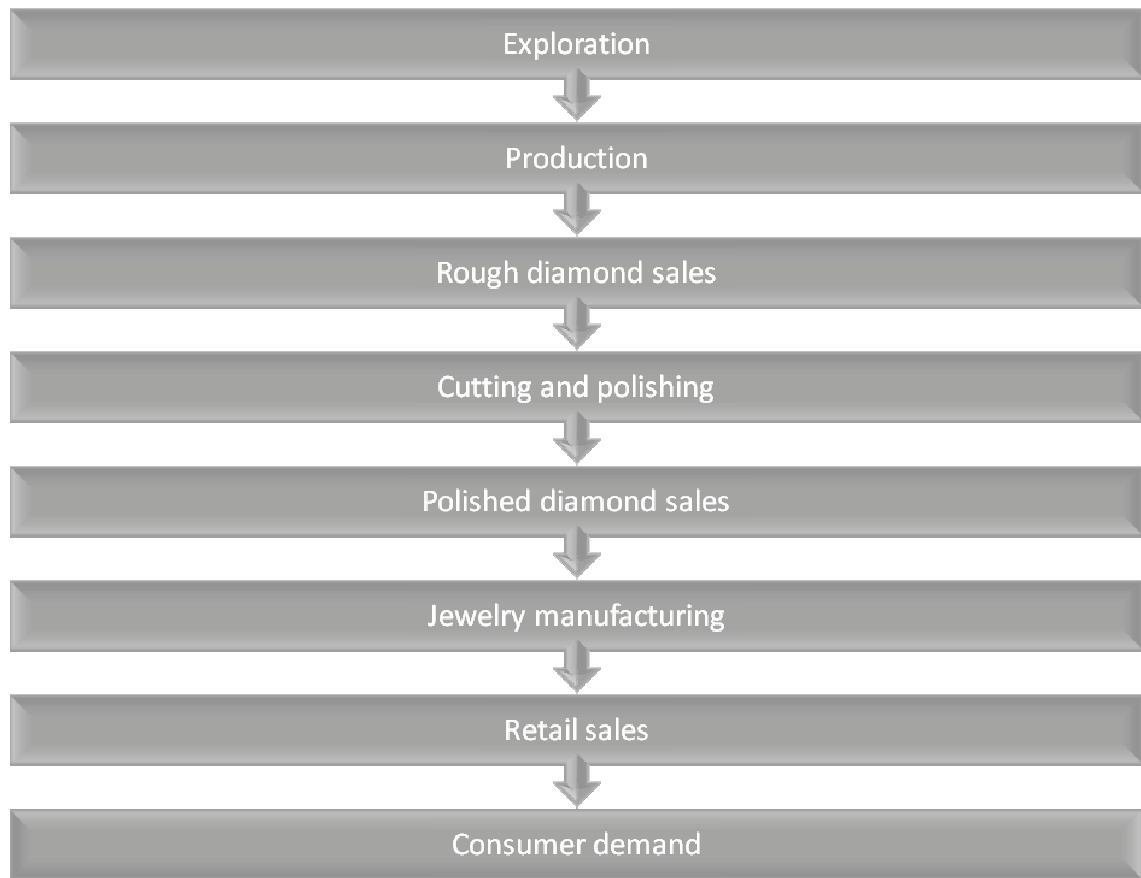
Business Model

Lypsa is in the process of increasing production capacity at its new factory in Navsari, Gujarat. A factory is also proposed in Gujarat 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 business that allows higher value-add than the trading business.

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.

Diamond value chain overview: a journey “from mine to finger”

Eight stages define the value chain in the diamond industry; beginning with the exploration of a potential diamond deposit and ending with the demand for diamonds by millions of consumers around the world (see Figure below). Along the way many different players—miners, dealers, craftspeople, jewelers—face distinct market dynamics and economic challenges.



Exploration -In this stage producers seek commercially viable diamond resources, usually by finding and evaluating kimberlite and lamproite pipes that might contain diamond ore. When a promising site is located the producers develop and construct new mines.

Production - Getting the diamondiferous ore out of the ground usually occurs through open-pit or underground mining. Alluvial and marine mining are two other methods of diamond production. Once mined, the diamond ore passes through various processing stages to extract rough diamonds from it.

Rough-diamond sales - Next producers inspect, classify and prepare the diamonds for rough-diamond sales. London, Moscow and Antwerp are the main centers for the purchase and trade of rough diamonds. These primary sales most often take place within the sightholder system, a system specific to the diamond industry in which a select group of verified buyers are allowed to purchase rough product. Other sales channels include auctions and spot sales.

Cutting and polishing - This stage, in which diamonds are transformed from rough

stones into finished gems, comprises five steps: determining the optimal cut, cleaving or sawing to break the rough diamond into pieces, bruising to give the diamond the desired shape, polishing to cut the facets and final inspection to ensure quality. Diamond cutting requires specialized knowledge, tools and equipment. Thousands of small players populate this segment of the industry, mostly in India and elsewhere in Asia. Governments are increasingly requiring diamond producers to keep some profits closer to home by developing a local infrastructure and talent, with the result that countries including Botswana are emerging as cutting and polishing centers.

Polished diamond sales - Polished diamonds get sold to manufacturers for jewelry manufacturing. The sales are transacted either directly by cutters and polishers or through dealers. Antwerp is the key polished diamond sales center, and all major diamond players maintain a presence there. Most of the polished gem sales also take place in Antwerp, but recently the site of sale is shifting closer to jewelry manufacturers in India and China, with many companies opening regional offices.

Jewelry manufacturing - Manufacturers use both in-house and outside designers to create their product, and the sector is quite fragmented. Thousands of players ranging from individual shops to large companies such as Tiffany, Cartier and Chow Tai Fook are integrated into different steps of the value chain, from rough diamond sales to jewelry design and manufacturing to retail. A large share of the mid- to low-range jewelry manufacturing takes place in China and India.

Retail sales - More than a quarter million retailers sell jewelry to consumers around the world. Retail channels include independent stores, mass-market chains such as Wal-Mart for low-end jewelry and high-end specialty chains such as Harry Winston.

Consumer demand - Demand is driven by the millions of people around the world who want to own diamond jewelry. At either end of the value chain a handful of well-known public companies operate and earn the industry's highest profits. In the middle of the chain diamonds pass through a complex and fragmented distribution system in which many thousands of individuals and small businesses, almost all privately owned, are bound together in an intricate web of relationships. These cutters, polishers and manufacturers engage in a significant amount of back-and-forth trading. Outsiders who voice concern about the lack of transparency in the diamond industry point specifically to the accuracy of stock-level estimates and to the setting of prices. A comparison with other commodities and precious minerals, however, shows that the diamond industry is not unique. A similar level of uncertainty also surrounds stock levels at key stages of the value chain in the markets for precious metals such as gold, platinum and palladium.

As the diamonds pass through each stage of the chain, their value grows in relatively small increments until they reach manufacturing and retail. The highest portion of revenues is generated at the retail stage, with revenues in 2010 slightly exceeding \$60

billion worldwide. The highest profit margins are realized in the production and retail segments at either end of the chain. In 2010 players in rough production achieved operating margins of 22 to 26 percent, the highest in the industry. Next highest were the 5 to 10 percent margins achieved by retailers. Margins and revenues are lowest in the middle segments of the value chain. The total industry profit pool was approximately \$11 billion in 2010.

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

The Company maintains a system of internal control commensurate with the size and nature of its operations to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that all transactions are authorized, recorded and reported correctly. In order to ensure that all checks and balances are in place and all internal control systems and procedures are in order, periodic internal audit is conducted by qualified Chartered Accountants. The Internal Auditors' independently evaluate adequacy of internal controls. The Internal Audit reports submitted by Internal Auditors are reviewed by Audit Committee on a quarterly basis. Post audit reviews are also carried out to ensure that audit recommendations have been implemented.

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

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 Limited.

Date: 31/07/2012

Place: Surat

S/d	S/d	S/d
(Dipan Patwa)	(Manish Janani)	(Jeeyan Patwa)
Chairman	Managing Director	Executive Director

Doshi Maru & Associates

Chartered Accountants

**9, Shreepal Building,
S N Road, Tambe Nagar,
Mulund – West,
Mumbai – 400 080.
Tel.: (O) 2347 2578
(R) 2565 4859**

AUDITORS' REPORT ON CORPORATE GOVERNANCE

To,
The Members,
LYPSA GEMS & JEWELLERY LIMITED
(Formerly known as MALOO GEMS & JEWELLERY LIMITED),
306, Mahavir Chambers,
Taratia Hanuman Gally,
Mahidhar Pura,
Surat Gujrat-395 003

We have examined the compliance of Corporate Governance by Lypsa Gems & Jewellery Limited (Formerly known as Maloo Gems & Jewellery Limited) for the year ended on 31st March, 2012, 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.

For M/s. Doshi Maru & Associates
Chartered Accountants

Date: 31/07/2012
Place: Mumbai

S/d
Hiren Maru
(Partner)
FRN. No. 112187W