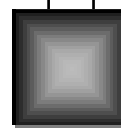
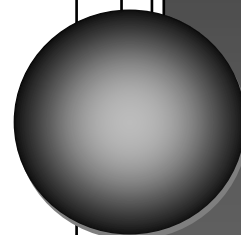




**KANANI INDUSTRIES LIMITED**

27th ANNUAL REPORT

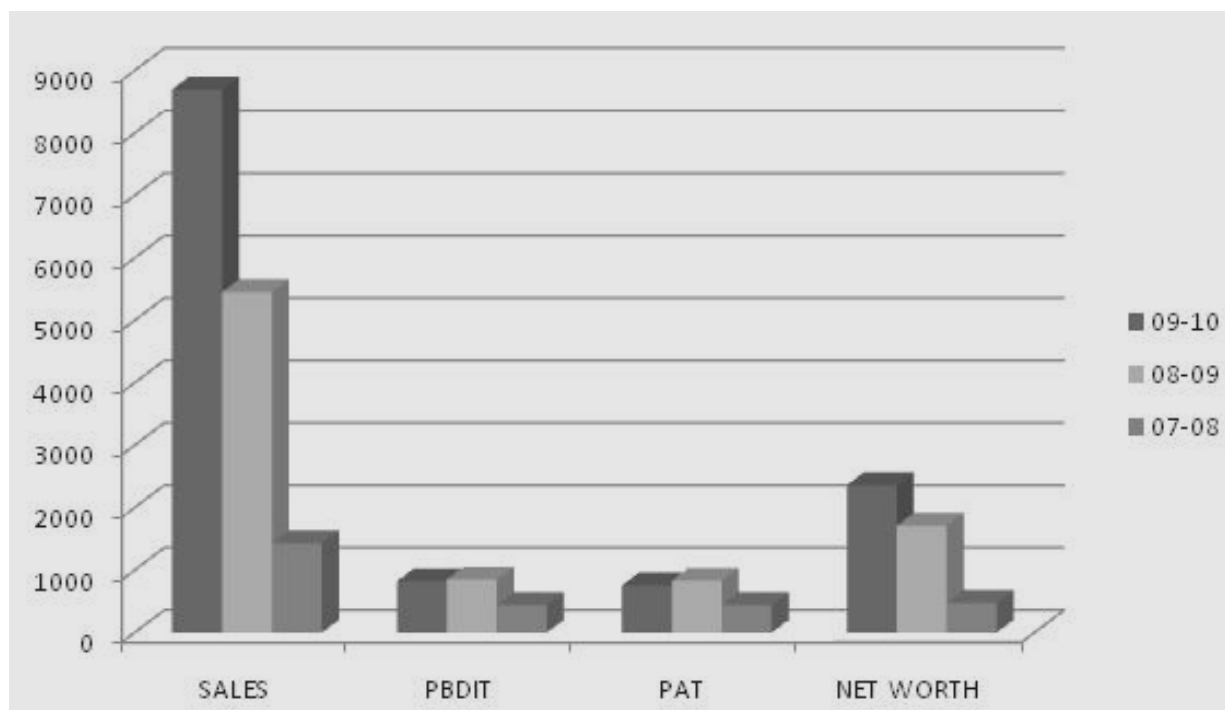


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## Factors of Success

***“Speed and ruthless execution is everything. To maximize your ROI, identify and widely communicate business plans and objectives throughout the organization, and encourage widespread adoption and involvement at every level.”***



## Key Highlights

- Sales increased to Rs. 8699.28 Lakhs during the Financial Year 2009-2010 as compared to Rs. 5451.46 Lakhs during the previous year 08-09.
- Dividend: Total (10%)  
Interim Dividend paid Re.0.25 (5%)  
Proposed Dividend Re.0.25 (5%)
- Book Value Rs. 13.12 per share
- EPS at Rs. 4.20\*

\* Annualised (on Face Value of Rs.5.00 per share)

## *Management Discussion and Analysis*

KIL is a professionally managed, end-to-end vertically integrated gems and jewellery business organization. Despite a sharp downturn in the global economy in the latter year 2009-10, our company pleased to report that our company achieved another excellent performance over the year as a whole. The KIL reported another year of steady performance. Gross Turnover for the year grew by 59.57% to Rs.86.99 crores. During the financial year 2009-10 company pay out dividend @ 5% per equity share and board recommended a final dividend @5% per share subject to approval of the share holder. The total dividend for the financial year 2009-10 work out to @ 10% on 17988000 equity share of Rs.5/- each. Company exploration success continued, materially enhancing the opportunities for continued growth in future years.

### **Looking ahead**

Given the current economic climate, these will be challenging times for the gems and jewellery sector but KIL is well positioned following an outstanding year in 2010.

### **Difficult economic climate**

The current economic climate is presenting many challenges across all sectors and within our industry. We are working in an unprecedented credit environment and with volatile and unpredictable commodity prices. Therefore, we have to maintain a fine balance between our short-term priorities and continuing to invest for long-term future growth, whilst Remaining in a position to take advantage of the inevitable opportunities the current market will present unique characteristics that deliver superior performance

### **Realising our vision**

Kanani has a clear vision, a consistent strategy and a flexible but highly-integrated business model that continuously adapts to the prevailing external environment.

### **Right skills**

Successfully building our team

Kanani Industries is serious about growth and continues to put in place the capital and human resources needed to deliver the next phase. We are building the strongest team by developing talent from within, complemented with carefully selected new recruits – many of whom are industry champions, looking for new opportunities to make a difference.

In developing people with the right skills and the right attitude, our focus is on developing each employee to their full potential, in each area of our business



## Market Overview

Global jewellery sales will grow at 4.6 per cent year-on-year to touch USD 185 billion in 2010 and USD 230 billion in 2015 with key markets having registered an average compounded annual growth rate (CAGR) of 5-10 per cent in the last decade.

The global market for Gold is estimated at 4100 tonnes. South Africa is the world's largest producer of gold, followed by U.S.A and Australia. Together, these countries account for 45 per cent of the world's total gold production. India is the largest consumer of gold, followed by the U.S.A.

In the production of Silver, the Americas have near monopoly - Mexico, Peru and the United States are the top three silver producing countries. Platinum is an extremely rare precious metal. More than 90 per cent of all platinum supplies come from South Africa and Russia. With increased economic development, the demand for the metal has grown at a faster pace than it is being mined. The United States is the world's leading consumer of platinum overall, while China has emerged as the leading consumer of platinum jewellery.

Jewellery manufacturing is traditionally dominated by players from 3-4 countries Such as **Italy, Hong Kong/China, Thailand, United States.**

### India is a leading player in the global gems and jewellery market

The gems and jewellery industry occupies an important position in the Indian economy. It is a leading foreign exchange earner and also one of the fastest growing industries in the country.

The two major segments of the sector in India are gold jewellery and diamonds. Gold jewellery forms around 80 per cent of the Indian jewellery market, with the balance comprising fabricated studded jewellery that includes diamond studded as well as gemstone studded jewellery. A predominant portion of gold jewellery manufactured in India is consumed in the domestic market. In diamonds, however, a major portion of rough, uncut diamonds processed in India is exported, either in the form of polished diamonds or finished diamond jewellery.

Besides being the largest consumer of gold, India is also the leading diamond-cutting nation in the world.

India Gems & Jewellery Industry – Highlights		
Jewellery market size	US\$	13 Billion
Diamond jewellery	US\$	1.2 Billion
jewellery market growth year on year	15%	
Diamond jewellery market growth	27%	

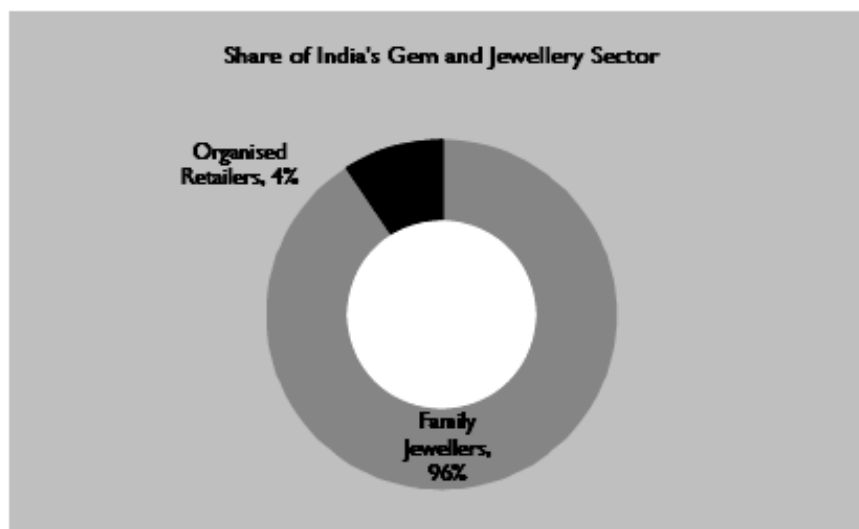
The Indian gems and jewellery industry is competitive in the world market due to its low cost of production and availability of skilled labour. In addition, the industry has a worldwide distribution network, which has been established over a period of time. India has set up more than 3,000 offices worldwide for promotion and marketing of Indian diamonds.

The Indian diamond industry has acquired leadership position in cutting and polishing of rough diamonds. India has the world's largest cutting and polishing industry, employing around 800,000 people (constituting 94 per cent of global workers) with more than 500 hi-tech laser machines. The industry is well supported by government policies and the banking sector - around 50 banks provide nearly US\$ 3 billion credit to Indian diamond industry.

India is therefore a significant player in the world gems and jewellery market both as a source of processed diamonds as well as a large consuming market.

### **The sector is largely unorganised at present with a small but growing organised sector**

The Indian gems and jewellery sector is largely unorganised at present. There are over 15000 players across the country in the gold processing industry, of which only about 80 players have a turnover of over US\$ 4.15 million (Rs 200 million). There about 450,000 goldsmiths spread throughout the country. India was one of the first countries to start making fine jewellery from minerals and metals and even today, most of the jewellery made in India is handmade.



The industry is dominated by family jewellers, who constitute nearly 96 per cent of the market. Organised players such as Tata with its Tanishq brand, have, however, been growing steadily carving a 4 per cent market share. As India's jewellery Market matures, it is expected to get more organised and the share of family jewelers is expected to decline.

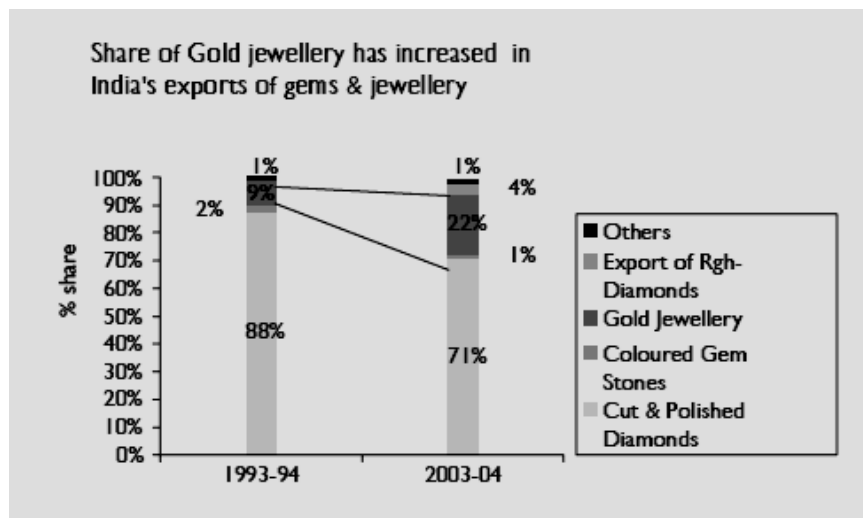
There are more than 6000 players in domestic diamond processing industry. The average gestation period for setting up a diamond cutting and polishing unit is 15 months. The low gestation period, coupled with low capital cost allows easy entry into the sector. This has led to the industry being largely characterised by a large number of small scale players. However, just as in the case of jewellery, the share of the organised sector has increased significantly in recent years due to an increase in demand for better and finer quality finished goods.

### **Jewellery manufacturing**

India has well-established capabilities in making hand-made jewellery in traditional as well as modern designs. Indian hand-made jewellery has always had a large ethnic demand in various countries with sizeable Indian immigrant population such as the Middle East, South-East Asian countries, USA and Canada.

In recent times, India has also developed capabilities in machine-made jewellery. With imported or domestic processed studding, Indian machine made jewellery is expected to generate demand from non-ethnic jewellery markets as well.

The share of gold jewellery in India's exports of gems and jewellery increased from 9 per cent in 1994 to 22 per cent in 2010, an indication of growing acceptance in the world market.



In the area of diamonds, Indian jewellers have been focusing on moving up the value chain, from being a polisher of rough diamonds to a manufacture of jewellery. Exports of diamond jewellery are expected to increase in the future.

The central and various state governments in India have come out with policy incentives to promote jewellery manufacturing. For example, Andhra Pradesh's New Industrial Policy declares gems and jewellery as a thrust area and a package of incentives are being offered for setting up manufacturing park facilities for value addition and export of gems and jewellery.

Given India's strengths and potential for growth in this area, jewellery manufacturing can be an attractive area for investment in India.

### Jewellery Retailing

India has a large and growing domestic jewellery market of US\$ 8.9 billion. Jewellery retailing in India is undergoing a slow transformation from a largely unorganised sector to a more organised one. While the family owned jewellery store remains the predominant retail format, new formats such as boutiques, supermarkets and gold souks are emerging for jewellery retail. Indian

Customers are displaying growing preference for quality, designs and branding. The jewellery retailing sector can offer long term benefits to organised players investing in this area.

### Certification

Following the World Diamond Council's statement on adopting credible and effective measures against the trade in conflict gems, the Indian government has tightened its certification process for international trade. The Gems & Jewellery Promotion Council is India's certification authority. The government's Central Board of Excise and Customs has banned the import or export of rough diamond shipments, which are not accompanied by a Kimberley Process certificate launched in Switzerland. Certification for quality diamonds and jewellery has given a fillip to exports and resulted in greater acceptance of Indian products in the world market

## Technology

The Indian gems and jewellery industry has made rapid strides in design, powered by a new generation of young, professionally trained, technology driven designers. Many of India's jewellery manufacturing facilities are equipped with the latest CAD / CAM and other advanced design systems. Technology solutions are also available for production control, supply chain and inventory management in the jewellery industry. The Special Economic Zones and Gems and Jewellery Parks developed in different states offer technology-enabled environments that are conducive to growth and quality production.

The gems and jewellery industry in India is a good blend of modern manufacturing and design techniques with traditional skills of the Indian artisan. The Indian industry is also compliant with international norms such as the Kimberly Process and the Patriot Act, etc.

With well-established capabilities across the value chain, India is an attractive potential market in the gems and jewellery sector.

### **The domestic industry has been growing at a significant rate**

The gems and jewellery sector in India has been growing across all key segments, as detailed below.

## Precious Metals

### Gold

The current consumption of gold in India is estimated at over 900 tonnes, used mostly in 20 / 22 carat jewellery. Nearly 95 per cent of gold is used to manufacture gold jewellery in the domestic markets and the remaining 5 per cent is exported. Gold consumption in India is primarily aimed at investment.

### Silver

India annually consumes around 4,000 tonnes of silver. Silver jewellery and other articles for personal use, especially in the rural areas, account for the bulk of the sales. India is also the third largest industrial user of silver in the world, after the US and Japan.

### Platinum

Platinum or white gold, targeted at the premium jewellery segment, is gaining preference of designers and consumers globally. While India's share in the global platinum jewellery market is growing by 19 per cent annually, it continues to be less than one per cent in the global platinum jewellery market. Given the global growth and the maturing of the Indian market to international trends, this represents an area for potential growth in India.

### Gemstones

India's gemstone industry has been growing due to the popularity of gemstone-studded jewellery across the globe, with an estimated turnover at US\$ 0.22 – 0.26 billion.

## Jewellery

The Indian jewellery market is one of the largest in the world. The Indian market size at US\$ 13 billion, is second only to the US market of US\$ 40 billion and is followed by China at US\$ 11 billion



The gold jewellery market is growing at 15 per cent per annum and the diamond jewellery market, at 27 per cent per annum.

The emergence of branded jewellery is a new trend that is shaping the Indian jewellery market. Branded jewellery is a relatively new concept in the sector, and has positioned itself on the quality, reliability and wearability factors. The branded jewellery market in India is estimated at US\$ 111.6 million per annum. Trends also show that traditional handcrafted jewellery is slowly giving way to machine-made jewellery.

#### Exports of gems and jewellery have also been growing

ITEMS	April'09 -January'10 (Provisional)		April '08-January'09 (Same ports as current year)		% Growth / decline over previous Year	
	Rs. In Crores	US \$ in Million	Rs. In Crores	US \$ in Million	Rs.	US \$
Cut & Pol Diamonds *	65693.04	13789.99	55453.91	12458.65	18.46	10.69
(Quantity in Lakh Carats)	460.19		384.16		19.79	
Gold Jewellery-D.T.A	7958.04	1668.83	7919.18	1812.35	0.49	-7.92
SEZ / EPZ	28512.77	5977.65	25623.59	5596.84	11.28	6.80
<b>Total</b>	<b>36470.81</b>	<b>7646.48</b>	<b>33542.77</b>	<b>7409.19</b>	<b>8.73</b>	<b>3.20</b>
Coloured Gemstones	1159.82	243.31	1012.16	225.18	14.59	8.05
Others	1305.19	274.81	972.28	215.66	34.24	27.43
<b>Net Exports</b>	<b>104628.86</b>	<b>21954.59</b>	<b>90981.12</b>	<b>20308.68</b>	<b>15.00</b>	<b>8.10</b>
Exports of Rough Diamonds	2789.66	584.21	2998.12	673.17	-6.95	-13.22
(Quantity in Lakh Carats)	182.99		269.99		-32.22	
<b>Total Exports</b>	<b>107418.52</b>	<b>22538.80</b>	<b>93979.24</b>	<b>20981.85</b>	<b>14.30</b>	<b>7.42</b>

## Competitive Advantage

The factors leading to the Indian gems and jewellery industry's growth are many. A near dominance in diamonds and coloured stones, manufacturing excellence, forward looking entrepreneurs, liberalised government policies and an extensive international marketing network has helped India establish itself as one of the leading jewellery centres in the world. Moreover, its high consumption of gold, steady inflow of silver and growing interest in platinum enable India to develop the entire range of jewellery, in plain metal and studded, that caters to the desires of every market.

### India's competitiveness in gems and jewellery industry can be assessed as follows

#### Availability of factor conditions

Availability of skilled manpower is a key strength that has enabled growth in India's gem and jewellery sector. India has a large pool of skilled artisans with vast traditional knowledge and expertise in jewellery making. It also has the largest resource pool in diamond cutting and processing. India also has a good blend of technically trained designers who are well-versed in latest 2D and 3D design software.

India has a comparative advantage in terms of cost as well. For example, diamond jewellery, which costs between US\$ 60 and US\$ 90, can be sold in the overseas market for US\$ 180.

Low cost skilled labour coupled with advanced technical capabilities provides the right platform for the Indian gems and jewellery sector to grow and become globally competitive.

#### Presence of related and supporting industries

India has a large number of institutions to support the designing and development of gems and jewellery in India. Various institutes across the country offer diploma courses in jewellery designing. Some of the institutes offering these courses are NIFT (Mumbai), Indian Diamond Institute (Surat), Jewellery Design & Training Institute (Noida), The Gemmological Institute of India (Mumbai) etc.

These courses provide inputs and training on the different kinds of stones, colour schemes in jewellery, design themes, presentation and framing, designing individual jewellery pieces, men's jewellery, costume jewellery, jewellery costing among other information.

These institutes provide a regular supply of trained manpower with the required skills and knowledge and thus help the industry to grow and become competitive.

#### Government regulations and support

The Government of India (GoI) has been working to develop the gems and jewellery industry in India through several initiatives.

- The Indian gems and jewellery export industry had its modern beginning in the 1960s, when the Government of India introduced the Replenishment (REP) licence, allowing an importer to import rough diamonds worth 80 per cent of the value of his exports. The REP licence thus provides the foreign currency needed to purchase rough to manufacture the relevant type of polished diamonds. At the outset, a 45 per cent customs duty was levied on rough diamond imports, but this duty was reduced to NIL in the Union Budget of 2003-04.

- The EXIM Policy for 2002-07 contains a special focus on exports of gems and jewellery through market access initiative schemes, duty free imports and appropriate adjustments in value addition norms.
- The government has set up various special economic zones(SEZ) for gems and jewellery industry with specific incentives provided to units in SEZs. Gems & jewellery units in SEZs and Export Oriented Units (EOUs) can receive precious metal, viz, gold/silver/platinum prior to exports or post exports equivalent to value of jewellery exported. This means that they can bring export proceeds in kind against the present provision of bringing in cash only.
- In order to give a boost to exports of gems and jewellery, Government took major policy initiatives during 2004-05.
- Lowering import duty on platinum from US\$ 12.2 per 10 gms to US\$ 4.64.
- Exempting rough coloured precious gems stones from customs duty at the first stage itself instead of claiming reimbursements later.
- Rough semi precious stones are already exempt, aimed to further increase the exports of studded jewellery and platinum jewellery.
- The policies for this sector announced in the Foreign Trade Policy include:
  - Duty free re-import entitlement for rejected jewellery up to 2 per cent of Freight on Board (FOB) value of exports.
  - Increased duty free import of commercial samples of jewellery to US\$ 2232.1.
  - Import of gold of 18 carat and above under the replenishment scheme.

While the focus is clearly on export promotion, the liberalised policy regime will help players perform better in the domestic market as well by improving their overall competitiveness.



## □ Future Outlook

The future of the industry is quite promising. More and more buyers across the world are turning to India as their preferred source for quality jewellery. All India Gem and Jewellery Trade Federation (GJF) are targeting growth from US \$ 16.79 billion to US \$ 26.23 billion by the year 2012.

### **Gem and Jewellery Export Promotion Council (GJEPC)**

The Gems and Jewellery Export Promotion Council (GJEPC) is looking at exploring new markets, such as Latin American countries. The industry also plans to make India a trading centre for cut and polished diamonds, and is closely working with the Government of India in this regard. The long term prospects looks good with jewellery exports expected to touch US \$16 billion in 2010 according to industry estimates.

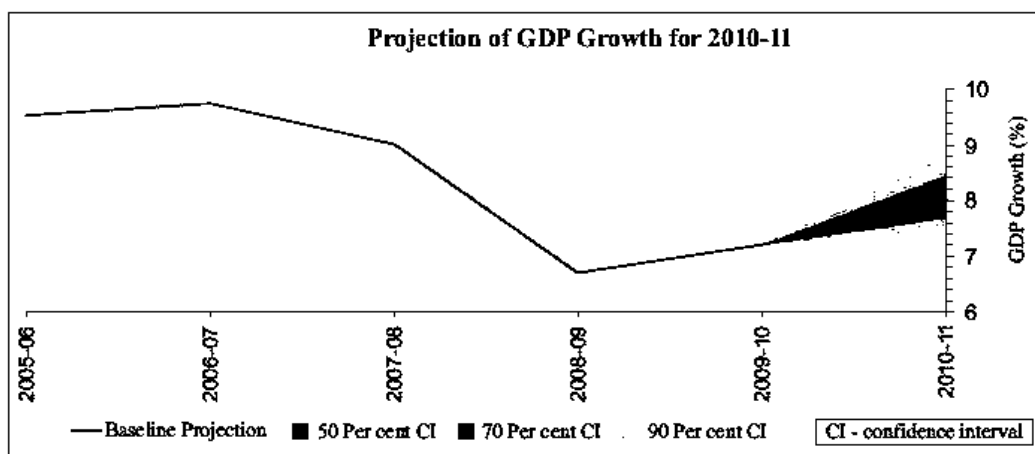
The Gem and Jewellery Export Promotion Council is a representative body of trade. The following initiatives have been taken by the council in order to enhance competitiveness such as:

- Preparation of a medium term exports strategy for various sectors including gems and jewellery by the Ministry of Commerce.
- Exploring the possibility of direct procurement of rough diamonds from mining countries
- Promotion of Indian diamonds and jewellery abroad through advertisements, publicity and participation in international fairs, buyer-seller meets and direct approach to market retailers.
- Market study through experts in the field to identify new markets.
- Promotion of export of 'hallmark' jewellery from India to assure foreign customers of quality and purity of jewellery made in India.

## Domestic Outlook

### Growth

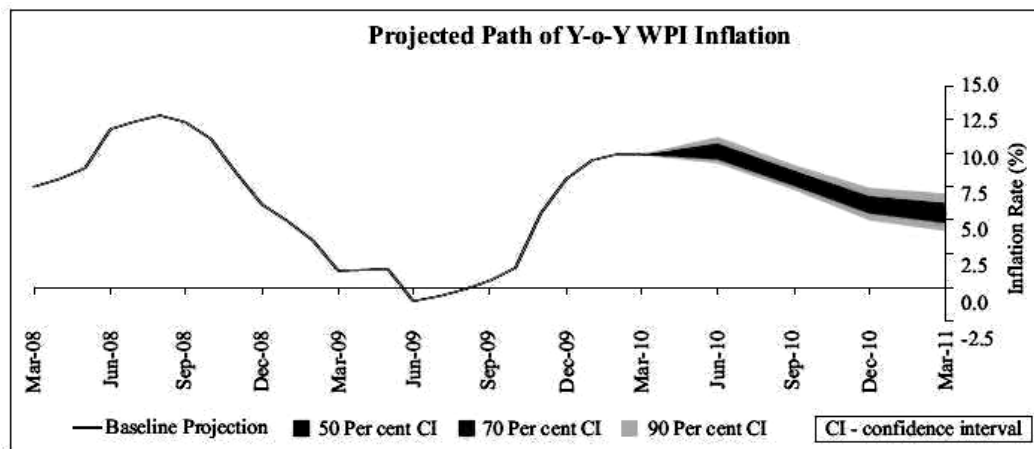
1. The Indian economy is for the recovery path. Exports have been expanding since October 2009, a trend that is expected to continue. The industrial sector recovery is increasingly becoming broad-based and is expected to take firmer hold going forward on the back of rising domestic and external demand.
2. Surveys generally support the perception of a consolidating recovery. According to the Reserve Bank's quarterly industrial outlook survey, although the business expectation index (BEI) showed seasonal moderation from 120.6 in Q4 of 2009-10 to 119.8 in Q1 of 2010-11, it was much higher in comparison with the level of 96.4 a year ago. The improved performance of the industrial sector is also reflected in the improved profitability in the corporate sector. Service sector activities have shown buoyancy, especially during the latter half of 2009-10. The leading indicators of various sectors such as tourist arrivals, commercial vehicles production and traffic at major ports show significant improvement. A sustained increase in bank credit and in the financial resources raised by the commercial sector from non-bank sources also suggest that the recovery is gaining momentum.
3. On balance, under the assumption of a normal monsoon and sustenance of good performance of the industrial and services sectors on the back of rising domestic and external demand, for policy purposes the baseline projection of real GDP growth for 2010-11 is placed at 8.0 per cent with an upside bias.



### Inflation

4. Headline WPI inflation, which moderated in the first half of 2009-10, firmed up in the second half of the year. It accelerated from 1.5 per cent in October 2009 to 9.9 per cent by March 2010. The deficient south-west monsoon rainfall accentuated the pressure on food prices. This, combined with the firming up of global commodity prices from their low levels in early 2009 and incipient demand side pressures, led to acceleration in the overall inflation rate – both of the WPI and the CPIs.
5. The Reserve Bank's baseline projection of WPI inflation for March 2010 was 8.5 per cent. However, some subsequent developments on both supply and demand sides pushed up inflation. Enhancement of excise duty and restoration of the basic customs duty on crude petroleum and petroleum products and the increase in prices of iron ore and coal had a significant impact on WPI inflation. In addition, demand side pressures also re-emerged as reflected in the

6. Sharp increase in non-food manufactured products inflation from 0.7 per cent to 4.7 per cent between December 2009 and March 2010.
7. There have been significant changes in the drivers of inflation in recent months. First, while there are some signs of seasonal moderation in food prices, overall food inflation continues at an elevated level. It is likely that structural shortage of certain agricultural commodities such as pulses, edible oils and milk could reduce the pace of food price moderation. Second, the firming up of global commodity prices poses upside risks to inflation. Third, the Reserve Bank's industrial outlook survey shows that corporates are increasingly regaining their pricing power in many sectors. As the recovery gains further momentum, the demand pressures are expected to accentuate. Fourth, the Reserve Bank's quarterly inflation expectations survey for households indicates that household inflation expectations have remained at an elevated level.
8. Going forward, three major uncertainties cloud the outlook for inflation. First, the prospects of the monsoon in 2010-11 are not yet clear. Second, crude prices continue to be volatile. Third, there is evidence of demand side pressures building up. On balance, keeping in view domestic demand-supply balance and the global trend in commodity prices, the baseline projection for WPI inflation for March 2011 is placed at 5.5 per cent.



9. It would be the endeavour of the Reserve Bank to ensure price stability and anchor inflation expectations. In pursuit of these objectives, the Reserve Bank will continue to monitor an array of measures of inflation, both overall and disaggregated components, in the context of the evolving macroeconomic situation to assess the underlying inflationary pressures.
10. Notwithstanding the current inflation scenario, it is important to recognise that in the last decade, the average inflation rate, measured both in terms of WPI and CPI, had moderated to about 5 per cent from the historical trend rate of about 7.5 per cent. Against this background, the conduct of monetary policy will continue to condition and contain perception of inflation in the range of 4.0-4.5 per cent. This will be in line with the medium-term objective of 3.0 per cent inflation consistent with India's broader integration into the global economy.

### Monetary Aggregates

11. During 2009-10, money supply ( $M_3$ ) growth decelerated from over 20.0 per cent at the beginning of the financial year to 16.4 per cent in February 2010 before increasing to 16.8 per cent by March 2010, slightly above the Reserve Bank's indicative projection of 16.5 per cent. This was reflected in non-food credit growth of 16.9 per cent, above the indicative projection of 16.0 per cent.

12. Keeping in view the need to balance the resource demand to meet credit offtake by the private sector and government borrowings, monetary projections have been made consistent with the growth and inflation outlook. For policy purposes, M3 growth for 2010-11 is placed at 17.0 per cent. Consistent with this, aggregate deposits of SCBs are projected to grow by 18.0 per cent. The growth in non-food credit of SCBs is placed at 20.0 per cent. As always, these numbers are provided as indicative projections and not as targets.

### Risk Factors

13. While the indicative projections of growth and inflation for 2010-11 may appear reassuring, the following major downside risks to growth and upside risks to inflation need to be recognised:

First, uncertainty persists about the pace and shape of global recovery. Fiscal stimulus measures played a major role in the recovery process in many countries by compensating for the fall in private demand. Private demand in major advanced economies continues to be weak due to high unemployment rates, weak income growth and tight credit conditions. There is a risk that once the impact of public spending wanes, the recovery process will be stalled. Therefore, the prospects of sustaining the recovery hinge strongly on the revival of private consumption and investment. While recovery in India is expected to be driven predominantly by domestic demand, significant trade, financial and sentiment linkages indicate that a sluggish and uncertain global environment can adversely impact the Indian economy.

Second, if the global recovery does gain momentum, commodity and energy prices, which have been on the rise during the last one year, may harden further. Increase in global commodity prices could, therefore, add to inflationary pressures.

Third, from the perspective of both domestic demand and inflation management, the 2010 south-west monsoon is a critical factor. The current assessment of softening of domestic inflation around mid-2010 is contingent on a normal monsoon and moderation in food prices. Any unfavourable pattern in spatial and temporal distribution of rainfall could exacerbate food inflation. In the current context, an unfavourable monsoon could also impose a fiscal burden and dampen rural consumer and investment demand.

Fourth, it is unlikely that the large monetary expansion in advanced economies will be unwound in the near future. Accommodative monetary policies in the advanced economies, coupled with better growth prospects in EMEs including India, are expected to trigger large capital flows into the EMEs. While the absorptive capacity of the Indian economy has been increasing, excessive flows pose a challenge for exchange rate and monetary management. The rupee has appreciated sharply in real terms over the past one year. Pressures from higher capital flows combined with the prevailing rate of inflation will only reinforce that tendency. Both exporters, whose prospects are just beginning to turn, and producers, who compete with imports in domestic markets, are getting increasingly concerned about the external sector dynamics.

14. Our exchange rate policy is not guided by a fixed or pre-announced target or band. Our policy has been to retain the flexibility to intervene in the market to manage excessive volatility and disruptions to the macroeconomic situation. Recent experience has underscored the issue of large and often volatile capital flows influencing exchange rate movements against the grain of economic fundamentals and current account balances. There is, therefore, a need to be vigilant against the build-up of sharp and volatile exchange rate movements and its potentially harmful impact on the real economy.
15. The resumption of the process of fiscal consolidation has been a significant positive development. This will help avoid crowding out of private sector credit demand and facilitate better monetary management. However, the overall size of the government borrowing programme is still very large and can exert pressure on interest rates. Going forward, fiscal consolidation has to shift from one-off gains to structural improvements on both tax and expenditure sides, and focus increasingly on the quality of fiscal consolidation.

## □ Comparative Analysis of last 3 years Results

Particular	2010	2009	2008
Net Sales	8683.86	5426.58	1432.44
Other Income	(44.08)	24.88	-
Total Income	8699.26	5451.46	1432.44
Expenditure	7876.53	4602.54	991.56
PBIT	822.76	848.92	440.88
Interest	53.18	7.30	1.23
Depreciation	14.84	9.13	0.06
PBT	754.74	832.49	439.59
Tax	-	0.04	0.01
PAT	754.74	832.45	439.58
Net Profit	754.74	832.45	439.58
Basic & Diluted EPS (Rs.)	4.20	4.63	2.44
Dividend Paid / Proposed (In %)	10.00%	10.00%	5.00%
Equity Capital	899.40	299.80	24.90
Reserves & Surplus	1461.12	1411.20	449.77
Net worth	2360.52	1711.00	474.67
Book Value per share (Rs.)	13.12	57.07	190.63
Operating Profit Margin (%)	99.41%	15.64%	30.77%
Net Profit Margin (%)	8.69%	15.34%	30.68%
Basic & Diluted Cash EPS (Rs.)	4.28	4.68	2.44



## General Information

<b>BOARD OF DIRECTORS:</b>	PREMJBHAI D.KANANI HARSHIL P.KANANI SHAILESH R.PATEL DEVENDRA K. KIKANI GAUTAM B. PAREKH NAGJIBHAI K.VITHANI	CHAIRMAN MANAGING DIRECTOR DIRECTOR DIRECTOR DIRECTOR DIRECTOR
<b>COMPLIANCE OFFICER:</b>	DARSHAK A. PANDYA	
<b>STATUTORY AUDITORS:</b>	RAVI & DEV CHARTERED ACCOUNTANTS 377-B, J.S.S.ROAD, CHIRA BAZAR, MUMBAI: 400002	
<b>BANKERS:</b>	STATE BANK OF INDIA BANK OF BARODA DEANA BANK CANARA BANK STANDERD CHARTERD BANK	
<b>REGISTERED OFFICE:</b>	G-6, PRASAD CHAMBERS, TATA ROAD NO.2, OPERA HOUSE, MUMBAI: 400004	
<b>FACTORY:</b>	PLOT NO.42, SURAT SPECIAL ECONOMIC ZONE, NEAR SACHIN RLY.STN. SACHIN, DIST: - SURAT. GUJARAT	
<b>REGISTRAR AND SHARE: TRANSFER AGENT</b>	M/S.SHAREX DYNAMIC (INDIA) PRIVATE LIMITED 17/B, DENA BANK BLDG., 2 <sup>ND</sup> FLOOR, HORNIMAN CIRCLE, FORT, MUMBAI: 400 001. PH. 022 22702485 FAX: 022 22641349	

## Notice

**Notice is hereby given that the 27<sup>th</sup> Annual General Meeting of the Members of KANANI INDUSTRIES LIMITED will be held at Krishna Palace Residency Hotel, 96/98, Grant Road, Mumbai, Maharashtra 400007, on Monday, 2<sup>nd</sup> August 2010 at 9.30 A.M. to transact the following Business:**

### **ORDINARY BUSINESS:**

1. To receive, consider, adopt and approve the Balance Sheet as at March 31, 2010 and the Profit and Loss Account for the Year ended as on that date along with Reports of the Directors' and Auditor's thereon.
2. To consider declaration of dividend.
3. To appoint a Director in place of Mr. Shailesh Patel, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Gautam Parekh, who retires by rotation, and being eligible, offers himself for re-appointment.
5. To appoint M/s. Ravi & Dev, Chartered Accountants, Mumbai, as the Auditors and to fix their remuneration.

### **SPECIAL BUSINESS:**

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

“RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310 and 311 of the Companies Act, 1956 and further subject to the provisions of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof) and further subject to such other approvals as may be necessary, the Company hereby approves the revision of the remuneration package payable to Mr. Premji Kanani in the capacity as the Chairman of the Company as set out in the draft agreement submitted to the meeting duly initialled, for the purpose of identification, which draft agreement is hereby specifically approved and sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or the Agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto, as may be agreed to between the Board of Directors and Mr. Premji Kanani.”

“RESOLVED FURTHER THAT Mr. Harshil Kanani, Managing Director of the Company be and is hereby authorised to obtain necessary approvals/to file with the Registrar of Companies, Mumbai, Maharashtra all the necessary Form/documents to carry out the effect of the above resolution and further to initiate and undertake all such steps as may be deemed expedient by him to give effect to this resolution for and on behalf of the Board of Directors of the Company.”

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

“RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310 and 311 of the Companies Act, 1956 and further subject to the provisions of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (including

any statutory modification or re-enactment thereof) and further subject to such other approvals as may be necessary, the Company hereby approves the revision of the remuneration package payable to Mr. Harshil Kanani in the capacity as the managing director of the Company as set out in the draft agreement submitted to the meeting duly initialled, for the purpose of identification, which draft agreement is hereby specifically approved and sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or the Agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto, as may be agreed to between the Board of Directors and Mr. Harshil Kanani."

"RESOLVED FURTHER THAT Mr. Premji Kanani, Chairman of the Company be and is hereby authorised to obtain necessary approvals/to file with the Registrar of Companies, Mumbai, Maharashtra all the necessary Form/documents to carry out the effect of the above resolution and further to initiate and undertake all such steps as may be deemed expedient by him to give effect to this resolution for and on behalf of the Board of Directors of the Company."

8. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:

"**RESOLVED THAT** pursuant to the provisions of Section 372A of the Companies Act, 1956 and other applicable provisions, if any of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and in accordance with the provisions of Articles of Association of the Company and subject to further approval of statutory and other authorities as may be necessary and subject to such terms, conditions, stipulations, alterations, and modifications, if any, as may be prescribed and specified by such authorities while granting such approvals and which may be agreed by the Board of Directors of the Company (hereinafter referred to as the 'Board' which expression shall include a Committee of directors duly authorized in this behalf) the consent of the Company be and is hereby accorded to the Board of Directors of the Company to make investments and to provide loan, give securities, guarantee in excess of the 60% of the aggregate of the paid-up share capital and free reserves and/or 100% of the aggregate of free reserves of the Company as per the limits prescribed under section 372A in such bodies corporate as they may in their absolute discretion deem beneficial and in the interest of the Company subject to the maximum aggregate amount not exceeding Rs300crores (Rupees Three Hundred Crores Only) at any time together with the existing loan and investments."

"RESOLVED FURTHER that the proposed investments shall be made from the internal resources of the Company."

"RESOLVED FURTHER that Mr. Harshil Kanani, Managing Director of the Company, be and are hereby authorised to do all such acts, deeds and things as may deemed expedient and necessary to give effect to this resolution for and on behalf of the Company."

**For and On behalf of the  
Board of Directors**

**Place: Mumbai  
Date: 29/06/2010**

**PREMJIBHAI D. KANANI  
CHAIRMAN.**

**REGISTERED OFFICE:**

**G/6, PRASAD CHAMBERS,  
TATA ROAD NO.2, OPERA HOUSE,  
MUMBAI: 400004.**

**NOTES:**

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The proxy form should be lodged with the Company at its Registered Office at least 48 hours before the commencement of the Meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed **from Wednesday, July 28 2010 to Monday, August 02, 2010** (both days inclusive.)
4. Members are requested to promptly notify any changes in their addresses to the Company at its Registered Office.
5. All documents referred to in the Notice are open for inspection at the Registered Office of the Company during office hours on all days except Sunday & public holidays between 11.00 a.m. and 1.00 p.m. up to the date of Annual General Meeting.
6. For convenience of members, an attendance slip is annexed to the proxy form. Members are requested to affix their signature at the space provided and hand over the attendance slips at the place of meeting. The proxy of a member should mark on the attendance slip as 'proxy'.
7. IF THE MEMBERS HAVE ANY QUERIES ON THE AUDITED ACCOUNTS, DIRECTORS' REPORT & AUDITOR'S REPORT, THE SAME SHOULD BE FORWARDED TO THE COMPANY IN WRITING AT ITS REGISTERED OFFICE AT LEAST 10 DAYS BEFORE THE MEETING SO THAT THE SAME CAN BE REPLIED AT THE TIME OF ANNUAL GENERAL MEETING TO THE MEMBERS' SATISFACTION.
8. Members are requested to bring their copies of the reports to Annual General Meeting.
9. Members holding shares in the same set of names under different ledger folios are requested to apply for Consolidation of such folios along with share certificates to the Company.
10. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 for Item No.6, 7 and 8 is annexed to the Notice.
11. In order to exercise strict control over the transfer documents, members are requested to send the transfer Documents / correspondence, if any, directly to:

**SHAREX DYNAMIC (INDIA) PRIVATE LIMITED**  
17/B, Dena Bank Bldg., 2<sup>nd</sup> Floor, Horniman Circle,  
Fort, Mumbai: 400 001. Tel: 022 22702485 Fax: 022 22641349



**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:****Item No.6**

Mr.Premji Kanani is the promoter and Executive Chairman of our Company and has been with our Company in the capacity of a Director since 2007. He has an experience of 35 years in Diamond industry and is a guiding force behind the strategic decisions taken at management levels.

In view of the above, your Board proposes the revision in the remuneration package as detailed below and as approved by the Remuneration Committee.

CATEGORY	PARTICULARS
<b>Basic Salary</b>	Upto maximum Rs.30,00,000/- (Rupees Thirty Lacs Only) per annum based on merit and taking into account the Company's Performance.
<b>Perquisites and Allowances</b>	<p><b>Category A</b></p> <p><b>Medical Reimbursement:</b> Medical expenses actually incurred for self and family shall be reimbursed by the Company under the medi claim Policy.</p> <p><b>Leave Travel Concession:</b> Company shall provide leave travel fare for the Chairman and his family once a year, anywhere in India as per the Rules applicable to the Company and per Income Tax Rules.</p> <p><b>Category B</b></p> <p>The Company shall contribute towards Provident Funds/ Superannuation Fund/Annuity Fund, as agreed upon, provided that such contributions either singly or put together shall not exceed the tax free limit prescribed under the IT Act.</p> <p>The Company shall pay Gratuity, as agreed upon, at the rate not exceeding half month's salary for each completed year of service.</p> <p>Leave on full pay and allowances, as per rules of the Company, but not more than one month's leave for every eleven months of service. However, the leave accumulated but not availed of will be allowed to be encashed at the end of the term as per Company rules.</p> <p>The perquisites under this category shall not be included in the computation of ceiling on remuneration.</p>
	<p><b>Category C</b></p> <p>The Company shall provide a car with a driver at the cost of the Company for business use of the Company.</p> <p>The Chairman shall be entitled to reimbursement of all expenses incurred in connection with the business of the Company.</p> <p>Reimbursement of entertainment expenses actually and properly incurred in the course of business of the Company shall be reimbursed.</p>

	Any and all expenditure actually and properly incurred on Company's business shall be reimbursed to the Chairman.
<b>Sitting Fees</b>	The Chairman shall not be entitled to sitting fees for attending meetings of the Board of Directors or Committees thereof. He shall, however be reimbursed the actual travelling, lodging and boarding expenses incurred by him for attending meeting of the Board of Directors and the Committees thereof.
<b>Minimum Remuneration</b>	The remuneration referred to above is subject to the limit of 5% of the annual net profits of the Company and subject further to the overall limit of 10% of the annual net profits of the Company on the remuneration of the Chairman & Managing Director and other Whole Time Directors of the Company taken together. Provided however that in the event of absence or inadequacy of profit, the Chairman shall be entitled to remuneration mentioned under above and perquisites as above within the minimum remuneration specified in Schedule XIII of the Companies Act, 1956. However Chairman shall not be paid any sitting fees for attending the Board or Committee meetings.

EXCEPT MR. PREMJI KANANI (BEING HIMSELF) AND MR. HARSHIL KANANI (BEING SON), NO OTHER DIRECTOR OF THE COMPANY MAY BE DEEMED TO BE CONCERNED OR INTERESTED IN PASSING OF SAID RESOLUTION.

#### Item No.7

Mr. Harshil Kanani, is the Promoter and the Managing Director of our Company. He is responsible for guiding the company's management and global operation to its next phase of growth. He holds a bachelor's degree in Commerce. He has an experience of 05 years in the Diamond industry. Presently, he is responsible for spearheading the management and operations of our Company.

In view of the above, your Board proposes the revision in the remuneration package as detailed below and as approved by the Remuneration Committee.

CATEGORY	PARTICULARS
<b>Basic Salary</b>	Upto maximum Rs.30,00,000/- (Rupees Thirty Lacs Only) per annum based on merit and taking into account the Company's Performance.
<b>Perquisites and Allowances</b>	<p><b>Category A</b></p> <p><b>Medical Reimbursement:</b> Medical expenses actually incurred for self and family shall be reimbursed by the Company under the medi claim Policy.</p> <p><b>Leave Travel Concession:</b> Company shall provide leave travel fare for the managing director and his family once a year, anywhere in India as per the Rules applicable to the Company and per Income Tax Rules.</p>

	<p><b>Category B</b></p> <p>The Company shall contribute towards Provident Funds/ Superannuation Fund/Annuity Fund, as agreed upon, provided that such contributions either singly or put together shall not exceed the tax free limit prescribed under the IT Act.</p> <p>The Company shall pay Gratuity, as agreed upon, at the rate not exceeding half month's salary for each completed year of service.</p> <p>Leave on full pay and allowances, as per rules of the Company, but not more than one month's leave for every eleven months of service. However, the leave accumulated but not availed of will be allowed to be encashed at the end of the term as per Company rules.</p> <p>The perquisites under this category shall not be included in the computation of ceiling on remuneration</p> <p><b>Category C</b></p> <p>The Company shall provide a car with a driver at the cost of the Company for business use of the Company.</p> <p>The Managing Director shall be entitled to reimbursement of all expenses incurred in connection with the business of the Company.</p> <p>Reimbursement of entertainment expenses actually and properly incurred in the course of business of the Company shall be reimbursed.</p> <p>Any and all expenditure actually and properly incurred on Company's business shall be reimbursed to the managing director.</p>
<b>Sitting Fees</b>	<p>The Managing Director shall not be entitled to sitting fees for attending meetings of the Board of Directors or Committees thereof. He shall, however be reimbursed the actual travelling, lodging and boarding expenses incurred by him for attending meeting of the Board of Directors and the Committees thereof.</p>
<b>Minimum Remuneration</b>	<p>The remuneration referred to above is subject to the limit of 5% of the annual net profits of the Company and subject further to the overall limit of 10% of the annual net profits of the Company on the remuneration of the Chairman &amp; Managing Director and other Whole Time Directors of the Company taken together. Provided however that in the event of absence or inadequacy of profit, the managing director shall be entitled to remuneration mentioned under above and perquisites as above within the minimum remuneration specified in Schedule XIII of the Companies Act, 1956. However managing director shall not be paid any sitting fees for attending the Board or Committee meetings.</p>

EXCEPT MR. HARSHIL KANANI (BEING HIMSELF) AND MR. PREMJI KANANI (BEING FATHER), NO OTHER DIRECTOR OF THE COMPANY MAY BE DEEMED TO BE CONCERNED OR INTERESTED IN PASSING OF SAID RESOLUTION.

**Item No.8:**

As the knowledgeable Members of the Company are aware, there is ongoing economic slowdown throughout the global economies, Further, the diamond industry is also witnessing the recessionary period due to which the demand for the diamond products has decreased considerably. This has opened up newer investment opportunities for the Company to invest in securities of other Body Corporate(s) both listed and non listed. If the Members approve the said resolution, the Company can take advantage of easier investment opportunities on a long term basis which shall prove very fruitful to the business of the Company.

As per Section 372A of the Companies Act, 1956, the Board of Directors of the Company shall not make further loans/give guarantees/provide security/place Inter-Corporate Deposits/make investments if the existing loans and guarantees given/securities provided/investments made together with the loans/advances/deposits and guarantees to be so given/securities to be so provided/further investments to be so made, exceed 60% of the paid-up share capital and free reserves or 100% of the free reserves of the Company, whichever is higher, unless previous authorization of the shareholders by a special resolution is obtained in the matter.

The Board therefore recommends the said Resolution for your approval and consent.

None of the directors (except those who may be interested on the basis of their respective shareholding in the Company) may be deemed to be concerned or interested in passing of the said Ordinary Resolution.

**For and On behalf of the  
Board of Directors**

**Place: Mumbai  
Date: 29/06/2010**

**PREMJIBHAI D. KANANI  
CHAIRMAN.**

**REGISTERED OFFICE:**

**G/6, PRASAD CHAMBERS,  
TATA ROAD NO.2, OPERA HOUSE,  
MUMBAI: 400004.**





## Directors' Report

To,  
The Members of  
**KANANI INDUSTRIES LIMITED**

Your Directors present the **Twenty-Seventh Annual Report** together with the Audited Statement of Accounts for the year ended March 31, 2010.

### FINANCIAL RESULTS:

The Financial Results for the year ended March 31, 2010 are summarized below:

(Amt. in Rs. Lacs)

Particulars	Year ended March 31, 2010	Year ended March 31, 2009
Sales	8683.86	5426.58
Other Income	(4,4.08)	24.88
Increase in Stock of finished Goods	59.51	NIL
Total Income	8699.29	5451.46
Expenditure [before depreciation]	7929.71	4609.85
Profit before Dep. & Tax	739.90	841.62
Less: Depreciation	14.83	09.13
Profit(Loss) before Tax	754.74	832.49
Less: Provision for Tax	-	-
Fringe Benefit Tax	-	0.035
Profit(Loss) after Tax	754.74	832.46
Profit/(Loss) brought forward	1232.00	433.16
Profit available for appropriation	1986.74	1265.62
Proposed Dividend of previous year reversed	-	1.24
Prov. For Corporate Dividend Tax reversed	-	0.21
Profit available for appropriation	-	1267.07
<b>APPROPRIATIONS:</b>		
Interim Dividend paid	44.97	14.99
Corporate Dividend Tax on Interim Dividend	7.64	02.55
Proposed Dividend	44.97	14.99
Corporate Dividend Tax on Proposed Dividend	7.64	02.55
Surplus Carried to Balance Sheet	1881.51	1231.99

### DIVIDEND:

The company has paid interim dividend @5% i.e. Re.0.25 per equity share of Rs. 5/- each.

The Directors are pleased to recommend a dividend @ 5% i.e. Re.0.25 per equity share of Rs.5/- each for the financial year 2009-2010.

**PERFORMANCE:**

Your Directors are pleased to inform the Members that the Company has posted Total Income of Rs.8699.29 Lacs as against Total Income of Rs. 5451.47 Lacs in the corresponding previous year. Net Profit after Tax for the year under review was Rs.754.74 Lacs as against Net Profit after Tax of Rs.832.46 Lacs in the corresponding previous year.

During the year 2009-2010, the Company has successfully come out with bonus issue in the ratio of Two Equity Shares for every One Equity Shares (2:1) held aggregating to 17988000 equity shares of Rs. 10/- each, which were listed on Bombay Stock Exchange Limited on 08/09/2009.

**CORPORATE GOVERNANCE:**

In terms of Clause 49 of Listing Agreement with Stock Exchanges, a compliance report on Corporate Governance is annexed with this Report.

**AUDITORS:**

M/s. Ravi & Dev, Chartered Accountants, Mumbai, the Statutory Auditors of the Company retire at the ensuing Annual General Meeting. The members are requested to appoint auditors and to fix their remuneration.

**DIRECTORS:**

Mr. Shailesh Patel and Mr. Gautam Parekh, Directors are liable to retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

**DIRECTORS' RESPONSIBILITY STATEMENT:**

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 with respect to the Directors' Responsibilities Statement, it is hereby confirmed:-

- i) That in the preparation of the annual accounts for the year 2009-10, the applicable accounting standards have been followed and there are no material departures;
- ii) That the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as on 31<sup>st</sup> March 2010.
- iii) that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) that the directors have prepared the Annual Accounts of the company on a going concern basis

**FIXED DEPOSITS:**

The Company has not accepted any loans or deposits from public in contravention of Section 58A of the Companies Act, 1956, and rules framed under the Companies (Acceptance of Deposits) Rules, 1975.

**THE COMPANIES (PARTICULARS OF EMPLOYEES) RULE 1975 AS AMENDED:**

The Company has no employees of the specified categories under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended upto date.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNING AND OUTGO:**

As the Company does not have any manufacturing activities, particulars required in term to be disclosed with respect to the conservation of energy and technology in term of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of the Board of Directors) Rules, 1998 are not applicable. Further the details regarding foreign exchange earnings and outgo are given in Note Nos. 3 to 6 under Schedule 'K' i.e. Significant Accounting Policies of the Notes to Accounts.

**ACKNOWLEDGEMENT:**

Your Directors records their appreciation for the full co-operation received from the Financial Institutions, Banks, other agencies and departments.

**For and On behalf of the  
Board of Directors**

**Place: Mumbai  
Date: 29/06/2010**

**PREMJIBHAI D. KANANI  
CHAIRMAN.**

**REGISTERED OFFICE:**

**G/6, PRASAD CHAMBERS,  
TATA ROAD NO.2, OPERA HOUSE,  
MUMBAI: 400004.**

## Corporate Governance Report

The Corporate Governance Code as per Clause No.49 in the Listing Agreement of the Stock Exchanges and also by applicable provisions of the Companies (Amendment) Act, 2000, has been implemented by the Company. A report on Corporate Governance is given below:

### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:

Your Company has committed to bring about the good corporate governance practices. It strongly believes in attaining transparency, accountability and equity, in all its operations, and in its interaction with stakeholders including shareholders, employees, the government and the lenders.

### 2. BOARD OF DIRECTORS

As on 31<sup>st</sup> March, 2010 the strength of Board of Directors was 06, comprising of 2 Executive Directors and 4 Non-Executive Independent Directors. The Chairman of the Company is Executive Promoter Director.

The Board of Directors of the Company consists of eminent persons with considerable professional expertise and experience in business and industry, finance, management and marketing. The composition of the Board of Directors with reference to number of Executive and Non-Executive Directors meets with the requirements of Clause 49 (1) (A) of the Listing Agreement. None of the Directors on the Board is a member on more than ten Committees and Chairman of more than five Committees as per Clause 49 (IV) (B) across all Companies in which they are Directors.

The composition of the Board of Directors and also the number of other Companies of which he is a Director and Member/Chairman as on March 31, 2010 are as under:

Names of Directors	Category of Directorship	Directorship in other companies	Committee Membership (s) of other Companies	
			Member	Chairman
Mr. Premjibhai Kanani	Chairman	-	-	-
Mr. Harshil Kanani	Director	1	-	-
Mr. Gautam Parekh	Independent And Non Executive Director	-	-	-
Mr. Devendrakumar Kikani	Independent And Non Executive Director	-	-	-
Mr. Shailesh Patel	Independent And Non Executive Director	-	-	-
Mr. Nagjibhai Vithani	Independent And Non Executive Director	-	-	-

- *Directorship in Private Limited Companies are also included in the above table.*

None of the Directors holds directorships in more than 15 Companies, membership in committee of Board in more than 10 Companies and Chairmanship of more than 5 Committees.

#### BOARD PROCEDURE:

The Board meets at least once every quarter to review the quarterly performance and the financial results. The Board's role, functions, responsibility and accountability are clearly defined. All major decisions involving policy formulations, business plans, annual operating budgets, compliance with statutory requirements, major accounting provisions and write-offs are considered by the Board.

#### ATTENDANCE OF EACH DIRECTOR AT THE BOARD MEETINGS AND THE LAST ANNUAL GENERAL MEETING:

During the year **10 (Ten)** Board Meetings were held during the financial year ended March 31 2010, the dates of which are 20/04/2009, 10/06/2009, 25/06/2009, 03/07/2009, 24/07/2009, 24/08/2009, 14/10/2009, 03/11/2009, 12/12/2009, and 18/01/2010. The attendance of each Director at Board Meetings and at the last Annual General Meeting is as under:

Name of the Director	No. of Board meetings attended	Attendance of last AGM held on 24/07/2009.
Mr. Premjibhai Kanani	09	Present
Mr. Harshil Kanani	08	Present
Mr. Gautam Parekh	05	-
Mr. Shailesh Patel	10	-
Mr. Devendrakumar Kikani	05	-
Mr. Nagjibhai Vithani	-	-

#### 3. AUDIT COMMITTEE:

##### BROAD TERMS OF REFERENCE

The Audit Committee of the Company, inter-alia, acts as a control mechanism in the financial and other important departments of the Company. The terms of reference of the Audit Committee are in accordance with paragraphs C and D of Clause 49 (II) of the Listing Agreement and as specified by the Board of Directors of the Company.

The Audit Committee while reviewing the Annual Financial Statements also reviewed the applicability of various Accounting Standards (AS) issued by the Institute of Chartered Accountants of India during the year. The role of the Audit Committee includes the following:

- Overseeing of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other service.
- Reviewing with management the financial statements before submission to the Board.
- Reviewing with the management and the external and internal auditors, the adequacy of internal control systems.
- Reviewing the adequacy of internal audit function and procedures.

- f. Discussion with internal auditors on 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 failure of internal control systems of a material nature and reporting the matter to the Board.
- h. Discussions with External Auditors before the audit commences, the nature and the scope of Audit as well as have post audit discussion.
- i. Reviewing the Company's financial and risk management policies.

## COMPOSITION

The Audit Committee comprises of Three Directors, all are non executive and independent Directors. All these Directors possess knowledge by corporate finance, accounts and company law.

The constitution of the Audit Committee is as follows:

S.N	Name of Director	Executive/Non-Executive Independent
1.	Mr. Gautam Parekh	Chairman & Non-Executive, Independent
2.	Mr. Devendrakumar Kikani	Non-Executive Independent
3.	Mr. Shailesh Patel	Non-Executive Independent

## MEETINGS AND ATTENDANCE:

During the financial year ended March 31, 2010, Two Audit Committee Meetings were held on 14/10/2009 and 18/01/2010 as the provisions of the Corporate Governance became applicable to the Company w.e.f. 24/08/2009 and on the same day all the Board committees as applicable to the Company under Clause 49 of the Listing Agreement were constituted.

The attendance at the Audit Committee Meetings is as under:

Name of Director	No. of meetings attended
Mr. Gautam Parekh	02
Mr. Devendrakumar Kikani	02
Mr. Shailesh Patel	02

## 4. SHARE TRANSFER/INVESTOR GRIEVANCE COMMITTEE:

### FUNCTIONS

The Board of Directors of the Company has constituted a Committee of Directors which also functions as 'Shareholders'/Investors Grievances Committee', consisting of three members, chaired by non executive Director. The Committee interalia, deals with various matters relating to:

- transfer/transmission of shares;
- issue of duplicate share certificates;
- investors' grievances and redressal mechanism and recommend measures to improve the level of investor services.

Details of shares transfer/transmission approved by the Committee and Shareholders'/Investors' grievances are placed at the Board Meetings from time to time.

### **COMPOSITION**

The constitution of the Committee of Directors is as under:

S.N	Name of Director	Executive/Non-Executive Independent
1.	Mr. Gautam Parekh	Chairman & Non-Executive, Independent
2.	Mr. Premjibhai Kanani	Executive
3.	Mr. Shailesh Patel	Non-Executive Independent

### **5. REMUNERATION POLICY:**

The Board of Directors is authorized to decide Remuneration to Executive Directors. The Remuneration structure comprises of Salary and Perquisites. Salary is paid to Executive Directors within the Salary grade approved by the Members.

The details of Remuneration paid to Executive Directors for the Financial Year 2009-10.

Sr.No.	Name of Directors	Remuneration paid (in Rs.)
1.	Mr. Premjibhai Kanani	NIL
2.	Mr. Harshil Kanani	501000

### **DETAILS OF SHAREHOLDERS' COMPLAINTS RECEIVED, NOT SOLVED AND PENDING SHARE TRANSFERS:**

The Company had received 02 investor complaints, which were resolved to the satisfaction of the said investors. Thus there are no investor complaints which are pending.

### **6. GENERAL BODY MEETINGS:**

Location and time, where last three Annual General Meetings were held is given below:

Financial Year	Date	Location of the Meeting	Time
2006-2007	29/09/2007	104, 9 <sup>TH</sup> FLOOR, NAVYUG NAGAR NO.1, FORJET HILL ROAD, TARDEO, MUMBAI: 400004	11.00 A.M
2007-2008	07/07/2008	G/6, PRASAD CHAMBERS, TATA ROAD NO.2, OPERA HOUSE, MUMBAI: 400004	11.30 A.M
2008-2009	24/07/2009	G/6, PRASAD CHAMBERS, TATA ROAD NO.2, OPERA HOUSE, MUMBAI: 400004	11.00 A.M

### **7. DISCLOSURES:**

There were no transactions of material nature between the Company and its Directors or Senior Management and their relatives or Promoters that may have potential conflict with interest of the Company. The Register of Contracts containing transactions, in which Directors are interested, have been placed before the Board regularly.

Transactions with related parties, as per requirements of Accounting Standard 18 are disclosed elsewhere in this Annual Report.

During the last Three years there has been no instance of non compliance by the Company on any matter related to capital market. Hence there were no strictures or penalties imposed either by SEBI or Stock Exchanges or any Statutory Authority for non compliance of any matter related to capital market.

## 8. MEANS OF COMMUNICATION:

As the Financial Results of the Company are published in the newspaper and press release is issued in leading newspapers, a separate half yearly report is not sent to each Shareholder.

The Quarterly Reports of the Company are published in accordance with the Requirements of the Listing Agreement of the Bombay Stock Exchange, Mumbai.

### News Papers in which results are normally published:

1. Business Standard (English)
2. Mumbai Lakshadweep (Marathi)

## 9. IMPLEMENTATION OF CODE OF CONDUCT FOR INSIDER TRADING:

Kanani Industries Limited has adopted Code of Conduct for Insider Trading and is based on the SEBI framework and is stringent than the statutory code being enforced by the SEBI. Kanani Industries Limited follows strict guidelines in respect of insiders' stock trading and related disclosures Mr. Darshak Pandya is designated as the Compliance Officer to over see its implementation. Periodic disclosures have been obtained from all the Directors and 'designated employees' Under the aforesaid code all Directors and Designated Employees are required to conduct all their dealing in securities of the Company only in valid trading window after obtaining pre clearance form the Company as per the pre dealing procedure described in the Code.

## 10. SECRETARIAL AUDIT FOR RECONCILIATION OF CAPITAL:

As stipulated by SEBI, a Compliance officer carries out Secretarial Audit to reconcile the total admitted capital with National Securities Depository Limited and Central Depository Services (India) Limited and the total issued and listed capital. This audit is carried out every quarter and the report thereon is submitted to the Stock Exchanges as well as placed before the Board of Directors. The audit confirms that the total Listed and paid up capital is in agreement with the aggregate of the total number of Shares in dematerialised form (held by NSDL and CDSL) and total number of Shares in physical form.

## 11. GENERAL SHAREHOLDERS' INFORMATION:

1. Annual General Meeting Scheduled to be Held:

**Date:** 2<sup>nd</sup> August 2010

**Time:** 9.30 A.M

**Venue:** Krishna Palace Residency Hotel, 96/98, Grant Road, Mumbai, Maharashtra 400007

### 2. Date of Book Closure:

Wednesday, July 28 2010 to Monday, August 02, 2010 (both days inclusive.)



**3. Financial Calendar:**

The financial calendar year of the Company was from 1<sup>st</sup> April 2009 to 31<sup>st</sup> March 2010.

Financial Reporting for:	Date:
Financial Reporting for the quarter ending 30 <sup>th</sup> June, 2009.	July 24,2009
Financial Reporting for the quarter ending 30 <sup>th</sup> September, 2009.	October 14 <sup>th</sup> ,2009
Financial Reporting for the quarter ending 31 <sup>st</sup> December, 2009.	January 18,2010
Financial Reporting for the quarter ending 31 <sup>st</sup> March 31, 2010.	April 30,2010

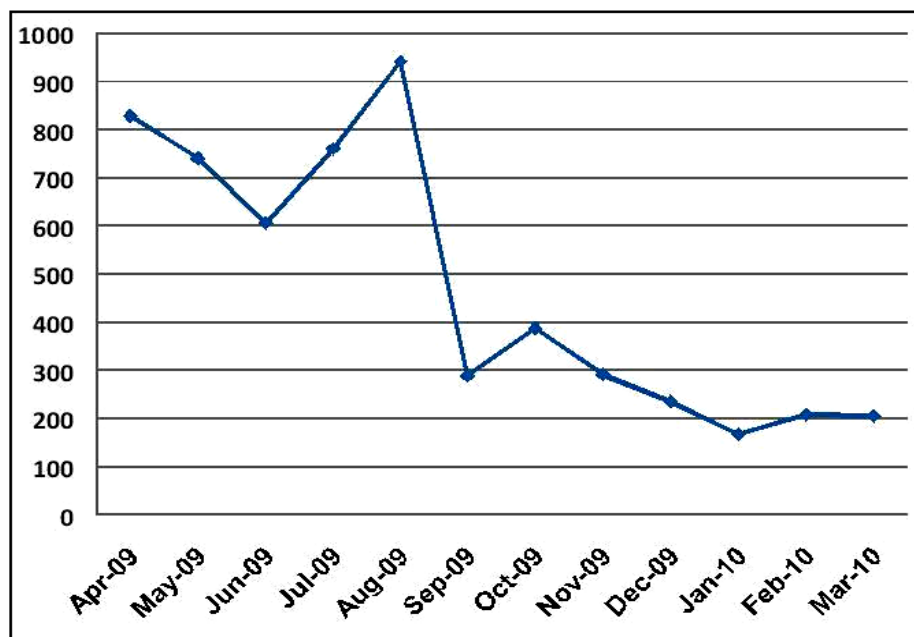
**4. Listing on Stock Exchanges:** Equity Shares of the Company are listed on Bombay Stock Exchange Limited.

**5. Stock Code:** Bombay Stock Exchange Limited: **(BSE): 506184**

**6. Stock Price Data:**

The monthly high and low quotations and volume of shares traded on Bombay Stock Exchange Limited are as follows:

Month	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades
Apr-09	827.95	827.95	716	723	453	31
May-09	740	813.9	511	577.5	486	30
Jun-09	606	690.9	514	690.9	126	20
Jul-09	759.95	1,020.00	759.95	941.45	791	103
Aug-09	941.4	990	296	301.1	3,286	203
Sep-09	288	510	270.25	407.15	68,166	696
Oct-09	386.8	386.8	258.85	280.05	16,324	573
Nov-09	291	298.5	228	243.05	19,788	458
Dec-09	235.05	330	163	165.1	65,659	937
Jan-10	167	217	166	199.7	53,917	709
Feb-10	207.5	265	201.5	202.65	68,314	433
Mar-10	205	241.65	200.9	213.95	61,005	956



**7. Address for Correspondence:**

- e) Registered Office  
G-6, Prasad Chambers,  
Tata Road No.2, Opera House,  
Mumbai-400 004.
- h) Registrar and Share  
Transfer Agent  
M/s.**SHAREX DYNAMIC (INDIA) PRIVATE LIMITED**  
17/B, Dena Bank Bldg., 2<sup>nd</sup> Floor,  
Horniman Circle, Fort,  
Mumbai: 400 001.  
Ph: 022 22702485 Fax: 022 22641349

**8. Share Transfer System:**

Shares sent for transfer in physical to Sharex Dynamic (India) Private Limited (R&T Agents), are registered and returned with a period of 30 days from the date of receipt, if the documents are in order. The Share Transfer Committee meets generally on a fortnightly basis to consider the transfer proposal. All requests for dematerialisation of shares are processed by the Company and Sharex Dynamic (India) Private Limited within 21 days.

**9. Dematerialisation of shares:**

As on 31<sup>st</sup> March, 2010, out of total Equity Shares of 17988000, 17979480 shares are held in dematerialized form with NSDL and CDSL which aggregates to 99.95%.

**10. Distribution of shareholding as on March 31, 2010:**

No. of shares held	No. of shareholders	No. of shares held	% of shareholding
1 to 100	182	6224	0.03
101 to 200	91	12323	0.07
201 to 500	23	7992	0.04
501 to 1000	18	13810	0.08
1001 to 5000	52	154653	0.86
5001 to 10,000	4	24940	0.14
10,001 to 1,00,000	14	626230	3.48
1,00,001 and above	19	17141828	95.30
<b>TOTAL</b>	<b>403</b>	<b>17988000</b>	<b>100.00</b>

Shareholding Pattern As on 31<sup>st</sup> March, 2010

Category code	Category of Shareholder	Number of Shareholders	Total number of shares	Number of shares held in dematerialized form	Total shareholding as a percentage of total number of shares	
					As a percentage of (A+B)	As a percentage of (A+B+C)
<b>(A)</b>	<b>Shareholding of Promoter and Promoter Group<sup>2</sup></b>					
<b>1</b>	<b>Indian</b>					
(a)	Individuals/ Hindu Undivided Family	4	13460880	13460880	74.833	74.833
(b)	Central Government/ State Government(s)	0	0	0	0.000	0.000
(c)	Bodies Corporate	0	0	0	0.000	0.000
(d)	Financial Institutions/ Banks	0	0	0	0.000	0.000
(e)	Any Others(Specify)	0	0	0	0.000	0.000
	<b>Sub Total(A)(1)</b>	<b>4</b>	<b>13460880</b>	<b>13460880</b>	<b>74.833</b>	<b>74.833</b>
<b>2</b>	<b>Foreign</b>					
a	Individuals (Non-Residents Individuals/ Foreign Individuals)	0	0	0	0.000	0.000
b	Bodies Corporate	0	0	0	0.000	0.000
c	Institutions	0	0	0	0.000	0.000
d	Any Others(Specify)	0	0	0	0.000	0.000
	<b>Sub Total(A)(2)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.000</b>	<b>0.000</b>
	<b>Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)</b>	<b>4</b>	<b>13460880</b>	<b>13460880</b>	<b>74.833</b>	<b>74.833</b>
<b>(B)</b>	<b>Public shareholding</b>					
<b>1</b>	<b>Institutions</b>					
(a)	Mutual Funds/ UTI	0	0	0	0.000	0.000
(b)	Financial Institutions/ Banks	0	0	0	0.000	0.000
(c)	Central Government/ State Government(s)	0	0	0	0.000	0.000
(d)	Venture Capital Funds	0	0	0	0.000	0.000
(e)	Insurance Companies	0	0	0	0.000	0.000
(f)	Foreign Institutional Investors	0	0	0	0.000	0.000
(g)	Foreign Venture Capital Investors	0	0	0	0.000	0.000
(h)	Any Other (specify)	0	0	0	0.000	0.000
	<b>Sub-Total (B)(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.000</b>	<b>0.000</b>
<b>B 2</b>	<b>Non-institutions</b>					
(a)	Bodies Corporate	43	170214	170214	0.946	0.946
(b)	Individuals					
I	Individuals -i. Individual shareholders holding nominal share capital up to Rs 1 lakh	325	225990	217470	1.256	1.256
II	ii. Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.	23	4130120	4130120	22.960	22.960
(c)	Any Other (specify)					
(c-i)	Clearing Member	5	536	536	0.003	0.003
(c-ii)	OBC	0	0	0	0.000	0.000
(c-iii)	NRI	3	260	260	0.001	0.001
	<b>Sub-Total (B)(2)</b>	<b>399</b>	<b>4527120</b>	<b>4518600</b>	<b>25.167</b>	<b>25.167</b>
<b>(B)</b>	<b>Total Public Shareholding (B)= (B)(1)+(B)(2)</b>	<b>399</b>	<b>4527120</b>	<b>4518600</b>	<b>25.167</b>	<b>25.167</b>
	<b>TOTAL (A)+(B)</b>	<b>403</b>	<b>17988000</b>	<b>17979480</b>	<b>100.000</b>	<b>100.000</b>
<b>(C)</b>	Shares held by Custodians and against which Depository Receipts have been issued	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.000</b>	<b>0.000</b>
	<b>GRAND TOTAL (A)+(B)+(C)</b>	<b>403</b>	<b>17988000</b>	<b>17979480</b>		<b>100.000</b>

**Note:** Shareholding pattern in case of demated shares has been prepared based on download of data received from NSDL / CDSL as on 31<sup>st</sup> March 2010.

**DECLARATION**

I, Harshil Kanani, Managing Director of Kanani Industries Limited, based on confirmations received from all the Directors and Senior Management of the Company, do hereby state that all Board Members and senior management personnel have affirmed compliances with the Code of Conduct of the Company for the year ended 31<sup>st</sup> March 2010.

**BY AND ON BEHALF OF THE BOARD****Harshil Kanani****Managing Director****Place: Mumbai****Date: 29/06/2010**

**Auditor's Report**

To the Members

**KANANI INDUSTRIES LIMITED**

Mumbai

We have audited the attached Balance Sheet of Kanani Industries Limited as at 31st March, 2010 and both the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, which we have signed under reference to this Report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan & perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion and report thereto:

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government in terms of sub-section 4A of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the annexure referred to in the paragraph (1) above:
  - I. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
  - II. In our opinion, proper books of account as required by the law have been maintained by the company so far as appears from our examination of such books.
  - III. The balance sheet and the profit & loss account are in agreement with the books of account;
  - IV. In our opinion, the profit & loss Account and the balance sheet comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - V. on the basis of written representations received from the directors of the company and taken on record by the Board of Directors, we report that none of the directors of the company is disqualified from being appointed as a director under clause (g) of sub-section(1) of section 274 of the companies Act,1956;
  - VI. in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes thereon, give the information required under the Companies Act, 1956 in the manner so required give a true and fair view in conformity with the accounting principles generally accepted in India :
    - i. in the case of balance sheet, of the state of affairs as at 31<sup>st</sup> March, 2010; and
    - ii. in the case of profit and loss account, of the profit for the year ended on that date.
    - iii. in the case of the cash flow statement, of the cash flows for the year ended on that date;

**For RAVI & DEV**

Chartered Accountants

**(DEVENDRA A. MEHTA)**

Partner

M. No.82325

Mumbai

Date: April 30, 2010

**ANNEXURE TO THE AUDITOR'S REPORT**  
(Referred to in Paragraph 1 of our report of even date)

To the Members  
**KANANI INDUSTRIES LIMITED**  
Mumbai

- i. a) As informed by the management, the proper records of fixed assets showing full particulars including quantitative details and location of fixed assets are under updation and compilation.  
b) As explained to us, the fixed assets have been physically verified by the management during the year at regular intervals, which in our opinion is reasonable, having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such physical verification.  
c) The company has not disposed of any part of its fixed assets during the year.
- ii. a) The inventories have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.  
b) In our opinion and according to information and explanation given to us, the procedures of physical verification of the company are reasonable and adequate having regard to the size of the company and nature of its business.  
c) In our opinion and according to the information and explanation given to us, the company is maintaining proper records of inventory. The discrepancies noticed on such verification between physical stocks and book records were not material and have been properly dealt with in the books of accounts.
- iii. a) The company has not granted any loans, secured or unsecured to Companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.  
b) The company has not taken any secured or unsecured loans from Companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- iv. In our opinion and according to the information and explanation give to us, there is adequate internal control system commensurate with the size of the company and nature of its business with regard to purchase of inventory, fixed assets and also for the sale of goods & services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
- v. a) According to the information and explanations given to us, we are of the opinion that the transactions that are needed to be entered into the register in pursuance of section 301 of the Companies Act, 1956 have been so entered.  
b) In our opinion and according to the information and explanations given to us, the Company has not entered into any transactions exceeding Rs.5,00,000/- in value made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956
- vi. In our opinion and according to the information and explanations given to us, the company has not accepted any deposit in contravention of section 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 and other relevant provisions of the Act. As informed to us, no order has been passed by the Company Law Board, National Company Law Tribunal or any Court or Tribunal.
- vii. The Company does not have an internal audit system. The management has informed us that steps are being taken to introduce internal audit system.
- viii. The Central Government has not prescribed maintenance of cost records u/s. 209(1)(d) of the Companies Act, 1956 for any of the product of the company.

- ix. a) The company is generally regular in depositing undisputed statutory dues including investor education protection fund, income tax, sales tax, service tax, wealth tax, custom duty, excise duty, cess and other material statutory dues with appropriate authorities, wherever applicable to it. The Company has yet to apply for registration with provident fund and employees' state Insurance authorities.
- b) According to the information and explanations given to us, as at 31st March, 2010, no undisputed amounts payable in respect of income-tax, wealth tax, service tax, sales tax, custom duty, excise duty and cess were in arrears for a period exceeding six months from the date they became payable.
- c) As per the records of the company and in accordance with the information and explanation given to us, there are no dues of sales-tax, income-tax, custom duty, wealth tax, service tax, excise duty and cess which have not been deposited on account of any dispute.
- x. The Company does not have any accumulated losses. The company has not incurred cash losses during the current financial year or in the immediately preceeding financial year.
- xi. In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to the bank. It has not borrowed any funds from financial institution or debenture holders.
- xii. The company has not granted any loans and/or advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. In our opinion, the company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- xiv. In our opinion and according to Information and explanation given to us, the Company does not deal in shares, securities, debentures etc.
- xv. According to the information and explanation given to us, the company has not given guarantees for loans taken by others from banks or financial institutions.
- xvi. In our opinion, the company has not taken any term loan.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investments. No long term funds have been used to finance short term assets except permanent working capital.
- xviii. During the year under consideration, the Company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.
- xix. During the year, the company has not issued any debentures.
- xx. During the year, the company has not raised any money by way of public issue.
- xxi. In our opinion, on the basis of audit conducted by us and in accordance with the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

**For RAVI & DEV**

Chartered Accountants

**(DEVENDRA A. MEHTA)****Partner  
M. No.82325****Mumbai****Date: April 30, 2010**

## BALANCE SHEET AS ON 31st MARCH, 2010

	<u>Sch.</u>	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
<b>I. SOURCES OF FUNDS</b>			
<b>1. Shareholders' Funds</b>			
a. Share Capital	<b>A</b>	89,940,000	29,980,000
b. Reserves & Surplus	<b>B</b>	146,112,048	141,120,795
		<u>236,052,048</u>	<u>171,100,795</u>
<b>2. Loan Funds</b>			
a. Secured Loans	<b>C</b>	243,956,140	99,073,440
b. Unsecured Loans		-	-
		<u>243,956,140</u>	<u>99,073,440</u>
<b>TOTAL</b>		<b><u>480,008,188</u></b>	<b><u>270,174,235</u></b>
<b>II. APPLICATION OF FUNDS</b>			
<b>1. Fixed Capital Expenditure</b>			
a. Fixed Assets			
Gross Block	<b>D</b>	15,144,529	15,004,529
Less: Depreciation		(2,402,620)	(918,960)
Net Block		<u>12,741,909</u>	<u>14,085,569</u>
<b>2. Current Assets, Loans &amp; Advances</b>	<b>E</b>		
a. Inventory		128,916,519	89,501,511
b. Sundry Debtors		332,833,625	329,302,219
c. Cash & Bank balances		90,919,271	38,416,580
d. Loans & Advances		2,700,140	2,432,019
Less : Current Liabilities & Provisions	<b>F</b>	(88,103,276)	(203,563,663)
		<u>467,266,279</u>	<u>256,088,666</u>
<b>TOTAL</b>		<b><u>480,008,188</u></b>	<b><u>270,174,235</u></b>

## Notes to Accounts

In terms of our report of even date attached.

for **RAVI & DEV**

Chartered Accountants

**(Devendra Mehta)**

Partner

M. No.82325

Mumbai

April 30, 2010

For &amp; on behalf of Board of Directors

**PREMJI KANANI**

Chairman

**HARSHIL P. KANANI**

Managing Director

Mumbai

April 30, 2010



## PROFIT &amp; LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010

	<u>Sch.</u>	<b>2010</b> <u>Rs.</u>	<b>2009</b> <u>Rs.</u>
<b>I. INCOME</b>			
Sales		868,385,528	542,658,432
Other Income		(4,407,616)	2,488,238
Increase in Stock of finished Goods		5,951,045	-
<b>TOTAL</b>		<b>869,928,957</b>	<b>545,146,670</b>
<b>II. EXPENDITURE</b>			
Material Consumed		777,442,368	454,910,984
Manufacturing Expenses	<b>G</b>	3,748,231	2,260,320
Payment to Employees		819,000	1,135,000
Administrative Expenses	<b>H</b>	1,546,193	805,788
Selling & Distribution Expenses	<b>I</b>	401,477	191,934
Financial Expenses	<b>J</b>	9,014,179	1,680,564
Depreciation		1,483,660	913,018
<b>TOTAL</b>		<b>794,455,108</b>	<b>461,897,608</b>
<b>Profit for the year before taxes</b>		<b>75,473,849</b>	<b>83,249,062</b>
<u>Less : Provision for taxes</u>			
Current Taxes		-	-
Fringe Benefit Tax		-	(3,500)
<b>Profit for the year</b>		<b>75,473,849</b>	<b>83,245,562</b>
<u>Add : Profit/(Loss) brought forward</u>		123,199,768	43,316,057
		198,673,617	126,561,619
<u>Add : Proposed Dividend of Previous Year reversed</u>		-	124,500
Provision for Corporate Dividend tax reversed		-	21,159
<b>Profit available for appropriation</b>		<b>198,673,617</b>	<b>126,707,278</b>
<b>APPROPRIATIONS</b>			
Interim Dividend Paid		4,497,056	1,499,000
Corporate Dividend Tax on Interim Dividend		764,275	254,755
Proposed Dividend		4,497,000	1,499,000
Corporate Dividend Tax on Proposed Dividend		764,265	254,755
Surplus carried to Balance sheet		188,151,021	123,199,768
		<b>198,673,617</b>	<b>126,707,278</b>
<b>Basic &amp; Diluted Earning per Share</b>		<b>4.20</b>	<b>4.63</b>

**Notes to Accounts****K**

In terms of our report of even date attached.

for **RAVI & DEV**

Chartered Accountants

**(Devendra Mehta)**

Partner

M. No.82325

Mumbai

April 30, 2010

For &amp; on behalf of Board of Directors

**PREMJI KANANI**

Chairman

**HARSHIL KANANI**

Managing Director

Mumbai

April 30, 2010

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2010

	<u>2010</u>	<u>2009</u>
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit/(Loss) Before tax	75,473,849	83,249,062
<b>Adjustments for</b>		
Depreciation	1,483,660	913,018
Income-tax	-	-
<b>Adjustments for Working Capital Changes</b>		
Inventories	(39,415,008)	(45,318,912)
Trade & Other receivables	(3,799,527)	(190,295,535)
Trade Payables	(118,967,897)	59,971,092
<i>Cash Generated from Operations</i> a)	<u>(85,224,923)</u>	<u>(91,481,275)</u>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(140,000)	(8,085,890)
Capital Work in Progress	-	-
<i>Cash Utilised in Investing Activities</i> b)	<u>(140,000)</u>	<u>(8,085,890)</u>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Borrowings	144,882,700	99,073,440
Equity Shares Issued	-	12,500,000
Share Premium	-	31,250,000
Interim Dividend	(4,497,056)	(1,499,000)
Corporate tax	(764,275)	(254,755)
Final Dividend & Corporate Tax	(1,753,755)	-
Loan Repaid	-	(4,021,735)
<i>Cash Generated from Financing Activities</i> c)	<u>137,867,614</u>	<u>137,047,950</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS(a+b+c)</b>	<u>52,502,691</u>	<u>37,480,785</u>
<b>CASH &amp; CASH EQUIVALENTS AS AT 1st APRIL (OPENING BALANCE)</b>	<u>38,416,580</u>	<u>935,795</u>
<b>CASH &amp; CASH EQUIVALENTS AS AT 31st MARCH (CLOSING BALANCE)</b>	<u>90,919,271</u>	<u>38,416,580</u>

For RAVI &amp; DEV

Chartered Accountants

(DEVENDRA MEHTA)

Partner

M. No.82325

Mumbai

April 30, 2010

For KANANI INDUSTRIES LIMITED

PREMJIBHAI KANANI

Chairman

HARSHIL KANANI

Managing Director

Mumbai

April 30, 2010

## SCHEDULE FOR THE YEAR ENDED 31ST MARCH, 2010

**SCHEDULE 'A' : SHARE CAPITAL**Authorised

30000000 Equity shares of Rs. 5 each.

(Previous Year : 15000000 Equity shares of Rs 10.00 Each)

2010  
Rs.

150,000,000

2009  
Rs.

150,000,000

Issued, subscribed & paid-up

17988000 (Previous Year : 2998000 Equity shares of Rs.10/-)

Equity Shares of Rs. 5/- each.

89,940,000

29,980,000

**89,940,000****29,980,000****SCHEDULE 'B' : RESERVE & SURPLUS****General Reserve**

1,661,027

1,661,027

**Shares Premium**

16,260,000

Less: Capitalised by way of issue of fully paid  
up Bonus Shares(16,260,000)

-

16,260,000

**Profit & Loss Account**

Balance as per Last Balance Sheet

123,199,768

43,316,057

Less: Capitalised by way of issue of fully paid  
up Bonus Shares(43,700,000)Add: Profit for the year

75,473,849

83,245,562

Less: Appropriations(10,522,596)

144,451,021

(3,361,851)**146,112,048****141,120,795****SCHEDULE 'C' : SECURED LOANS**Post Shipment Credit Facility

Dena Bank Limited

177,712,100

99,073,440

Canara Bank

66,244,040

-

(Secured against export bills/receivable. Further secured by mortgage of land and factory building at Surat SEZ and land and building at Bhavnagar belonging to Smt. Nanduben P. Kanani, also secured by mortgage of land& Building at Plot No.9, surat SEZ belonging to M/s. Star-Diam , land & building at Plot No. 28 & 43 Jahangirabad, Surat & flat & garage at Tardeo-Mumbai belonging to Shri Premjibhai Kanani. The above loan is further secured by personal guarantee of Shri Premjibhai D. Kanani and Harshil P. Kanai Directors of the company

**243,956,140****99,073,440**

## YEAR ENDED 31 ST MARCH, 2010

## SCHEDULE 'D' : FIXED ASSETS

Name of the assets	-----GROSS BLOCK----->			-----DEPRECIATION----->			<----- NET BLOCK ----->	
	As on	Additional Sale	Total	Rate	As on	Total	As on	As on
	01.04.09	during the year		%	01.04.09	off Back	31.03.10	31.03.09
						during the year		
Land	4,700,000	-	4,700,000	-	313,333	-	4,073,334	4,386,667
Factory Building	5,969,514	-	5,969,514	10.00	267,993	-	5,131,369	5,701,521
Plant & Machinery	3,763,087	-	3,763,087	13.91	264,887	-	3,011,600	3,498,200
Generator	-	140,000	140,000	13.91	-	-	132,424	-
Office Equipment	90,550	-	90,550	13.91	14,378	-	65,576	76,172
Air Conditioner	304,074	-	304,074	13.91	21,206	-	243,521	282,868
Computer	177,304	-	177,304	40.00	37,163	-	84,085	140,141
	<b>15,004,529</b>	<b>140,000</b>	<b>15,144,529</b>		<b>918,960</b>	<b>1,483,660</b>	<b>12,741,909</b>	<b>14,085,569</b>
Previous Year Total	-	<b>10,137,775</b>	<b>15,004,529</b>		<b>5,942</b>	<b>913,018</b>	<b>14,085,569</b>	<b>4,860,812</b>

**SCHEDULE 'E' : CURRENT ASSETS, LOANS & ADVANCES****1. Current Assets****a. Inventory**

(As taken, valued and certified by the management)

(Valued at lower of cost or net realisable value)

Diamonds

122,906,528

89,453,337

Bullion

58,946

48,174

Finished Goods

5,951,045

-

128,916,519

89,501,511

**b. Sundry Debtors**

(Unsecured &amp; considered good)

i. Over six months

-

140,570,356

ii. Others

332,833,625

188,731,863

332,833,625

329,302,219

**c. Cash & Bank balances**

Bank balances with Scheduled banks

in Current accounts

90,171,793

3,281,935

F.D. With Dena Bank

665,901

35,003,356

Cash

81,577

131,289

90,919,271

38,416,580

552,669,415

457,220,310

**2. Loans & Advances**

(Unsecured &amp; considered good)

Advances recoverable in cash or in kind for value to be received

2,700,140

2,432,019

2,700,140

2,432,019

555,369,555

459,652,329

**SCHEDULE 'F' : CURRENT LIABILITIES & PROVISIONS****1. Current Liabilities**

a. Sundry Creditors

82,253,180

201,415,298

b. Outstanding Liabilities

584,631

390,410

82,837,811

201,805,708

**2. Provisions**

Provision for Fringe Benefit tax

4,200

4,200

Proposed Dividend

4,497,000

1,499,000

Provision for Corporate Dividend Tax

764,265

254,755

5,265,465

1,757,955

88,103,276

203,563,663

**SCHEDULE 'G' : MANUFACTURING EXPENSES**

Power & Fuel	105,254	114,201
Stores & Consumables	582,203	331,857
Wages	2,882,843	1,630,411
Repair & Maintanace	173,201	-
Factory Rent	-	70,000
Machinery Rent	-	99,250
Water Charges	4,730	14,601
	<b>3,748,231</b>	<b>2,260,320</b>

**SCHEDULE 'H' : ADMINISTRATIVE EXPENSES**

Audit fee	150,000	50,000
Service Tax	329,022	5,150
Telephone & Internet Expenses	17,861	24,694
Advertisement Expenses	65,088	21,511
ROC & Filling Fees	5,000	15,000
Miscellaneous Expenses	979,222	689,433
	<b>1,546,193</b>	<b>805,788</b>

**SCHEDULE 'I' : SELLING & DISTRIBUTION EXPENSES**

Travelling Expenses	301,477	78,905
Clearing & Forwarding Charges	-	23,029
Service Charges on Export	100,000	90,000
	<b>401,477</b>	<b>191,934</b>

**SCHEDULE 'J' : FINANCIAL EXPENSES**

Interest on Loan	5,318,422	730,755
Bank Charges	1,053,107	949,809
Loan Processing and stamp duty charges	2,642,650	-
	<b>9,014,179</b>	<b>1,680,564</b>

## FOR THE YEAR ENDED 31ST MARCH, 2010

**SCHEDULE 'K' : NOTES TO ACCOUNTS****1. SIGNIFICANT ACCOUNTING POLICIES**

- I. The financial statements are prepared under the historical cost convention on accrual basis of accounting, in accordance with the requirements of the Companies Act, 1956 and accounting standards applicable in India.
- II. All items of income and expenditure are accounted for on accrual basis. However, gratuity is being accounted for on cash basis as the Company has not got actuarial valuation done of its total future liabilities for its employees on account of gratuity.

**III. Fixed Assets**

Fixed Assets are stated at cost less accumulated depreciation. Cost of acquisition is inclusive of freight, duties and other incidental expenses incurred during construction period and exclusive of CENVAT credited.

The assets acquired on hire purchase basis are stated at their cash value. The interest paid with the installments is being charged to the revenue.

**IV. Depreciation**

Depreciation of Fixed Assets has been provided on written down value method at the rates provided under the Companies Act, 1956 on pro-rata basis.

**V. Closing Stock**

- i. Raw materials are valued at cost.
- ii. Finished Goods are stated at lower of the cost or net realisable value.
- iii. Stores items purchased are treated as consumed in the year of purchase.

- VI. Sales-tax collected by the company is not treated as part of its income.

**VII. Foreign Currency Transactions**

- a) Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of the transaction.
- b) Foreign currency transactions remaining unsettled till the finalisation of accounts of the year are translated at contracted rates, when covered by forward exchange contracts and at year end rates, in all other cases.

**VIII. Taxes on income**

Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax is recognised on timing differences; being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Where there is unabsorbed depreciation and carry forward losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future.

**SCHEDULE 'K' : NOTES TO ACCOUNTS (Contd.)****IX Contingent Liability**

Contingent Liability, if any, are generally not provided for in the accounts and are shown separately as a note to the accounts.

2. In the opinion of the management, Current Assets and Loans & Advances are approximately of the value stated if realised in the ordinary course of the business. The provision for all the liabilities is, in the opinion of the management, adequate and not in excess of the amount reasonably necessary.

	<b>2010 Rs.</b>	<b>2009 Rs.</b>
3. Expenditure in Foreign Currency Foreign Travelling Expenses	152,490	40,150
4. <u>C. I. F. Value of Imports</u>		
Raw Material	810,432,627	500,116,111
Components and Spare parts	-	177,856
Capital Goods	-	4,900,650
5. Earning in Foreign Currency	-	-
6. F.O.B. Value of Exports	868,385,528	542,658,432
7. <u>Auditors' Remuneration</u>		
Audit Fee	125,000	35,000
Tax Audit Fee	25,000	15,000
	<b>150,000</b>	<b>50,000</b>
8. Directors' Remuneration	501,000	769,000

9. Disclosures as required by Accounting Standard AS-18 "Related Parties Disclosure" issued by The Institute of Chartered Accountants of India are as follows :

- a) Names of related parties and nature of relationship where control exists :

Key Management Personnel

Harshil P. Kanani

Premji D. Kanani

Enterprises where key management personnel have control and where transactions have taken place

Star Diam, Kanani Textiles Pvt Ltd, Kanani Infracon Pvt Ltd

- b) Transactions and balances with related parties

Rent	-	101,550
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- c) Balances at the year end

Payables	-	258,850
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**SCHEDULE 'K' : NOTES TO ACCOUNTS (Contd.)****10. LEASE ACCOUNTING ( AS PER ACCOUNTING STANDARD - 19)****As Lessee :-**

The total future minimum lease Premises rent payable at the balance sheet date

Not later than 1 year	:	-	-
Later than 1 year but not later than 5 years	:	-	-
Later than 5 years	:	-	-

The total future minimum lease Machinery rent payable at the balance sheet date

Not later than 1 year	:	-	-
Later than 1 year but not later than 5 years	:	-	-
Later than 5 years	:	-	-

**11. Quantitative information pursuant to Part II of Schedule VI of the Companies Act, 1956**

		<u>2010</u>		<u>2009</u>	
	<u>Unit</u>	<u>Quantity</u>	<u>Amount</u> Rs.	<u>Quantity</u>	<u>Amount</u> Rs.
a)	<u><b>Manufactured Goods</b></u>				
	<b>OPENING STOCK</b>				
	<u>Raw Material</u>				
Bullion	Gms	1,938.901	48,174	2,310.96	55,415
Diamonds	Cts.	2,000.08	89,453,337	1,926.98	44,127,184
	<b>CLOSING STOCK</b>				
	<u>Raw Material</u>				
Bullion	Gms	2,280.114	58,946	1,938.901	48,174
Diamonds	Cts.	3,273.04	122,906,528	2,000.08	89,453,337
Studded Jewellery	Nos.	182.00	5,951,045	-	-
	<b>CONSUMPTION</b>				
Bullion	Gms	15,794.787	406,374	3,430.055	83,221
Diamonds	Cts.	21,561.74	777,035,994	13,752.28	454,827,763
	<b>SALES</b>				
Studded Jewellery	Nos.	7,561.00	868,385,528	413.00	542,658,432
	<b>MANUFACTURING/PRODUCTION</b>				
Studded Jewellery	Nos.	7,743.00		413.00	

**12. Value of imported & indigenous material consumed :**

	<u>%</u>	<u>Amount</u> Rs.	<u>%</u>	<u>Amount</u> Rs.
<b><u>Raw Material</u></b>				
Indigenous	0.02	406,374	0.02	83,221
Imported	99.98	777,035,994	99.98	454,827,763
<b><u>Stores &amp; Spares</u></b>				
Indigenous	46.41	582,203	46	154,001
Imported	-	-	54	177,856

**SCHEDULE 'K' : NOTES TO ACCOUNTS (Contd.)**

13. The company has only one reportable segment i.e. Studded Jewellery, therefore no separate information is being given under Accounting Standard - AS 17 "Segment Reporting".

14. **Basic & Diluted Earning per Share (Face Value : Rs.5/- each)**

Profit after tax as per Profit & Loss Account	75,473,849	83,245,562
Weighted average number of shares outstanding	17,988,000	17,988,000
Basic & Diluted earning per share in Rupees	4.20	4.63

15. The Company is trying to ascertain the enterprises covered under the Micro, Small and Medium Enterprises Development Act, 2006 (the Act). Based on the details regarding the status of the suppliers, to the extent obtained, no supplier is covered under the Act.

16. Additional information pursuant to Part IV of Schedule VI to the Companies Act, 1956

**Balance Sheet Abstract and Company's General Business Profiles**

1. **Registration Details**

Registration No	29598	State Code	11
Balance Sheet Date	31.03.2010		

2. **Capital raised during the year (Amount in Rupees thousand )**

Public Issue	NIL	Right Issue	NIL
Bonus Issue	59960	Private Placement	NIL

3. **Position of Mobilisation and Deployment of Funds :**

Total Liabilities	480008	Total Assets	480008
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**Sources of Funds**

Paid up Capital	89940	Reserves & Surplus	146112
Share Application Money	NIL	Deferred Tax Liability	NIL
Secured Loans	243956	Unsecured Loans	NIL

**Application of Funds**

Net Fixed Assets	12742	Investments	NIL
Net Current Assets	467266	Misc. Expenditure	NIL

4. **Performance of Company :**

Turnover & other income	869929	Total Expenditure	794455
Profit/(Loss) Before Taxes	75474	Profit/(Loss) After Taxes	75474
Earning per share	4.20	Dividend Rate	10

**SCHEDULE 'K' : NOTES TO ACCOUNTS (Contd.)**

Generic names of principal products/services of the Company

5. Item code (ITC Code)

**71131120**

Production description

**Jewellery**

17. The figures of the previous year have been regrouped/reclassified/recasted to conform to the current year's classification.

18. Figures have been rounded off to the nearest of a rupee.

**Signature to Schedule 'A' to 'K'**

In terms of our report of even date

For & on behalf of Board of Directors

For **Ravi & Dev**

Chartered Accountants

**PREMJIBHAI KANANI**

Chairman

**(Devendra A. Mehta)**

Partner

M. No.82325

Mumbai

April 30, 2010

**HARSHIL KANANI**

Managing Director

Mumbai

April 30, 2010

