

AUDITORS' REPORT**TO THE BOARD OF DIRECTORS OF S. B. & T. INTERNATIONAL LIMITED**

1. We have examined the attached consolidated balance sheet of S. B. & T. International Limited ('the Company'), its subsidiaries, SB & T Holding Limited, Soft Touch Jewellers LLC and S B & T (UK) Limited (collectively referred to as 'the Group') and an associate, S.B. & T. Finance Private Limited, as at 31st March, 2004, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto (collectively referred to as 'consolidated financial statements'). These consolidated financial statements are the responsibility of the management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of above subsidiaries, whose financial statements reflect total assets of Rs.511,403,762/- as at 31st March, 2004 and total revenues of Rs.711,798,983/- and cash flows (net inflow) amounting to Rs.18,293,004/- for the year ended 31st March, 2004. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors. In respect of an associate, audited by one of the joint auditor, M/s M.M.Dubey & Co., whose financial statements reflects the Group's share of profit of Rs.79,973/- for the year ended 31st March, 2004 and the Group's share of accumulated profits of Rs.752,003/- as at 31st March, 2004.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements and Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India, and on the basis of separate audited financial statements of the Company, its subsidiaries and the associate included in the consolidated financial statements.
5. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of the Group and the associate, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a. in the case of the consolidated balance sheet, of the consolidated state of affairs of the Group and the associate as at 31st March, 2004;
 - b. in the case of the consolidated profit and loss account, of the consolidated profit of the Group and the associate for the year ended on that date; and
 - c. in the case of the consolidated cash flow statement, of the consolidated cash flows of the Group and the associate for the year ended on that date.

For **RSM & Co.**
Chartered Accountants

Vijay N. Bhatt
Partner (F-36647)

Place : Mumbai
Dated: 12th August, 2004

For **M.M. Dubey & Co.**
Chartered Accountants

M.M. Dubey
Proprietor (F-30453)

Place : Mumbai
Dated : 12th August, 2004

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2004

	Schedule	As at 31/03/2004 (Rs.)	As at 31/03/2003 (Rs.)
SOURCES OF FUNDS :			
SHARE HOLDERS' FUNDS :			
Share Capital	I	135,000,000	135,000,000
Reserves and Surplus	II	711,040,939	646,830,198
		846,040,939	781,830,198
LOAN FUNDS :			
Secured Loans	III	151,498,516	174,673,019
Unsecured Loans	IV	89,380,803	49,026,181
DEFERRED TAX LIABILITY (Net) (Refer Note 7 to Schedule XIX)		-	214,815
MINORITY INTEREST		1,942,275	1,942,275
		242,821,594	225,856,290
		1,088,862,533	1,007,686,488
APPLICATION OF FUNDS :			
FIXED ASSETS :			
Gross Block	V	89,795,946	67,240,214
Less: Depreciation		47,843,748	38,811,111
Net Block		41,952,198	28,429,103
Capital Work In Progress		9,645,931	12,313,228
GOODWILL (ON CONSOLIDATION)		35,716,458	35,716,458
INVESTMENTS	VI	11,342,003	11,262,030
DEFERRED TAX ASSET (Net) (Refer Note 7 to Schedule XIX)		82,968	-
CURRENT ASSETS, LOANS AND ADVANCES :			
Inventories	VII	604,749,426	608,454,641
Sundry Debtors	VIII	327,632,878	276,667,669
Cash and Bank Balances	IX	174,683,044	191,723,924
Loans and Advances	X	113,028,064	42,525,975
		1,220,093,412	1,119,372,209
LESS : CURRENT LIABILITIES AND PROVISIONS :			
Current Liabilities	XI	207,403,984	183,284,232
Provisions	XII	24,554,200	19,506,025
		231,958,184	202,790,257
NET CURRENT ASSETS		988,135,228	916,581,952
MISCELLANEOUS EXPENDITURE : (to the extent not written off or adjusted)	XIII	1,987,747	3,383,717
		1,088,862,533	1,007,686,488
Accounting Policies and Notes to Accounts	XIX		

As per our Report of even date

For **RSM & Co.**
Chartered Accountants**VIJAY N. BHAT**
Partner (F-36647)Place: Mumbai
Date : 12th August, 2004For **M. M. DUBEY & Co.**
Chartered Accountants**M. M. DUBEY**
Proprietor (F-30453)

For and on behalf of the Board

SURENDRA KUMAR SETHI
Chairman**VARIJ SETHI**
Managing Director**BELA DESAI**
Company Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

	Schedule	2003-04 (Rs.)	2002-03 (Rs.)
INCOME :			
Sales		1,706,629,039	1,502,662,566
Other Income	XVIII	8,646,057	11,011,491
		1,715,275,096	1,513,674,057
EXPENDITURE :			
Material Costs	XIV	1,416,933,517	1,213,917,428
Personnel Costs	XV	53,404,503	51,718,010
Manufacturing, Administrative, Selling and Other Expenses	XVI	131,066,306	89,395,944
Exchange Loss on Consolidation		(5,734,518)	(447,777)
Interest & Financial Charges	XVII	14,874,738	39,196,227
Depreciation	V	9,740,546	7,840,998
Provision for Stock and Sundry balances		14,244,453	16,612,673
Loss on sale of Fixed Assets		62,117	240,750
		1,634,591,662	1,418,474,252
PROFIT BEFORE TAX, PRIOR PERIOD AND EXCEPTIONAL ITEM		80,683,434	95,199,804
Provision for Investment		-	21,000,000
Prior Period adjustment (net)		-	9,274,885
PROFIT BEFORE TAX		80,683,434	64,924,920
Provision for Tax - Current Tax		26,805	458,420
- Deferred Tax		(297,783)	136,386
Tax paid for earlier year		-	100,286
PROFIT AFTER TAX		80,954,412	64,229,828
Share of Minority Interest		2,974,950	-
Share of profit / loss(-) in respect of investment in Associates		85,174	(502,135)
PROFIT AFTER TAX, SHARE OF MINORITY INTEREST AND IN ASSOCIATES		84,014,536	63,727,693
Balance Brought Forward		48,383,087	20,930,094
Share of accumulated profit / loss(-) in respect of investment in Associates for prior periods		(5,201)	1,174,165
AMOUNT AVAILABLE FOR APPROPRIATIONS		132,392,422	85,831,952
APPROPRIATIONS :			
Preference Dividend		-	2,219,178
Proposed Final Dividend		17,550,000	13,500,000
Corporate Dividend Tax		2,248,594	1,729,688
General Reserve		50,000,000	20,000,000
Balance Carried over to the Balance Sheet		62,593,828	48,383,087
		132,392,422	85,831,952
Earning Per Share (Face Value of Rs.10/- per share) (Basic and Diluted)		6.22	4.56
Accounting Policies and Notes to Accounts	XIX		

As per our Report of even date

For **RSM & Co.**
Chartered AccountantsFor **M. M. DUBEY & Co.**
Chartered Accountants

For and on behalf of the Board

VIJAY N. BHAT
Partner (F-36647)**M. M. DUBEY**
Proprietor (F-30453)**SURENDRA KUMAR SETHI**
Chairman**VARIJ SETHI**
Managing DirectorPlace : Mumbai
Date : 12th August, 2004**BELA DESAI**
Company Secretary

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

	(Rs. in lacs)	
	31/03/2004	31/03/2003
A. Cash Flow from Operating Activities		
Net Profit Before Tax but after Minority Interest and Share of profit in respect of investment in Associates	837.38	655.97
Adjustments for :		
Depreciation	97.40	78.41
Non Cash (income)/expenses	72.66	7.61
Miscellaneous expenditure written off	13.96	14.00
Provision for Stock, Investment and Sundry balances	142.45	376.13
Non Cash Prior Period Items	-	82.65
(Profit) / Loss on sale of Fixed Assets	0.62	(6.22)
Diminution in value of investment in US ' 64	-	2.41
Dividend Income	(1.01)	-
Interest (Net)	148.75	391.96
Other Interest received	(4.63)	-
Operating Profit before Working Capital Changes	<u>1,307.58</u>	<u>1,602.91</u>
Adjustments for :		
Current Assets	(1,212.19)	697.96
Stock and Sundry balances written down	(142.45)	(166.13)
Non Cash Prior Period Items	-	(82.65)
Current Liabilities	<u>286.04</u>	<u>380.36</u>
Cash generated from Operations	238.98	2,432.46
Tax adjustment	(25.15)	(14.00)
Net Cash Flow from Operating Activities	<u>213.83</u>	<u>2,418.45</u>
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(114.63)	(72.15)
Capital work in process	(96.46)	(123.13)
Sale of Fixed Assets	4.50	14.57
Share of profit in respect of investment in Associates	(0.80)	(6.72)
Dividend Income	1.01	-
Other Interest Received	4.63	-
Interest received	<u>23.37</u>	<u>79.96</u>
Net Cash Used In Investing Activities	<u>(178.38)</u>	<u>(107.47)</u>
C. Cash Flow from Financing Activities		
Redemption of Preference Shares	-	(300.00)
Fixed Deposit from Public	(43.08)	(2.68)
Bank Borrowings	(198.15)	(395.92)
Other Borrowings (Net)	449.89	(55.34)
Interest paid	(239.12)	(451.23)
Interest on Fixed Deposit from public	(23.10)	(24.55)
Dividend Paid (Including tax thereon)	<u>(152.30)</u>	<u>(89.69)</u>
Net Cash used in Financing Activities	<u>(205.86)</u>	<u>(1,319.42)</u>
Increase in Cashflow	(170.41)	991.56
Net Increase in Cash and Cash Equivalents		
Cash and Cash Equivalents		
Opening balance	1,917.24	925.68
Closing balance	<u>1,746.83</u>	<u>1,917.24</u>
	(170.41)	991.56

As per our Report of even date

For **RSM & Co.**
Chartered AccountantsFor **M. M. DUBEY & Co.**
Chartered Accountants

For and on behalf of the Board

VIJAY N. BHAT
Partner (F-36647)**M. M. DUBEY**
Proprietor (F-30453)**SURENDRA KUMAR SETHI**
Chairman**VARIJ SETHI**
Managing DirectorPlace : Mumbai
Date : 12th August, 2004**BELA DESAI**
Company Secretary

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

	As at 31/03/2004 (Rs.)	As at 31/03/2003 (Rs.)
SCHEDULE I		
SHARE CAPITAL		
Authorised:		
16,500,000(13,500,000) Equity Shares of Rs.10/- each	165,000,000	135,000,000
Nil (3,000,000) 15% Redeemable Non-Cummulative Non-Voting Preference shares of Rs.10/- each	-	30,000,000
	<u>165,000,000</u>	<u>165,000,000</u>
Issued and paid-up Capital :		
Equity Share Capital		
13,500,000(13,500,000) Equity shares of Rs.10/- each, fully paid-up	135,000,000	135,000,000
	<u>135,000,000</u>	<u>135,000,000</u>
SCHEDULE II		
RESERVES and SURPLUS		
Capital Reserve	32,961	32,961
Capital Redemption Reserve	30,000,000	-
Add : Transfer from Redemption Reserve for Preference Shares	-	30,000,000
	<u>30,000,000</u>	<u>30,000,000</u>
Redemption Reserve for Preference Shares As per last Balance Sheet	-	30,000,000
Add : Transfer to Capital Redemption Reserve	-	(30,000,000)
	-	-
Share Premium Account	138,500,000	138,500,000
General Reserve As per last Balance Sheet	429,914,150	409,914,150
Add : Transferred from the Profit and Loss Account	50,000,000	20,000,000
	<u>479,914,150</u>	<u>429,914,150</u>
Surplus in Profit and Loss Account	62,593,828	48,383,087
	<u>711,040,939</u>	<u>646,830,198</u>
SCHEDULE III		
SECURED LOANS		
From Banks [Amount repayable within one year Rs.150,078/- (P.Y. Rs.235,167/-)]	151,498,516	174,673,019
	<u>151,498,516</u>	<u>174,673,019</u>
(Against hypothecation of Finished Goods, Stock of Raw Materials, Stock in Process, Fixed Assets, Fixed Deposits and Personal guarantees by the Managing Director and Joint Managing Director).		
SCHEDULE IV		
UNSECURED LOANS		
Fixed Deposits from Public [Amount repayable within one year Rs.7,003,000/- (P.Y. Rs.7,624,000/-)]	13,194,000	17,502,000
Interest accrued on Fixed deposits from Public	791,115	1,116,525
From Others [Amount repayable within one year Rs.48,860,625/- (P.Y. Nil)]	75,395,688	30,407,657
	<u>89,380,803</u>	<u>49,026,181</u>

**SCHEDULE V
FIXED ASSETS**

Sr. No.	Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As on 01.04.03	Additions during the year	Deductions during the year	As on 31.03.04	As on 01.04.03	For the year	Adjustment	As on 31.03.04	As on 31.03.04	As on 01.04.03
1	Land (Lease hold)	-	12,313,227	-	12,313,227	-	-	-	-	12,313,227	-
2	Office Premises	3,630,000	-	-	3,630,000	1,592,423	101,879	-	1,694,302	1,935,698	2,037,577
3	Residential Flat	1,828,620	-	-	1,828,620	455,907	68,636	-	524,543	1,304,077	1,372,713
4	Factory Building	1,005,826	-	-	1,005,826	612,409	39,342	-	651,751	354,075	393,417
5	Plant & Machinery	24,307,695	2,947,660	-	27,255,355	11,593,014	1,912,325	-	13,505,339	13,750,016	12,714,681
6	Furniture, Fixtures & Fittings	20,086,717	801,523	-	20,888,240	14,153,973	3,334,947	-	17,488,920	3,399,320	5,932,744
7	Equipments	1,218,324	13,652	-	1,231,976	548,355	101,464	-	649,819	582,157	669,969
8	Vehicles	7,768,744	1,467,391	1,220,026	8,016,109	4,406,974	1,798,047	707,909	5,497,112	2,518,997	3,361,770
9	Computer System	7,394,288	2,136,312	-	9,530,600	5,448,056	1,598,626	-	7,046,682	2,483,918	1,946,232
10	Website Cost	-	2,504,523	-	2,504,523	-	626,131	-	626,131	1,878,392	-
11	Trademark	-	1,591,470	-	1,591,470	-	159,149	-	159,149	1,432,321	-
	Current Year	67,240,214	23,775,758	1,220,026	89,795,946	38,811,111	9,740,546	707,909	47,843,748	41,952,198	28,429,103
	Previous Year	62,485,355	7,214,626	2,459,767	67,240,214	32,614,849	7,840,998	1,644,736	38,811,111	28,429,103	

[Vehicle include Motor Cars taken on finance lease having original cost of Rs.842,387/- (P.Y. Rs.842,387/-) on which depreciation of Rs.385,705/- (P.Y. Rs.226,166/-) is provided till date.]

**SCHEDULE VI
INVESTMENTS****(At cost)****Long Term Investments****(A) In Associates**

Carrying Cost of Investments in S B & T Finance Private Limited

**As at
31/03/2004
(Rs.)****As at
31/03/2003
(Rs.)**

10,752,003

10,672,030

(B) Others**INVESTMENT IN GOVERNMENT SECURITIES**

6.5%, 5,900 UTI Bonds of Rs.100/- each

590,000

590,000

11,342,003**11,262,030****SCHEDULE VII
INVENTORIES**

(As valued and certified by the Management)

Stores, Spares, Rubber Moulds and Alloys

Stock in Trade (At cost, unless otherwise stated)

Raw Materials

Work in Process

Finished Goods

Trade Samples

Trading Goods

759,056

737,007

411,842,428

440,512,110

14,404,448

-

4,398,191

1,970,932

10,154,930

9,649,388

159,643,750

155,585,205

601,202,803**608,454,641**

Goods on Consignment

2,471,637

-

Goods-in-transit

1,074,986

-

604,749,426**608,454,641**

	As at 31/03/2004 (Rs.)	As at 31/03/2003 (Rs.)
SCHEDULE VIII		
SUNDRY DEBTORS		
(Unsecured, considered good)		
Debts outstanding for a period exceeding 6 months	35,335,360	39,940,883
Other Debts	292,297,518	236,726,786
	327,632,878	276,667,669
SCHEDULE IX		
CASH and BANK BALANCES		
Cash on Hand	1,116,287	385,889
Balances with Scheduled Banks :		
in Current Accounts	3,941,258	54,563,366
in Fixed Deposits towards Margin Money	119,790,000	120,264,067
Balances with Other Banks :		
in Current Accounts	18,739,410	780,685
in Fixed Deposits towards Margin Money	31,096,089	15,729,917
	174,683,044	191,723,924
SCHEDULE X		
LOANS and ADVANCES		
(Unsecured considered good)		
Advances recoverable in cash or in kind or for value to be received :	77,341,247	31,645,198
Advances for Capital Goods	2,600,000	154,860
Deposits	25,957,220	6,110,813
Income Tax	7,129,597	4,615,104
	113,028,064	42,525,975
SCHEDULE XI		
CURRENT LIABILITIES		
Current Liabilities		
Sundry Creditors :		
For Goods	173,895,009	161,763,554
For Capital Goods	5,092,708	2,780,845
For Expenses	27,637,964	17,851,027
For Unclaimed Dividend	765,536	658,284
Advance received from customers	12,767	230,523
	207,403,984	183,284,232
SCHEDULE XII		
PROVISIONS		
Provision for Income Tax [includes provision for wealth tax Rs.10,000/- (P.Y. Nil)]	932,301	905,496
Provision for Final Dividend	17,550,000	13,500,000
Corporate Dividend Tax	2,248,594	1,729,688
Provision for Gratuity	3,398,281	2,965,956
Provision for Leave Salary/Encashment	425,024	404,885
	24,554,200	19,506,025

	As at 31/03/2004 (Rs.)	As at 31/03/2003 (Rs.)
SCHEDULE XIII		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary Expenditure		
Opening Balance	1,234,321	2,327,721
Written off for the year	1,088,914	1,093,400
Closing Balance	145,407	1,234,321
Business Setup(Website Expenditure)		
Opening Balance	2,149,396	2,456,452
written off for the year	307,056	307,056
Closing Balance	1,842,340	2,149,396
	1,987,747	3,383,717
SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT		
	2003-04 (Rs.)	2002-03 (Rs.)
SCHEDULE XIV		
MATERIAL COSTS AND INVENTORY ADJUSTMENT		
Raw Materials :		
Opening Stock	450,161,498	370,172,497
Less : Amount Written down	(3,956,043)	(12,090,750)
Add : Purchases	971,510,373	930,625,036
Total (A)	1,417,715,828	1,288,706,783
Less : Closing Stock		
Raw Materials	412,572,277	440,512,110
Trade Samples	10,154,930	9,649,388
Total (B)	422,727,207	450,161,498
Consumption of Raw Material Total (A - B)	(I)	994,988,621
Consumption of Raw Material Total (A - B)	(I)	838,545,285
Purchases of Trading Goods	445,651,921	401,239,187
Work-in-Process :		
Opening WIP	-	-
Less : Closing WIP	14,404,448	-
(Increase) / Decrease in WIP	(III)	(14,404,448)
Finished Goods :		
Opening Stock	157,556,137	131,689,092
Less : Closing Stock	166,858,714	157,556,137
(Increase) / Decrease in Stock	(IV)	(9,302,577)
Total	(I+II+III+IV)	1,416,933,517
SCHEDULE XV		
PERSONNEL COSTS		
Payment and Provision for Salaries, Wages, Bonus and Ex-Gratia	47,088,031	40,730,330
Contribution to Provident Fund, Employees State Insurance		
and Other Funds	3,287,766	3,168,867
Provision for Gratuity	1,628,942	3,777,260
Welfare Expenses	1,399,764	4,041,553
	53,404,503	51,718,010

	2003-04	2002-03
	(Rs.)	(Rs.)
SCHEDULE XVI		
MANUFACTURING, ADMINISTRATIVE, SELLING AND OTHER EXPENSES		
Stores, Spares and Rubber Moulds :		
Opening Stock	737,007	300,058
Add : Purchases	11,369,856	9,385,413
Less : Closing Stock	759,056	737,007
Consumption	11,347,807	8,948,464
Director's Remuneration	11,853,088	7,414,642
Director's Sitting Fees	60,000	60,000
Security Expenses	499,291	581,311
Auditor's Remuneration	1,319,252	521,944
Factory Rent	787,581	803,421
Freight and Forwarding Expenses	3,324,322	2,350,621
Insurance	1,826,148	1,370,846
Legal and Professional Fees	8,131,851	4,911,056
Legal Charges	515	122,360
Contract Labour Charges	6,852,679	3,372,476
Lease Rent	4,665,457	1,884,783
Marketing and Sales Promotion Expenses	42,200,656	28,974,794
Miscellaneous Expenditure Written Off	1,395,970	1,400,456
Set up Cost of UK Business	3,662,172	-
Miscellaneous Expenses	3,060,323	4,295,311
Postage and Communication Expenses	1,561,434	1,648,117
Power and Fuel Expenses	5,104,708	4,742,795
Rates, Taxes and License Fees	976,795	1,821,536
Repairs and Maintenance, Service & AMC Charges:		
Repairs to Fixed Assets :		
Building	147,382	-
Plant and Machinery and Equipments	161,976	383,330
Computers	2,006	8,010
Others/AMC Charges	505,744	199,147
Others Maintenance and Service Charges	839,142	1,864,326
Travelling and Conveyance	12,889,447	9,062,154
Vehicle Expenses	1,120,142	1,062,816
Sponsorship Fees	619,162	826,575
Bad and Doubtful Debts	2,497,898	-
Exchange Loss/(Gain)	3,653,358	764,654
	131,066,306	89,395,944
SCHEDULE XVII		
INTEREST AND FINANCIAL CHARGES		
Interest(Net)	5,919,174	32,795,979
Bank Charges and Other Financial Charges	8,955,564	6,400,247
	14,874,738	39,196,227
SCHEDULE XVIII		
OTHER INCOME :		
Other Interest Income [T.D.S. Rs.1,885/- (P.Y. Rs.1,931/-)]	462,878	402,177
Dividend Income	100,937	-
Recovery of Expense	971,368	-
Credit balance Written Back	943,739	-
Profit on sale of Fixed Assets	-	622,219
Profit on sale of Other Investments	16,052	-
Miscellaneous Income	1,062,200	4,303,787
Commission Income	4,811,757	5,254,126
Repairing Charges	277,126	429,182
	8,646,057	11,011,491

SCHEDULE – XIX :**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR 2003-04.****1. PRINCIPLES OF CONSOLIDATION:**

The Consolidated Financial Statements have been prepared on the following basis :

- The financial statements of the Company and its subsidiary companies have been combined on a line-by-line basis by adding together the book values of items like assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealised profit or losses.
- The financial statements of the subsidiaries used in the consolidation are drawn upto the same balance sheet date as that of the parents company i.e. 31st March, 2004.
- The excess of cost to the Company of its investment in the subsidiary company over the Company's portion of the equity of the subsidiary is recognised in the financial statement as Goodwill on consolidation.
- Minority interests in the net assets of consolidated subsidiaries consist of the amount of Equity Capital at the date on which investment in a subsidiary is made and share of profit and loss attributable to minorities except in case of Soft Touch Jewellers LLC where 100% beneficial ownership lies with the Company.
- Intra-group balances and intra-group transactions and resulting unrealised profits have been eliminated in full.

Following Companies are included in the consolidation and the parent Company :-

Name of the Subsidiary Company	Country of Incorporation	% of Ownership as on 31.03.2004
S B & T Holding Limited	Mauritius	100% by S. B. & T. International Limited
Soft Touch Jewellers LLC **	United Arab Emirates	49% Legal, 100% beneficial by S B & T Holding Limited
S B & T (UK) Limited	United Kingdom	60% by S B & T Holding Limited

- ** Under the Articles of the investee company, S B & T Holding Limited holds the management rights of the investee company for its entire life time. Further, the 51% holding in the investee company is held by a UAE national as required by the Commercial Companies Law No 8 of 1983, as amended. However, he holds it in trust on behalf of S B & T Holding Limited.

Considering the above matter, the management considers the investment in Soft Touch Jewellers LLC as 100% beneficially owned by S B & T Holding Limited.

Name of the Associate Company	Country of Incorporation	% of Ownership as on 31.03.2004
S B & T Finance Pvt. Ltd.	India	50% by S. B. & T. International Limited

2. ACCOUNTING POLICIES :**I. GENERAL :**

The financial statements are prepared under the historical cost convention on an accrual basis and in conformity with accounting standards issued by the Institute of Chartered Accountants of India. Financial Statements of a foreign subsidiary, prepared in accordance with the accounting standards of that country have been recast for the purpose of consolidation with the Indian parent.

II. FIXED ASSETS :

Fixed Assets are stated at cost of acquisition or construction inclusive of freight, duties, taxes, attributable financial cost and incidental expenses, less Accumulated Depreciation and Amortisation. Fixed Assets acquired on finance leases are capitalised at the fair value arrived at by computing the present value of minimum lease payments, based on interest rate implicit in the lease agreement.

III. DEPRECIATION :

Depreciation on Fixed Assets has been provided on prorata written down value method. In case of Soft Touch Jewellers LLC and S B & T (UK) Ltd. Depreciation is provided on Straight Line Method.

In case of Soft touch Jewellers LLC,	
Furniture, Fixtures & Office Equipments	Estimated useful life 3-4 years
Motor Vehicles	4 years
In case of S B & T (UK) Limited	
Furniture and Fittings	Rate of Depreciation 25% p.a.
Equipment	25% p.a.
Website Cost	25% p.a.
Trademark	10% p.a.

- a) Due to differential Accounting Policy in respect of depreciation, proportion of the depreciation computed on Straight Line Method in total depreciation for the year is 52.68% and the proportion of accumulated depreciation to the total accumulated depreciation as at year end is 28.91%.
- b) Depreciation in respect of addition to fixed assets is provided on prorata basis from the year in which such assets are acquired/installed/started commercial production.
- c) Depreciation on the amount capitalised during the year on account of Foreign Exchange Fluctuation is provided prospectively over the residual life of the respective assets.

IV. FOREIGN EXCHANGE TRANSACTION:

- i) Foreign currency transactions are recorded on the basis of exchange rates prevailing on the date of occurrence.
- ii) Foreign currency assets and liabilities as on the balance sheet date are revalued in the accounts on the basis of exchange rates prevailing at the close of the year and exchange difference arising there from, is adjusted to the carrying amount of the respective fixed assets or charged to the Profit & Loss Account, as at the case may be.

In case of transaction covered by forward contracts, the difference between the contract rate and exchange rate prevailing on the date of transaction is charged to the Profit & Loss Account or adjusted to carrying amount of the respective fixed assets.

- iii) The translation of the functional currencies into Indian rupees (reporting currency) is performed for monetary assets and liabilities using the current exchange rates in effect at the Balance Sheet date, for revenues, costs and expenses using average exchange rates prevailing during the reporting periods and for share capital using the exchange rate at the date of the transaction.

Foreign Subsidiaries

- iv) All revenues and expense transactions during the year are reported at average rate. Monetary assets and liabilities are translated at the rate prevailing on the balance sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Balance in Holding company accounts whether debit or credit, is reported at the amount of the balance in the subsidiary account in the books of the Holding company accounts after adjusting for un-responded transactions. Net gain/loss on foreign currency transaction is recognised in the profit and loss account.

V. INVESTMENTS:

Long Term Investments are stated at cost of acquisition less permanent diminution in the value of investment if any.

Investment in Associates

Investments in Associate Companies are stated at cost of acquisition less permanent diminution in the value of investment if any.

In case of S B & T Holding Limited -

Investment – unquoted in Soft Touch Jewellers LLC.

Investment in an associate is treated as “available-for-sale financial assets” in accordance with IAS 39. Accordingly, investment is valued at fair value and any change in fair value is recognised as fair value reserve as part of the equity.

The investment in Soft Touch Jewellers LLC has been valued by an independent accountancy firm, M/s. Deloitte Haskins & Sells to arrive at a fair value of investment. As per the valuation, the value of investment is US\$ 7.50 million to US\$ 8.00 million as on 31st December, 2001. The directors have decided to value the investments at US\$ 7.50 million. For the purpose of consolidation, the gain on valuation of US\$ 6.031 million has been ignored.

VI. INVENTORIES :

- a) Raw Materials are being valued at net realisable price or cost price whichever is less. Cost also includes applicable overheads.
- b) Work in process and finished stocks are being valued at raw material cost plus labour cost and direct expenses relating to production. Cost also includes applicable overheads.
- c) Stores, Spares and Consumables are being valued at cost.
- d) Master Pieces are being valued at Estimated Market Price, where cost could not be determined.
- e) Trade samples are being valued at cost.

In case of subsidiary, Gold is valued at the market rate prevailing at the year end. Gold ornaments are valued at market value of gold plus cost of making such ornaments.

VII. RETIREMENT BENEFIT:

Company provides for costs relating to Gratuity and Leave Encashment based on actuarial valuation at the end of the period in Profit and Loss Account.

VIII. MISCELLANEOUS EXPENDITURE:

Miscellaneous expenditure such as preliminary expenses, share issue expenses and website expenses are amortised over a period of ten years.

IX. INCOME FROM INVESTMENTS:

Incomes from investments are being accounted on Accrual and/or cash basis based on nature of investment.

X. LEASES:

- a) Finance lease payments are apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charges are recognised as an expense in the profit & loss account.
- b) Operating lease payments are recognised in the profit & loss account on a straight line basis over the lease term.

XI. CONTINGENT LIABILITIES are disclosed by way of notes of the Accounts.**XII. TAXATION:**

Provision for Income Tax comprises of current tax and deferred tax charge or release. Deferred tax is recognised, subject to consideration of prudence, on timing differences, being differences between taxable and accounting income/expenditure that originate in one period and are capable of reversal in one or more subsequent period(s). Deferred tax assets are not recognised unless there is 'virtual certainty' that future taxable income will be available against which such deferred tax assets will be realised.

XIII. SALES:

Sales are accounted on dispatches of goods at CIF value. Revenue from sale of gold at unfixed prices are valued at the market rate of gold at the balance sheet date.

3. NOTES TO ACCOUNTS

1. In the opinion of the Board, the current assets, loans and advances are approximately of the value stated if realised in the ordinary course of business. The provisions for all known liabilities are adequate.
2. Figures of the previous year have been regrouped, rearranged and recast and shown to the nearest rupee to make them comparable with figures of the previous year. Figures pertaining to the subsidiary companies have been reclassified wherever necessary to bring them in line with the parent company's financial statements.
3. Estimated amount of contract remaining to be executed on capital account and not provided for Rs.18,214,381/-
4. Customs authorities has raised a demand of Rs.3,217,780/- on the Company against which company has paid a deposit Rs.500,000/- under protest and given a Bank Guarantee of Rs.500,000/-. The Honourable West Regional Bench at Mumbai of CEGAT has ruled in favour of the Company dismissing Customs demand, however Custom authorities has preferred an appeal against the said order in Supreme Court.
5. Assessed dues of for the Assessment Year 1995-96 have been paid under protest and the matter is under appeal. For the Assessment Year 1997-98 company has received demand notice for Rs.38.64 lacs, which company has disputed and the matter is in appeal. For the Assessment Year 2001-02 Company has received a demand notice for Rs.330.41 Lacs which company has disputed and the matter is in appeal.
6. **Investment in Associates**
 - a. Accounting Standard 23 – "Accounting for Investments in Associates in Consolidated Financial Statements" issued by The Institute of Chartered Accountants of India has become mandatory for the period commencing from 1st April, 2002. Accordingly Company has accounted for investment in S B & T Finance Pvt. Ltd. as per the 'Equity Method'.
 - b. The group share of the profit of the "Post Acquisition " results upto 31st March, 2002, in the associates company has been credited to retained earnings in 'Profit & Loss Account' and profit thereafter, to the consolidated statement of Profit & Loss.

c. Details of 'Associates' considered in the financial statements are as follows:

Name of the Company	Country of Incorporation	% of Voting Power/Ownership
S B & T Finance Pvt. Ltd.	India	50
Original cost of Investment: 30,000,000/-		Amount of Goodwill in Original Cost: 5,370/-
Accumulated profit as at year end: 752,003/-		Carrying cost of Investment: 10,752,003/-

7. Inventory of Raw Materials consist of some slow moving and non-moving items. Management has decided to write off Rs.3,956,043/- for the same in the current year.

4. CONTINGENT LIABILITIES :

	(Rs. in Lacs)	
	2003-04	2002-03
Bills discounted	1,863.27	1,927.64
Letters of Guarantee	10.45	11.40

5. MANAGERIAL REMUNERATION IN THE PARENT COMPANY :

	(Rs. In Lacs)	
	2003-04	2002-03
i. Salary	40.85	39.29
ii. Commission	9.16	-
iii. Sitting Fees	0.60	0.60
iv. Contribution to Provident Fund	0.49	0.32
v. Provision for Gratuity	0.85	5.38
	51.95	45.59

Remuneration also includes bonus, but excludes Company's Contribution to P.F. Rs.48,743/- (P.Y. Rs. 31,680/-), Contribution to Gratuity Rs.84,595/- (P.Y. Rs.538,299/-) which is included in Personnel costs.

6. EARNING PER SHARE (EPS) :

	(Rs. in Lacs)	
	2003-04	2002-03
(i) Profit after tax	840.09	642.30
Less : Preference Dividend including tax thereon	-	22.19
Profit attributable to Ordinary Shareholders	840.09	620.11
(ii) Weighted average No. of Ordinary Shares for Basic/Diluted EPS	Nos. 13,500,000	13,500,000
(iii) Nominal value of Ordinary Shares	Rs. 10	10
(iv) Basic/Diluted Earnings per Ordinary Share	Rs. 6.22	4.56

7. **DEFERRED TAX** is accounted for by computing the tax effect of timing differences, which arise during the year and reverse in subsequent periods in case of Holding Company.

	(Rs. in Lacs)	
	Deferred tax asset/(liability) as at	
	31.03.2004	31.03.2003
Deferred Tax Liabilities :		
Difference between book and tax depreciation	16.59	16.83
	(A)	16.59
Deferred Tax assets :		
Expenses allowable against taxable income in future years on account of section 43 B	17.42	14.68
	(B)	17.42
Deferred Tax Assets/(Liability) (net)	(A-B)	0.83

8. Segment Reporting (Geographical) :

Particulars	(Rs. in Lacs)	
	2003-04	2002-03
Net Sales / Income from Operation	17,066.29	15,026.63
Sales to USA	9,203.79	9,285.65
Sales to Countries other than USA	7,862.50	5,740.98

The Fixed Assets, Other Assets & Expenditure used for the business, or liability committed for, are not identifiable to one particular segment as these are used interchangeably between segments. Hence, the relevant data on segment capital employed & expenses have not been quantified.

9. RELATED PARTY DISCLOSURES :

1. List of Related Parties with whom transaction have taken place during the year :

a) Key Management Personnel:	b) Associates:
Surendra Kumar Sethi - Chairman and Joint Managing Director	S B & T Finance Pvt. Ltd.
Varij Sethi - Managing Director	Superior Jewelry Manufacturing Ltd.
Vivek Tharaney - Whole Time Director (Production)	
c) Directors:	d) Promoter :
Virendra Kumar Sethi	S B & T Gem Imports Inc.
Nalin Kumar Sethi	
Sanjiv Chainani	

2. Transaction during the year with related parties:

a) Remuneration to Key Management Personnel				
Refer 5 of Notes to Consolidated Financial Statements.				
b) Dividend paid to Shareholders (Rs. in Lacs) :			2003-04	2002-03
Key Management Personnel			19.69	9.84
Associates			-	-
Directors			13.61	6.05
Relatives of Director			8.55	19.15
Promoters (S B & T Gem Imports Inc.)			4.50	6.33
c) Sales and Purchases (Rs. in Lacs) :			2003-04	2002-03
			Sales	Purchases
Promoters (S B & T Gem Imports Inc.)	7.08	18.05	4,990.52	286.07
d) Unsecured Loans taken & repaid (Rs. in Lacs) :			2003-04	2002-03
Key Management Personnel			-	52.98
e) Loans given & received back (Rs. in Lacs) :			2003-04	2002-03
Associates			0.78	-
f) Loans written off (Rs. in Lacs):			2003-04	2002-03
Associates			0.51	-
g) Preference Share Capital Repaid (Rs. in Lacs) :			2003-04	2002-03
Directors			-	45.00
Associates			-	200.00
			As at	As at
h) Credit balances outstanding (Rs. in Lacs):			2003-04	2002-03
Promoters (S B & T Gem Imports Inc.) (For Goods)			110.61	198.02
			As at	As at
i) Debit balances outstanding (Rs. in Lacs):			2003-04	2002-03
Associates			-	0.78
Relatives of Director			1.32	2.45
Promoters (S B & T Gem Imports Inc.) (For Goods)			(0.05)	1,009.31

10. LEASES :

- a) Finance leases payments are apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charges are recognised as an expense in the profit & loss account.
- b) Operating lease payments are recognised in the profit & loss account on a straight-line basis over the lease term.
- c) Minimum lease payments under this lease as at 31st March, 2004 is as below :

(i) Minimum Lease, rentals Payments	2003-2004	2002-2003
Not Later than one year	161,631	275,556
Later than one year and not later than five years	33,440	195,071
Later than five years	-	-
Total Minimum Lease, rentals Payments	<u>195,071</u>	<u>470,627</u>
 (ii) Present value of Minimum Lease, rentals Payment		
Not Later than one year	150,078	235,167
Later than one year and not later than five years	32,427	182,505
Later than five years	-	-
Total Present value of Minimum Lease, rentals Payments	<u>182,505</u>	<u>417,672</u>
 (iii) Reconciliation of Minimum Lease, rentals payment & present value		
Minimum Lease, rentals payable as per above (i)	195,071	470,627
Less : Finance charges to be recognized in subsequent year	12,566	52,955
Present value of Minimum Lease, rentals Payments as per above (ii)	182,505	417,672

For and on behalf of the Board

Place : Mumbai
Date : 12th August, 2004

BELA DESAI
Company Secretary

SURENDRA KUMAR SETHI
Chairman

VARIJ SETHI
Managing Director