

AUDITOR'S REPORT TO THE PARTNERS OF SOFT TOUCH JEWELLERS LLC

We have audited the accompanying financial statements of **SOFT TOUCH JEWELLERS LLC** for the year ended 31 March 2004 set out on pages 43 to 49.

Respective responsibilities of the management and the auditors

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.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **SOFT TOUCH JEWELLERS LLC** as of 31 March 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the UAE Commercial Companies Law No. 8 of 1984 (as amended).

Other matters

As required by the UAE Commercial Companies Law No. 8 of 1984 (as amended), we further confirm that we have obtained all the information and explanations necessary for our audit, proper books of account have been kept by the company, an inventory was duly carried out and the contents of the report of the managing director relating to these financial statements are in agreement with the books of account. To the best of our knowledge and belief no violations of the UAE Commercial Companies Law No. 8 of 1984 (as amended) or the articles of association of the company have occurred during the year which would have had a material effect on the business of the company or on its financial position.

PANNELL KERR FORSTER

Dubai

United Arab Emirates

2 May 2004

MANAGING DIRECTOR'S REPORT

The managing director submits his report and accounts for the year ended 31 March 2004. We approve the financial statements and confirm that we are responsible for these, including selecting the accounting policies and making the judgements underlying them. We confirm that we have made available all relevant accounting records and information for their compilation.

Results and dividends

The net profit for the year amounted to AED 2,847,712. Since the statutory reserve has already reached 50% of the paid up capital, no further allocation has been made as required under Article 255 of the UAE Commercial Companies Law No. 8 of 1984, as amended.

Review of the business

The company trades in diamond jewellery, loose diamonds and gold jewellery in wholesale and retail market.

Events since the end of the year

There were no important events occurring since the year end that materially affect the company.

Partners and their interests

The partners at 31 March 2004 and their interests as at that date in the share capital of the company were as follows:

Name	No. of shares	AED
Mr. Salim Ali Salim A. Al Muhairi	153	153,000
S B & T Holding Limited, Mauritius	147	147,000
	<u>300</u>	<u>300,000</u>

Auditor

Pannell Kerr Forster were appointed as auditors for the year ended 31 March 2004 and it is proposed that they be re-appointed for the year ending 31 March 2005.

Sunil Talreja

Managing Director

2 May 2004

BALANCE SHEET 31 MARCH 2004

	Notes	As at 31/03/2004 AED	As at 31/03/2003 AED
NON-CURRENT ASSETS			
Property, plant and equipment	3	126,699	403,634
CURRENT ASSETS			
Inventories	4	13,847,160	13,298,364
Trade and other receivables	5	11,772,790	6,982,215
Cash and cash equivalents	7	222,686	68,586
Other current financial assets	8	2,668,050	1,216,338
		28,510,686	21,565,503
TOTAL ASSETS			
		28,637,385	21,969,137
PARTNERS' FUNDS			
Share capital	9	300,000	300,000
Statutory reserve		150,000	150,000
Retained earnings		9,827,945	6,980,233
Equity funds		10,277,945	7,430,233
Loan from a partner	10	1,547,488	1,547,488
		11,825,433	8,977,721
NON-CURRENT LIABILITIES			
Interest bearing liabilities	11	381,666	55,200
Staff end-of-service gratuity	12	185,001	174,255
		566,667	229,455
CURRENT LIABILITIES			
Bank borrowings	13	4,176,378	102,764
Trade and other payables	14	12,068,907	12,659,197
		16,245,285	12,761,961
TOTAL EQUITY AND LIABILITIES			
		28,637,385	21,969,137

The accompanying notes form an integral part of these financial statements.
The report of the auditor is set forth on page 42.
Approved by the partners on 2 May 2004.

For **SOFT TOUCH JEWELLERS LLC**

S B & T Holding Limited

Partners

Sunil Talreja

Managing Director

INCOME STATEMENT YEAR ENDED 31 MARCH 2004

	Notes	2004 (12 months) AED	2003 (15 months) AED
REVENUE			
Cost of sales	15	56,000,220 (48,157,347)	51,529,162 (43,726,488)
GROSS PROFIT			
Other operating income	16	7,842,873	7,802,674
Staff costs	17	645,014	847,520
Depreciation	3	(1,300,591)	(1,584,292)
Other operating expenses	18	(297,496)	(323,905)
		(3,624,443)	(3,693,519)
PROFIT FROM OPERATING ACTIVITIES			
Interest income on bank deposit		3,265,357	3,048,478
Finance costs	19	13,178	16,277
		(430,823)	(315,131)
NET PROFIT FOR THE YEAR/PERIOD			
		2,847,712	2,749,624

The accompanying notes form an integral part of these financial statements.
The report of the auditor is set forth on page 42.

STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 MARCH 2004

	Share capital AED	Statutory reserve AED	Retained earnings AED	Total AED
As at 31.12.2001	300,000	150,000	4,230,609	4,680,609
Net profit for the period	-	-	2,749,624	2,749,624
As at 31.03.2003	300,000	150,000	6,980,233	7,430,233
Net profit for the year	-	-	2,847,712	2,847,712
As at 31.03.2004	300,000	150,000	9,827,945	10,277,945

The accompanying notes form an integral part of these financial statements.

The report of the auditor is set forth on page 42.

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2004

	Notes	2004 (12 months) AED	2003 (15 months) AED
Cash flows from operating activities			
Cash used in operations	21	(2,416,812)	(102,780)
Interest paid		(370,073)	(315,131)
Net cash used in operating activities (A)		(2,786,885)	(417,911)
Cash flows from investing activities			
Purchase of property, plant and equipment		(20,561)	(164,317)
Interest received		13,178	16,277
Increase in fixed and margin deposits (net)		(1,451,712)	(1,134,821)
Net cash used in investing activities (B)		(1,459,095)	(1,282,861)
Cash flows from financing activities			
Proceeds from bank term loan		4,500,000	-
Proceeds from vehicle loan		-	31,000
Repayment of vehicle loan		(45,508)	(39,955)
(Payment of)/receipts from bank overdraft (net)		(54,412)	54,412
Funds introduced by the partners (net)		-	1,547,488
Net cash from financing activities (C)		4,400,080	1,592,945
Net increase/(decrease) in cash and cash equivalents (A+B+C)		154,100	(107,827)
Cash and cash equivalents at beginning of year		68,586	176,413
Cash and cash equivalents at end of year	7	222,686	68,586

The accompanying notes form an integral part of these financial statements.

The report of the auditor is set forth on page 2.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004**1. LEGAL STATUS AND BUSINESS ACTIVITY**

- a) **SOFT TOUCH JEWELLERS LLC** (the “company”) is a limited liability company registered in Dubai, United Arab Emirates, in accordance with the provision of Article 218 of the UAE Commercial Companies Law No. 8 of 1984 as amended. These financial statements include the assets, liabilities and business results of the operations in the Jebel Ali Free Zone Gold and Diamond Park, Jebel Ali, Dubai and the operations of the company in Sultanate of Oman and Kingdom of Bahrain, which are carried out through arrangements and licences obtained in accordance with the prevailing local regulations.
- b) The company trades in gold and diamond jewellery and loose diamonds in wholesale and retail market.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (IASB) and the requirements of UAE Company Law. Gold inventories, gold receivables and gold payables are carried at the year end market rates in accordance with the industry practice. The significant accounting policies adopted are as follows :

a) Depreciation of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost is depreciated using the straight line method over their estimated useful lives as follows:

Furniture, fixtures and office equipment	3 - 4 years
Motor vehicles	4 years

b) Inventories

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. Diamond, precious stones and studded ornaments are stated at the lower of cost and net realisable value. Cost is arrived at using specific identification method and comprise invoice value. Net realisable value is based on estimated selling price less any estimated costs of disposal.

c) Unfixed gold receivables

Gold debtors comprising receivables denominated in gold at an unfixed price are valued at the market rate of gold at the balance sheet date.

d) Unfixed gold payables

Gold creditors comprising payables denominated in gold at an unfixed price are valued at the market rate of gold at the balance sheet date.

e) Staff end-of-service gratuity

Provision is made for end-of-service gratuity payable to the staff at the balance sheet date in accordance with the local labour laws.

f) Statutory reserve

Statutory reserve is created by appropriating 10% of the net profit of the company as required by Article 255 of the UAE Commercial Companies Law No. 8 of 1984, as amended. The company can discontinue such annual transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except as provided in the Federal Law.

g) Revenue

Revenue represents the net amount invoiced for goods delivered during the year. Revenue from sale of gold at unfixed prices is valued at the market rate of gold at the balance sheet date.

h) Foreign currency transactions

Transactions in foreign currencies are translated into UAE Dirhams at the rate of exchange ruling on the date of the transactions.

Monetary assets and liabilities expressed in foreign currencies are translated into UAE Dirhams at the rate of exchange ruling at the balance sheet date.

Gains or losses resulting from foreign currency transactions are taken to the income statement.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash, bank current accounts, bank deposits free of encumbrance with a maturity date of three months or less from the date of deposit and highly liquid investments with a maturity date of three months or less from the date of investment.

j) **Financial instruments**

Financial instruments of the company comprise trade and other receivables, cash and cash equivalents, other current financial assets, trade and other payables, bank borrowings and partner's loan account.

Financial assets that do not have an active market and whose fair value cannot be estimated reliably, are measured at amortised cost less any write-down for impairment if they have a fixed maturity date, and at cost less any write-down for impairment if there is no fixed maturity date.

Financial liabilities with no fixed maturity date are measured at cost and at amortised cost if they have a fixed maturity date.

Gains and losses arising as a result of changes in values of such financial assets and financial liabilities are recognized in the income statement.

3. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment AED	Motor vehicles AED	Total AED
Cost			
As at 01.04.2003	827,522	285,501	1,113,023
Additions	20,561	-	20,561
As at 31.03.2004	848,083	285,501	1,133,584
Accumulated depreciation			
As at 01.04.2003	512,762	196,627	709,389
Depreciation for the year	226,120	71,376	297,496
As at 31.03.2004	738,882	268,003	1,006,885
Net book value			
As at 31.03.2004	109,201	17,498	126,699
As at 31.03.2003	314,760	88,874	403,634
		2004 AED	2003 AED
4. INVENTORIES			
Goods held for sale*		13,847,160	13,298,364
* Includes gold valued at the year end market rate amounting to AED 4,790,190 (P. Y. AED 4,275,762).			
5. TRADE AND OTHER RECEIVABLES			
Trade receivables*		11,381,627	6,580,291
Less: Provision for doubtful debts		(90,833)	-
		11,290,794	6,580,291
Advances		258,871	135,143
Prepayments		160,275	90,796
Other receivables		36,700	123,637
Deposits		26,150	52,348
		11,772,790	6,982,215

* Includes gold receivable at an unfixed price valued at the year end market rate amounting to AED Nil (P. Y. AED 265,872).

6. RELATED PARTIES

The company enters into transactions with companies that fall within the definition of a related party as contained in International Accounting Standard 24. The management considers such transactions to be in normal course of business and at terms as determined by the management.

Related parties comprise companies under common ownership and/or common management control and managing director of the company.

At the balance sheet date balances with related parties were as follows :

	2004 AED	2003 AED
Included in trade receivables	116,848	64,254
Included in trade payables	4,253,365	4,440,164
Included in advances and other receivables	71,440	128,080
Included in other payables	305,657	305,657

The nature of significant related party transactions and the amounts involved are as follows:

Sales	867,548	9,042,811
Purchases	13,797,536	9,748,934

7. CASH AND CASH EQUIVALENTS

Cash and cheques on hand	3,468	8,684
Bank balances:		
Current accounts	*219,218	59,635
Call deposits	-	267
	<u>222,686</u>	<u>68,586</u>

*Includes AED 74,178 in the name of a related party.

8. OTHER CURRENT FINANCIAL ASSETS

Margin accounts	*88,200	35,400
Fixed deposits**	2,579,850	1,180,938
	<u>2,668,050</u>	<u>1,216,338</u>

* Includes AED 42,800 in the name of a related party.

** Includes AED 1,127,211 (previous period AED 1,118,063) held in the name of the Managing Director. This fixed deposit is held under lien with bank (refer Note 13).

9. SHARE CAPITAL

300 shares of AED 1,000 each	300,000	300,000
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10. LOAN FROM A PARTNER

This represents interest free long term loan with no fixed repayment schedule.

11. INTEREST BEARING LIABILITIES

Bank term loan	4,500,000	-
Bank vehicle loan	58,044	103,552
Less: Current portion - bank term loan	(4,125,000)	-
Less: Current portion - bank vehicle loan	(51,378)	(48,352)
	<u>381,666</u>	<u>55,200</u>

Bank term loan is secured by lien over fixed deposit and mortgage over stocks and assignment of insurance policy and is payable in twelve monthly instalment of AED 375,000. Vehicle loan is secured upon the related vehicles having cost of AED 158,000 (P.Y. AED 158,000) and net book value of AED 49,374 (P.Y. AED 88,874).

12. STAFF END-OF-SERVICE GRATUITY

Opening balance	174,255	93,274
Provision for the year/period	26,217	80,981
Excess provision written back	(15,471)	-
Closing balance	<u>185,001</u>	<u>174,255</u>

In the opinion of the management, no significant difference would have arisen had the provision for employees' end-of-service gratuity been calculated on an actuarial basis.

Soft Touch Jewellers LLC

	2004 AED	2003 AED
13. BANK BORROWINGS		
Overdrafts	-	54,412
Current portion of long term loan (Note 11)	4,125,000	-
Current portions of long term vehicle loan (Note 11)	51,378	48,352
	<u>4,176,378</u>	<u>102,764</u>
Bank borrowings and facilities are obtained from Standard Chartered Bank and BNP Paribas and are secured by way of :		
• Lien over fixed deposits		
• Corporate guarantees signed by SBT Holding FZCO		
• Personal guarantees of Mr. Sunil Talreja		
• Mortgage over stocks and receivable		
• Assignment of insurance on stocks		
• Sub-ordination of shareholder's loan of AED 1,547,488		
The bank facilities are also subject to certain financial covenants such as maintaining minimum networth of AED 10 million and debt equity ratio of 1.5:1. The year end balances represents borrowings from Standard Chartered Bank.		
14. TRADE AND OTHER PAYABLES		
Trade payables *	10,918,926	11,614,383
Accruals	401,944	342,981
Advances received from customers	31,166	16,666
Other payables	716,871	685,167
	<u>12,068,907</u>	<u>12,659,197</u>
* Includes gold creditors at an unfixed price valued at the year end market rate amounting to AED 3,108,537 (P. Y. AED 629,712), secured by letter of credit issued by BNP Paribas, Dubai, UAE		
	(12 months)	(15 months)
15. COST OF SALES		
Inventory, beginning of the year	13,298,364	9,228,551
Add: Purchases (including direct expenses)	48,706,143	47,796,301
	<u>62,004,507</u>	<u>57,024,852</u>
Less: Inventory, end of the year	<u>(13,847,160)</u>	<u>(13,298,364)</u>
	<u>48,157,347</u>	<u>43,726,488</u>
16. OTHER OPERATING INCOME		
Commission income	388,609	397,269
Excess gratuity provision written back	15,471	-
Credit balances written back	76,219	-
Miscellaneous income	164,715	450,251
	<u>645,014</u>	<u>847,520</u>
17. STAFF COSTS		
Staff salaries and benefits	1,024,377	1,190,811
Staff end-of-service gratuity	26,217	80,981
Managing Director's salaries and benefits	249,997	312,500
	<u>1,300,591</u>	<u>1,584,292</u>
18. OTHER OPERATING EXPENSES		
Rent	124,468	207,973
Provision for doubtful debts	90,833	-
Other expenses	3,409,142	3,485,546
	<u>3,624,443</u>	<u>3,693,519</u>

	2004 AED (12 months)	2003 AED (15 months)
19. FINANCE COSTS		
On bank overdrafts and loans	112,514	33,189
On vehicle loans	11,540	15,735
On loan from third parties	68,696	68,124
On bullion trade finance from suppliers	238,073	198,083
	<u>430,823</u>	<u>315,131</u>
20. NUMBER OF EMPLOYEES		
The number of employees including the managing director at the end of the year was 35 (previous period 35).		
21. CASH USED IN OPERATIONS		
Net profit for the year/period	2,847,712	2,749,624
Adjustments for:		
Depreciation of property, plant and equipment	297,496	323,905
Finance costs	430,823	315,131
Interest income	(13,178)	(16,277)
Operating profit before changes in operating assets and liabilities	<u>3,562,853</u>	<u>3,372,383</u>
Increase in inventories	(548,796)	(2,781,756)
(Increase)/decrease in trade and other receivables	(4,790,575)	544,547
Decrease in trade and other payables	(651,040)	(1,318,935)
Increase in staff gratuity end-of-service gratuity	10,746	80,981
	<u>(2,416,812)</u>	<u>(102,780)</u>

22. FINANCIAL INSTRUMENTS: CREDIT, INTEREST RATE AND EXCHANGE RATE RISK EXPOSURES

Credit risk

Financial assets which potentially expose the company to concentrations of credit risk comprise principally bank accounts and trade and other receivables.

The company's bank accounts are placed with high credit quality financial institutions.

Trade receivables are stated net of the allowance for doubtful recoveries. At the balance sheet date, the company's maximum exposure to credit risk from such receivables situated outside the UAE is 27%, due from three customers in the United States of America (previous period 17% due from a customer in the United States of America).

There are no significant risk to customers outside the industry in which the company operates. At the balance sheet date 83% of trade receivables was due from 4 customers (previous period 73% due from 3 customers).

Interest rate risk

The company's short-term deposit and loan from bank and third parties are at fixed rates. Bank overdrafts are at floating rates at levels which are generally obtained in the UAE.

Market risk

Financial assets and liabilities which potentially expose the company to market risk comprise gold inventories, gold receivables and gold payables which fluctuate as a result of change in market price of gold.

23. FINANCIAL INSTRUMENTS: FAIR VALUES

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of the financial assets and financial liabilities which are required to be carried at cost or at amortised cost approximate to their carrying values except for loan from partner which, due to its nature, would have a fair value lower than the carrying value.

24. CONTINGENT LIABILITIES

Bankers' letters of guarantee

2004 AED	2003 AED
<u>88,200</u>	<u>88,200</u>

25. COMPARATIVE FIGURES

Previous period's figures have been regrouped/reclassified wherever necessary to conform to the presentation adopted in the current year. Previous period's figures of Income Statement and Cash Flow Statement represents a 15 months period and therefore, are not strictly comparable with the current year's figures which are for a period of 12 months.

For **SOFT TOUCH JEWELLERS LLC**

S B & T Holding Limited

Partners

Sunil Talreja

Managing Director