

# ANNUAL REPORT 2011/12



*Blue Diamonds Jewellery Worldwide PLC.*

[www.bluediamondjewellery.lk](http://www.bluediamondjewellery.lk)

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## FINANCIAL CALENDAR 2011/2012

### INTERIM FINANCIAL STATEMENTS

1st Quarter ended 30-06-2011 (unaudited) on 11-07-2011

2nd Quarter ended 30-09-2011 (unaudited) on 06-10-2011

3rd Quarter ended 31-12-2011 (unaudited) on 09-02-2012

4th Quarter ended 31-03-2012 (unaudited) on 10-05-2012

Annual reports for the year ended 31st March 2012 circulated on 5th September 2012

21st Annual General Meeting - 07/10/2011

22nd Annual General Meeting – 28th September 2012

## CORPORATE INFORMATION

### Name of the Company

BLUE DIAMONDS JEWELLERY WORLDWIDE PLC

### Legal Form

A Public Quoted Company with Limited Liability

Shares were quoted on the Colombo Stock Exchange on 31st March 1992

### Date of Incorporation

21st November 1990

### Company Registration No.

PQ 94

### Directors

Mr. W. A. Derrick V Perera (Resigned w.e.f. 31.08.2012)

Mr. J. H. P. Ratnayake (Appointed w.e.f.24.08.2012)

Mr. B. M. A. L. A. Fernando (Appointed w.e.f.24.08.2012)

Mr. K. V. D. D. A. Dias

Mr. M. M. N. Priyantha

Mr. W. Ravishankar

Mr. W. W. M. R. K. W. B. Dela

Mr. K. L. Dias

Mr. B. B. T. A. Perera (Appointed w.e.f.24.08.2012)

Mr. P. B. V. Kumar (Appointed w.e.f.24.08.2012)

Mr. W. M. R. B. Bandara (Appointed w.e.f.24.08.2012)

### Registered Office

49, Ring Road, Phase 1,

I.P.Z, Katunayake.

Telephone-2253496, 2253497

Fax-2253498

E-Mail-bdjwacts@sltnet.lk

Website- [www.bluediamondjewellery.lk](http://www.bluediamondjewellery.lk)

### Secretaries and Registrars

S S P Corporate Services (Private) Limited

No. 101, Inner Flower Road

Colombo 03

### Bankers

Bank of Ceylon

Seylan Bank PLC

Hatton national Bank PLC

Nations Trust Bank PLC

### Lawyers

Nithya Partners

No. 97/A, Galle Road, Colombo 03.

R.D.Algama

Attorney at Law

No 35, Alvis Place, Colombo 03.

Paul Ratnayake Associates

No. 59, Gregory's Road, Colombo 07.

### Auditors

KPMG

Chartered Accountants

No. 32A, Sir Mohamed Macan Marker Mawatha

Colombo 03

## CHAIRMAN'S REVIEW

I am pleased to provide with message on the recently concluded year of operation at Blue Diamonds Jewellery worldwide PLC. The company has had an eventful year in which a number of positive changes have taken place. This year was challenging as well with few of a key buyers not completely recovering from the global down turn. The Annual Report, The Report of the Board Directors and the Audited Financial Statements as at 31st March 2012 is included for your review.

During the year under review, the company has undertaken an aggressive cost reduction program which we believe would result in our company being competitive and able to secure increased level of orders.

The company has invested in researching international markets to understand the designs that are popular in those markets. We have significantly improved our designing and development and are in the process of introducing new and exciting designs and exclusive concepts where the initial feedback has been enormously encouraging. We are working tirelessly to create a new image for the company with its new developments in the pipeline. Identifying the fact that our designs and product development is the key to being competitive in the jewellery trade has given us the direction in which we have to proceed, which has unfortunately been lacking in the company in the past. We have managed to secure new key buyers and also develop the existing relationships further to enable us to make our company move forward.

We have started producing jewellery using Sri Lankan gem stones in addition to the diamond jewellery which the company is world renowned for. The prices of diamonds have been increasing in the recent past and with the global economic issues it is quite difficult to market high priced jewellery. The use of the coloured gem stones would enable us to make our products more competitive and attractive to customers.

I take this opportunity to thank you the shareholders of this company for keeping faith in the company. Also, I thank the Board of Directors for their guidance & support and the operations team lead by the CEO for their tireless efforts in developing new products and finding new markets to grow the business to the next level. I wish the company and the new Chairman best of luck in all their future endeavours.



W. A. D. V. Perera

Colombo

24th August, 2012



## BOARD OF DIRECTORS

### **Mr. J. H. P. Ratnayeke LL.B (Hons), LL.M (London)**

Mr. Paul Ratnayeke is a Senior Corporate Lawyer who is also the precedent partner of Paul Ratnayeke Associates, a leading law firm in Sri Lanka which he founded in 1987 handling all areas of law and international legal consultancy work.

Mr. Ratnayeke is a Solicitor of England and Wales and an Attorney-at-Law of the Supreme Court of Sri Lanka. He holds a bachelors degree in law with honours and has been awarded a Master's Degree in Law by the University of London.

Currently Mr. Ratnayeke holds directorship in several companies including public quoted companies. He has also been elected / appointed as Chairman / Deputy Chairman to several of these Companies.

### **Mr. B. M. A. L. A. Fernando FCMA, CGMA, MHRP**

Mr. Aruna Fernando having a wide network base with government and private sector holds work experience of over 20 years .Mr Fernando is the managing director of Micronet Information Systems (Pvt) Ltd which is the pioneer in the information technology industry. He also serves as the director of Micronet Global Services and Sri Lanka State Plantation Corporation.

Mr. Aruna Fernando, a Fellow member of the Chartered Institute of Management Accountant (UK) and was the past president of the CIMA Sri Lankan division and was a member of the Governing Council of National Institute of Business Management (NIBM) and has held several senior positions in different other organizations.

### **Mr. W. A. D. V. Perera IO, IA (FIDE), MBA**

Mr. Perera has served as a director of British American Technologies (Pvt) Limited (BAT) and eChannelling PLC. Mr. Perera overlooked the management services operation of BAT. Prior to this he headed the HR function at Ericsson, Sri Lanka. Mr. Perera has over 16 years' experience in the field of HR in both, manufacturing and service industries. Apart from his corporate life, he is an internationally rated chess player. Mr. Perera holds a Masters in Business Administration (University of Preston, USA) and is also an Alumni of Harvard Law School (USA).

### **Mr. W. W. M. R. B. Kanchana Dela**

Mr. Dela joined the board in October 2011. He currently manages the marketing activities of Hotelroomnet Limited and serves as the business development manager of eChannelling PLC. Prior to holding this position, he was a part of marketing at Wijeya Newspapers for 2 years

Mr. Dela is reading for his Degree in Marketing. And has work experience of over 7 years in the IT industry. Mr. Dela serves as the chairman of the remuneration committee.

### **Mr. K. L. Dias**

Mr. Dias is a professional in the field of Animation for electronic communications and specializes in international internet marketing for a wide range of products including jewellery and diamonds. He has held positions with DaVinci Digital Imaging (Pvt) Ltd and Everything (Pvt) Ltd Colombo.

## BOARD OF DIRECTORS (Contd)

### **Mr. W. Ravishankar ACMA, CGMA, ACPM**

Mr. Ravishankar joined the Board in October 2011 as an independent Non-Executive director and serves as the chairman of the audit committee. He has vast experience and knowledge in audit, financial accounting, secretarial, IT and the healthcare industry.

Mr. Ravishankar is an Associate Chartered Management Accountant CIMA (UK), A Chartered Global Management Accountant (CGMA), and an Associate Certified Professional Manager.

### **Mr. B. B. T. A. Perera ACA, B.Sc Accountancy (University of Jayewardenepura)**

Mr. Tirol Perera is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and has obtained the membership in 2003. He holds a B.Sc.Accountancy (Spl.) Degree from the University of Sri Jayewardenepura.

Mr. Perera is presently working as the Chief Accountant of Blue Diamonds Jewellery Worldwide PLC serving for more than 5 years .Mr. Perera has held senior positions at Ceylinco Healthcare Services Ltd and KPMG.

### **Mr. P. B. Vinoth Kumar ACIM, BBA, P.G.Dip.M**

Mr. Vinoth Kumar, a qualified marketer by profession has wide experience in marketing covering more than 15 years of managerial experience in Sales & Marketing both in Sri Lanka & Overseas. He is presently working in the capacity of the Marketing Manager of Blue Diamonds Jewellery Worldwide PLC.

Mr. Vinoth Kumar is a Graduate from the University of Colombo - BBA (Special) in Marketing and obtained a Post Graduate Diploma in Marketing from CIM (UK).

### **Mr. W. M. R. B. Bandara**

Mr. Raveen Bandara, a marketer by profession is presently working as the project manager of echanneling PLC and counts over 11 years of experience in the healthcare industry. He has also served several senior positions at IMAC international Association of Sri Lanka. Mr. Bandara is a corporate trainer and consultant who specializes in motivation.

### **Mr. K. V. D. D. A. Dias**

Mr. Dias has served as a Director of Blue Diamonds Jewellery Worldwide PLC since 2005.

### **Mr. M. M. N. Priyantha**

Mr. Priyantha has served as a Director of Blue Diamonds Jewellery Worldwide PLC since 2005.

### **Mr. G de Kretser (Retired on 31st July 2012)**

Mr. Kretser was a Director of Blue Diamonds Jewellery Worldwide PLC since 1991.

## CORPORATE GOVERNANCE

The Company recognizes the need for good Corporate Governance and the value of the code of best practice in order to safeguard shareholders' rights and discharge its social responsibility.

This statement describes the measures adopted by the Company in complying with the principles and provisions of the Code of Best Practice on Corporate Governance published by the Institute of Chartered Accountants of Sri Lanka.

### THE BOARD OF DIRECTORS

The Board is responsible for the Company's system of Corporate Governance, stewardship of the Company's resources, formulation of overall corporate policies strategies. High ethical standards are maintained and all applicable laws are complied. The Board conducts itself in a manner that provides appropriate leadership to the Company. Through the culture that has been developed across the Company and continuous communication with employees, it achieves integrity, personal responsibility and creation of value to shareholders.

The Board of Directors consists of 11 directors. In terms of section 7.10.3 of the listing rules of the Colombo Stock Exchange independent directors have submitted the declaration to the Company.

The board meetings are held regularly. Average attendance at the meeting held during the year was 95%.

Some of the General functions of the board include adoption of Annual and interim results before they are published, review of exposure to key business risk, strategic direction of operational units, approval of annual budgets, monitoring progress towards achieving those budgets and sanctioning major capital expenditures, acquisitions ,disposals, etc.

### FINANCIAL REPORTING

The Company is committed to adopt best practices of financial reporting in its affairs and continue to maintain a close watch on new developments in financial reporting.

The financial statements on pages 16 to 42 have been prepared in accordance with Sri Lanka Accounting Standards to have a clear and comprehensive understanding to readers of these financial reports.

The Board of Directors responsibility on financial reporting has been disclosed in page 12.

### RELATIONSHIP WITH SHAREHOLDERS

The Company reports formally to shareholders four times a year, when it's quarterly and full year results are announced. The Directors are available, formally during the AGM, and informally afterwards, to answer any questions of Institutional and individual Investors.

### SHAREHOLDER VALUE & RETURN

During the past few years the Company has undergone difficult times and results are not satisfactory. However re-organizing various important areas of our business the Company has started to show a sign of recovery. We are confident that before long your Company would be generating profit and able to give better returns to our Shareholders.

## CORPORATE GOVERNANCE (Contd)

### MANAGEMENT STRUCTURE

The Management Structure comprises the Board of Directors and the Management Committee. The Management Committee consists of the CEO, Deputy CEO and two executive Directors of the Company.

The Management Committee exercises their authority within the policy and guidelines established by the Board.

The performances of the Company is reviewed regularly at the Board Meeting.

### LAWS AND REGULATIONS AND ETHICAL STANDARDS

The Company has followed a tight control to ensure the compliance with applicable laws, regulatory requirements and ethical standards during the period under review.

### NOMINATION COMMITTEE

The Board takes a proper ascertainment in appointing new members to ensure the skills; experience and knowledge to the implementation of business strategies. The Company has taken steps to appoint a nomination committee to make recommendations to the Board on all new Board appointments subsequent to the financial year end.

### INTERNAL CONTROLS

The Board is responsible for ensuring that the Company has adequate Internal Controls in place. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, company's Internal Controls are designed to prevent or detect material errors and irregularities, safeguard of assets and to ensure that the transactions are properly executed and recorded

### TRANSPARENCY

Transparency being a key element of Corporate Governance, the Board places emphasis on complete disclosure of both financial and non – financial information within the bounds of commercial reality. The Executive Director's Review, Financial Highlights. The Directors continue to adopt going concern basis in preparing the financial statements.

### RELATIONSHIP WITH EMPLOYEES

Employees are encouraged to discuss any matters pertaining to them and the organization with their Supervisor, and when required with the Senior Management including the Chairman , through an Employees' Council. The Employees' Council consists of Non – Executive staff and their monthly meetings results are communicated to Management through a formal channel of communication.

### STATUTORY PAYMENTS

The Company has duly met its obligations with regard to all statutory payments.

### RETIRING BENEFIT OBLIGATIONS

Provision for employee benefits have been provided as per paragraph 3.10 (b) under Accounting Policies.



## CORPORATE GOVERNANCE (Contd)

### GOING CONCERN

The Directors of the Company are of the view that company has adequate resources and market prospect to continue in operations for the ensuing financial period. For this reason, the Directors continue to adopt going concern basis in preparing the financial statements.

The Board of Directors' evaluation of going concern is disclosed under Note 30 to the financial statements.

### REMUNERATION COMMITTEE

The remuneration committee consists three non executive and independent Directors of the Company.

The Committee was established for the purpose of recommending the remuneration of the Board of Directors including Chairman and other senior management.

The report of remuneration committee is on page 07.

### AUDIT COMMITTEE

Audit Committee comprises of three independent directors of the Company. The audit committee is responsible to the Board of Directors and the stakeholders of the Company.

The audit committee is empowered to evaluate the adequacy and effectiveness of the accounting and internal control systems of the company and monitor compliance with the statutory requirements. The audit committee reviews the Quarterly and Annual financial statements of the company prior to publication and examines the findings of the internal audit reports.

The committee is of the view that the Directors held responsible for accuracy, reliability and completeness of the financial statements prepared and published by the Company and that they are in compliance with all statutory requirements.

The report of audit committee is on pages 08 to 09.

## REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee is a subcommittee of the Board. The members of the Committee consist of Three Independent Non Executive Directors.

The Committee was established for the purpose of recommending the remuneration of the Board of Directors including Chairman/Chief Executive Officer and the Senior Management.

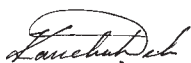
The Committee has acted within the parameters set by its terms of reference.

The Chairman of the Board attends the Committee meetings by invitation. He does not participate in any discussion pertaining to his remuneration. The decisions on matters relating to remuneration of Executive Directors and Senior Members of the management team were arrived at in consultation with the Chairman/CEO. No Director is involved in determining his own remuneration.

Our remuneration policy is designed to reward, motivate and retain the Company's executive team , with market competitive remuneration and benefits, to support the continued success of our business and the creation of shareholder value.

The remuneration packages which are linked to the individual performances are aligned with the Company's short-term and long-term strategy. The Committee makes every endeavour to maintain remuneration levels that are sufficient to attract and retain Executive Directors and Members of the Management team, to run the Company successfully.

The Director's emoluments are disclosed on page 39.



W. W. M. R. K. W. B. Dela

Chairman-Remuneration Committee



## REPORT OF THE AUDIT COMMITTEE

The Audit Committee is a sub-committee of the Main Board, to which it is accountable and it is wholly consisted of three Non-Executive Independent Directors.

The Audit Committee has written terms of references, dealing clearly with its authority and duties and is established for the purpose of assisting the Board in fulfilling their oversight responsibilities regarding the integrity of the Financial Statements, risk management, internal control, and compliance with legal and regulatory requirements, review of External Auditor's performances and independence and internal Audit function.

The following activities were carried out by the Audit Committee during the year ended 31st March 2012.

### Compliance with Financial Reporting

The Audit Committee considered the quarterly and annual financial statements prior to the publication.

The review included:

- Appropriateness and changes in Accounting Policies.
- Significant estimates and judgment made by the management.
- Compliance with relevant Accounting Standards and applicable regulatory requirements.
- Adequacy of provision against possible losses.
- Issues arising from the Internal and External audit.

### Compliance with Laws & regulations

The Audit Committee reviewed the reports submitted by the management and Internal Auditors on the state of compliance with applicable laws and regulations, and settlement of statutory payments.

### Internal Controls

The Committee is satisfied that an effective system of internal control is in place to provide reasonable assurance on safeguarding of the Company's assets and reliability of financial statements. Effectiveness of the Company's system of Internal Control is evaluated through reports furnished by Management, Internal Auditors and External Auditors.

### Internal Auditors

Internal Auditors directly submitted their findings to the Audit Committee quarterly and their reports are made available to External Auditors.

The Audit Committee monitors and reviews;

- The coverage of the annual audit plan.
- The follow-up action taken on the recommendation of the Internal Auditors.
- The internal audit programmes and results of the internal audit process.
- Effectiveness of the internal audit function.

### External Auditors

The Audit Committee reviewed the independence and objectivity of the External Auditors, Messrs KPMG Chartered Accountants.

## REPORT OF THE AUDIT COMMITTEE (Contd)

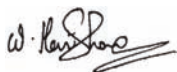
The Committee has received a declaration from the External Auditors, confirming that they do not have any relationship or interest in the Company as required by the Companies Act No. 07 of 2007.

The Committee reviewed the non-audit services and its impact on the independence of the External Auditors.

The Audit Committee has approved the extension of the period of engagement of External Auditors, By one year, and recommended to the Board their reappointment.

### Conclusion

The Audit Committee is satisfied that the effectiveness of the organizational structure of the Company and of the implementation of the Company accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with Company policies, and that the Company assets are properly accounted for and adequately safeguarded.



W. Ravishankar

Chairman – Audit Committee



## ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors present their Report and the Audited Financial Statements of the Company for the year ended 31st March, 2012.

### 1. REVIEW OF THE YEAR

Review of the Company's business and its performance during the year, with comments on financial results and future strategic developments are contained in the Chairman's review. (Page 01)

### 2. THE PRINCIPAL ACTIVITY

The principal activity of the Company is manufacturing and exporting of Diamonds Studded Gold Jewellery with Carbonlokd setting.

### 3. FINANCIAL STATEMENTS

The financial statements of the Company are given on pages 16 to 42.

### 4. GOING CONCERN

The Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future. The financial statements of the Company have accordingly been prepared on a going concern basis.

### 5. AUDITORS REPORT

The Auditors Report on the financial statements of the Company is given on pages 14 to 15.

### 6. ACCOUNTING POLICY

The significant accounting policies adopted in the Preparation of the financial statements are given in Note No. 01 to 04 on pages 20 to 27. The accounting policies adopted are consistent with those of the previous financial year.

### 7. TAXATION

Provision for taxation has been computed at the rates given in Note No. 09 to the financial statements.

### 8. DIVIDENDS

The Directors do not recommend a dividend on ordinary shares for the year ended 31st March 2012.

### 9. BOARD OF DIRECTORS

The Directors of the Company as at 31st March 2012 were:

Mr. W A D V Perera	- (Chairman) Executive Director
Mr. G de Kretser	- Executive Director
Mr. K V D D A Dias	- Executive Director
Mr. M M N Priyantha	- Executive Director
Mr. W Ravishankar	- Non Executive Independent Director
Mr. W W M R K W B Dela	- Non Executive Independent Director
Mr. K L Dias	- Non Executive Independent Director



## ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY (Contd)

Mr. G de Kretser resigned from the Board of Directors with effect from 31st July 2012.

Mr. W A D V Perera resigned from the Board of Directors on 31st August 2012 and Mr. J H P Ratnayake, Mr. B M A L A Fernando, Mr. B B T A Perera, Mr. P B Vinoth Kumar and Mr. W M R B Bandara were appointed as Directors with effect from 24th August 2012. Whilst Mr. J H P Ratnayake was appointed as the Chairman with effect from 1st September 2012, Mr. B M A L A Fernando was appointed as Deputy Chairman from 24th August 2012.

Mr. J H P Ratnayake, Mr. B M A L A Fernando, Mr. B B T A Perera, Mr. P B Vinoth Kumar and Mr. W M R B Bandara who retire in terms of Article 92 of the Articles of Association of the Company offer themselves for re-election as Directors.

### 10. DIRECTORS INTEREST IN CONTRACTS

There are no other interests in contracts or proposed contracts with the Company by the Directors other than those specified in note No. 26 to the financial statements.

### 11. CORPORATE GOVERNANCE

The Company has put in place systems and procedures to ensure the implementation of sound Corporate Governance Principles. An overview of such practices adopted within the Company is given on pages 4 to 6 of the Annual Report.

### 12. AUDIT COMMITTEE

The Audit Committee of the Company during the year comprised the following members:

Mr. W. Ravishankar - Chairman

Mr. W. W. M. R. K. W. B. Dela

Mr. K. L. Dias

The report of the Audit Committee is given on pages 08 to 09 of the Annual Report.

### 13. REMUNERATION COMMITTEE

The Remuneration Committee comprised the following members:

Mr. W. W. M. R. K. W. B. Dela - Chairman

Mr. W. Ravishankar

Mr. K. L. Dias

The report of the Remuneration Committee is given on page 07 of the Annual Report.

### 14. CAPITAL EXPENDITURE

There are no material capital commitments that would require disclosures in the financial statements.

### 15. PROPERTY, PLANT AND EQUIPMENT

## ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY (Contd)

The details of the property, plant and equipment are given in Note No.11 to the financial statements.

### 16. DONATIONS

During the year, the Company has not made any donation.

### 17. STATED CAPITAL

The Stated capital of the Company as at 31st March 2012 is Rs. 1,064,853,543/- representing 103,300,891 Ordinary Voting Shares and 153,369,800 Non-voting Shares.

### 18. SHAREHOLDINGS

An analysis of the distribution of the ordinary shareholders is given on pages 45-46 of the Annual report. The list of 20 largest Ordinary shareholders of the Company is given on pages 45-46 of the Annual Report.

### 19. DIRECTORS' HOLDINGS OF SECURITIES OF THE COMPANY

	Voting		Non Voting	
	No. of Shares		No. of Shares	
As at 31st March	2012	2011	2012	2011
Mr W. A. D. V. Perera	Nil	Nil	Nil	Nil
Mr. G. de Kretser	4,306	4,306	1,000	1,000
Mr. K. V. D. D. A. Dias	4,500	Nil	Nil	Nil
Mr. M. M. N. Priyantha	2,000	Nil	Nil	Nil
Mr. W. Ravishankar	100	Nil	Nil	Nil
Mr. W. W. M. R. K.W.B.Dela	100	Nil	Nil	Nil
Mr. K. L. Dias	Nil	Nil	Nil	Nil

### 20. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. The Directors are accordingly satisfied that the financial statements presented herein give a true and fair view of the state of affairs of the Company as at 31st March 2012 and the profit for the year then ended.

### 21. STATUTORY PAYMENTS

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the Government and to the employees of the Company have been made up to date.

### 22. POST BALANCE SHEET EVENTS

No events have occurred after the balance sheet date which would require adjustments to or disclosure in the financial statements, other than those given in Note No. 29 to the financial statements.

## ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY (Contd)

### 23. AUDITORS

Messrs. KPMG, Chartered Accountants are the Company's Auditors during the period under review. A sum of Rs. 700,000/- payable as professional fee for the year under review and Rs. 200,000/- was paid for non audit related work such as agreed upon engagements. Based on the declaration made by Messrs. KPMG and as far as the Directors are aware, the Auditors do not have and relationship or interest other than statutory auditor and tax consultant.

The Directors recommend the re-appointment of Messrs. KPMG as the Auditors of the Company for the ensuing year.

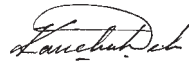
### 27. NOTICE OF MEETING

Notice of Meeting relating to the 22nd Annual General Meeting of the Company is given on page 47 of the Annual Report.

For and on behalf of the Board,



W. Ravishankar  
Director



W. W. M. R. K. W. B. Dela  
Director



S S P CORPORATE SERVICES (PRIVATE) LIMITED  
SECRETARIES

24th August 2012



## REPORT OF THE AUDITORS



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : [www.lk.kpmg.com](http://www.lk.kpmg.com)

### INDEPENDENT AUDITORS' REPORT

#### TO THE SHAREHOLDERS OF BLUE DIAMONDS JEWELLERY WORLDWIDE PLC

##### Report on the Financial Statements

We have audited the accompanying financial statements of Blue Diamonds Jewellery Worldwide PLC (the "Company") which comprise the balance sheet as at 31<sup>st</sup> March 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on page 16 to 42 of this Annual Report.

##### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

##### *Scope of Audit and Basis of Opinion*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

##### *Opinion*

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31<sup>st</sup> March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31<sup>st</sup> March 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihuler FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA

Ms. M. P. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekera ACA  
G.A.U. Karunaratne ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA



*Emphasis of matter*

Without qualifying our opinion, we draw attention to Notes 28.2 and Note 30 to these financial statements.

As described in Note 28.2 to these financial statements, the Company obtained a credit facility of US\$ 2,750,000 from Seylan Bank PLC in previous years by pledging inventory of Jewellery as security. During the year ended 31<sup>st</sup> March 2005, the Directors resolved to write back the balance outstanding to the said bank in respect of the credit facility on the basis that the Company handed over jewellery in lieu of the said credit facility as full and final settlement of the balance due to the bank and there is no further liability due on the said credit facility. Accordingly, a net amount of Rs. 203.5 Mn was written back to income statement during that financial year.

However, the said bank by letter dated 4<sup>th</sup> December 2009 demanded a sum of US\$ 4,320,906 together with interest being the total outstanding sum due on the said facilities from the Company.

The Company and Seylan Bank PLC agreed to appoint Arbitrator in accordance with the agreement signed by the Company and the Bank on 21<sup>st</sup> November 2003 in respect of the sale of jewellery that was acquired by Seylan Bank PLC in 1999 in lieu of the credit facilities obtained. The Arbitration process has commenced with Seylan Bank PLC and it is at the trial stage. Next dates of the hearing are 5<sup>th</sup> September 2012 and 28<sup>th</sup> September 2012.

The ultimate outcome of the arbitration process cannot currently be determined and hence the effect on the financial statements is uncertain. Accordingly no provision for any liability that may result has been made in these financial statements.

As explained in Note 30 to these financial statements, the Company's accumulated losses as at 31<sup>st</sup> March 2012 amounted to Rs. 892,677,238/-. Although this condition indicates the existence of uncertainty which may cast significant doubt about the Company's ability to continue as a going concern, due to the steps taken by the Board subsequent to the balance sheet date as described in Note 29.1 to these financial statements, no adjustments have been made in these financial statements.

**Report on Other Legal and Regulatory Requirements**

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007., except, it should be noted that the Company's net assets are less than half of its stated capital resulting in a serious loss of capital situation in terms of Section 220 of the same Act. The steps taken by the Company subsequent to the balance sheet date, to address this situation have described in Note 29.1 to these financial statements.

  
**CHARTERED ACCOUNTANTS**  
Colombo  
24<sup>th</sup> August 2012



## STATEMENT OF INCOME

For the year ended 31st March,

	Note	2012 Rs.	2011 Rs.
Revenue	5	71,157,686	55,039,964
Cost of sales		<u>(53,016,710)</u>	<u>(33,135,714)</u>
<b>Gross profit</b>		<b>18,140,976</b>	<b>21,904,250</b>
Other income	6	43,475,994	9,682,914
Selling and distribution expenses		(13,857,582)	(9,842,677)
Administrative expenses		(55,260,784)	(35,540,527)
<b>Loss from operations</b>	7	<u><b>(7,501,396)</b></u>	<u><b>(13,796,040)</b></u>
Finance income		19,851,234	3,538,326
Finance expenses		-	(3,247,469)
<b>Net finance income</b>	8	<u><b>19,851,234</b></u>	<u><b>290,857</b></u>
Share of profit/(loss) of Associate (net of taxation)	14	367,896	(5,000)
<b>Profit/(loss) before taxation</b>		<u><b>12,717,734</b></u>	<u><b>(13,510,183)</b></u>
Income tax expense	9	<u>(2,701,781)</u>	<u>(703,383)</u>
<b>Profit/(loss) for the year</b>		<u><b>10,015,953</b></u>	<u><b>(14,213,566)</b></u>
Basic Earnings/(loss) per share	10	0.04	(0.07)

The annexed notes to the financial statements form an integral part of these financial statements.

Figures in bracket indicate deductions.

## BALANCE SHEET

As at 31st March,	Note	2012 Rs.	2011 Rs.
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	28,252,527	15,398,634
Leasehold property	12	2,257,110	2,284,227
Intangible assets	13	60,416	160,416
Investment in Associate	14	5,746,046	-
Long term investments	14	184,500	184,500
Loan receivable from Associate	17	5,136,478	5,509,945
<b>Total non-current assets</b>		<b>41,637,077</b>	<b>23,537,722</b>
<b>Current assets</b>			
Inventories	15	170,716,034	139,450,507
Trade receivables	16	15,187,212	21,918,507
Receivable from Associate		144,543	3,920,035
Loan receivable from Associate	17	373,447	331,671
Other receivables	18	8,490,736	9,865,333
Cash and cash equivalents	19	107,427,690	173,895,985
<b>Total current assets</b>		<b>302,339,662</b>	<b>349,382,038</b>
<b>Total assets</b>		<b>343,976,739</b>	<b>372,919,760</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated capital	20	1,064,853,543	1,064,853,543
General reserves		135,000,000	135,000,000
Accumulated losses		(892,677,238)	(902,693,191)
<b>Total equity</b>		<b>307,176,305</b>	<b>297,160,352</b>
<b>Non-current liabilities</b>			
Employee benefits	21	8,005,634	9,226,759
Debenture issued	22	-	1,391,667
<b>Total non-current liabilities</b>		<b>8,005,634</b>	<b>10,618,426</b>
<b>Current liabilities</b>			
Trade payables		3,989,258	3,228,879
Amount due to Ceylinco Investment Company Limited	23	-	19,376,991
Interest bearing loans and borrowings	24	-	38,868,610
Current tax payable		2,701,181	9,698
Other payables and accruals	25	22,104,298	3,648,623
Bank overdraft	19	63	8,181
<b>Total current liabilities</b>		<b>28,794,800</b>	<b>65,140,982</b>
<b>Total Liabilities</b>		<b>36,800,434</b>	<b>75,759,408</b>
<b>Total equity and liabilities</b>		<b>343,976,739</b>	<b>372,919,760</b>
<b>Net assets per share</b>		<b>1.20</b>	<b>1.39</b>


The annexed notes to the financial statements form an integral part of these financial statements.

These financial statements have been prepared in compliance with the requirements of Companies Act No.7 of 2007.

  
B. B. T. A. Perera  
(Chief Accountant)

The Board of Directors is responsible for the preparation and presentation of these financial statements.  
Signed for and on behalf of the board:

  
W. W. M. R. K. W. B. Dela  
(Director)

  
W. Ravishankar  
( Director)

24th August 2012  
Colombo.

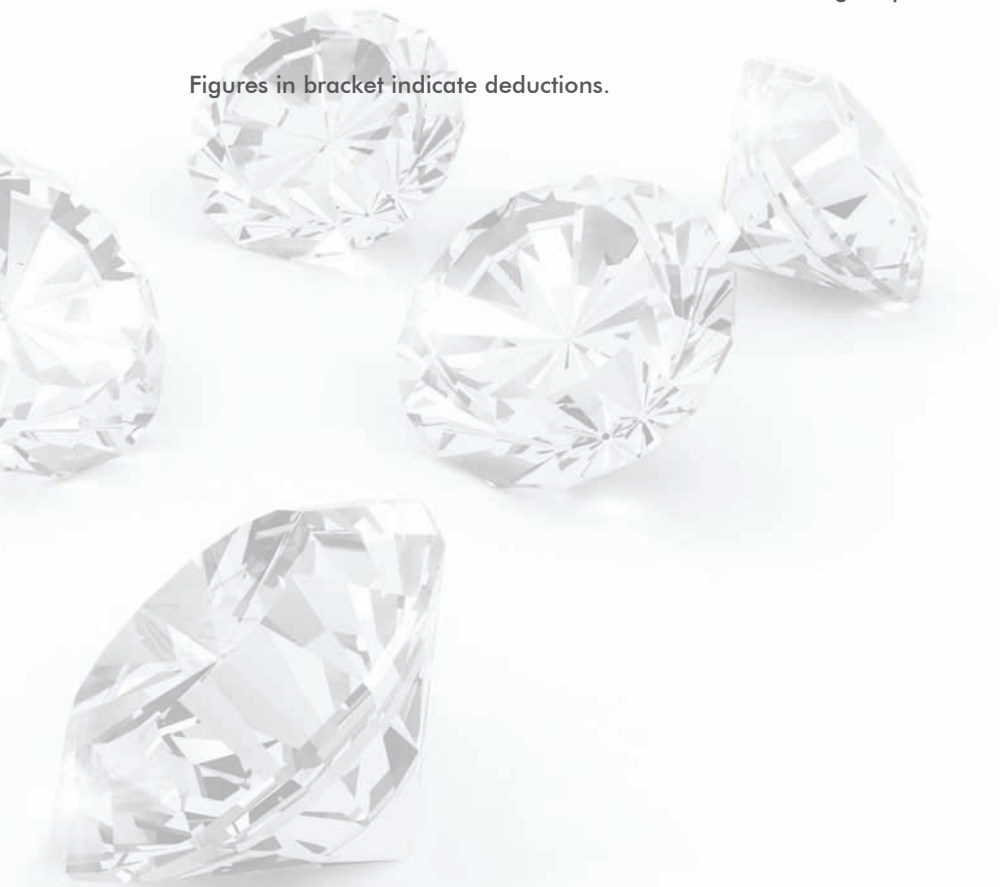
## STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2012

	Stated Capital Rs.	General Reserve Rs.	Accumulated Losses Rs.	Total Equity Rs.
Balance as at 01st April 2010	877,434,654	135,000,000	(888,479,625)	123,955,029
Loss for the year	-	-	(14,213,566)	(14,213,566)
Proceeds from rights Issue (Note 20)	187,418,889	-	-	187,418,889
<b>Balance as at 31st March 2011</b>	<b>1,064,853,543</b>	<b>135,000,000</b>	<b>(902,693,191)</b>	<b>297,160,352</b>
Balance as at 01st April 2011	1,064,853,543	135,000,000	(902,693,191)	297,160,352
Profit for the year	-	-	10,015,953	10,015,953
<b>Balance as at 31st March 2012</b>	<b>1,064,853,543</b>	<b>135,000,000</b>	<b>(892,677,238)</b>	<b>307,176,305</b>

The annexed notes to the financial statements form an integral part of these financial statements.

Figures in bracket indicate deductions.



## CASH FLOW STATEMENT

For the year ended 31st March,

	2012 Rs.	2011 Rs.
<b>Cash flow from operating activities</b>		
Profit/(loss) before tax	12,717,734	(13,510,183)
<b>Adjustments for:</b>		
Creditors not payable written back	(43,245,601)	(9,204,417)
Depreciation on property, plant & equipment	2,637,261	3,173,503
Amortization of intangible assets	100,000	100,000
Amortization of leasehold property	27,117	27,117
Provision/ (reversal of provision) for bad & doubtful debts	3,788,985	(428,268)
Provision/ (reversal of provision) of slow moving inventories	(9,947,816)	4,654,138
Provision for retiring Gratuity	571,336	2,937,602
Profit on disposal of property, plant and equipment	-	(17,267)
Reversal of ESC receivable previously written off	-	(294,699)
Finance cost	-	3,247,469
Reversal of excess interest accrued on redeemed debentures	(66,667)	(210,416)
Unrealized Exchange (Gain) / Loss	(3,860,557)	841,305
Share of loss / (profit) of associate	(367,896)	5,000
Interest income	(10,608,853)	(4,617,378)
<b>Operating loss before working capital changes</b>	(48,254,956)	(13,296,494)
(Increase)/ Decrease in trade & other receivables	8,177,464	(613,575)
Increase in inventories	(25,385,711)	(8,879,017)
Increase/ (Decrease) in trade & other payables	19,216,054	(52,889)
Decrease in relate party payables	-	(493,422)
(Increase)/Decrease in related party receivables	3,775,492	(2,997,236)
<b>Net cash used in operating activities</b>	(42,471,657)	(26,332,633)
Retiring gratuity paid	(1,792,461)	(1,905,063)
Current taxes paid	(10,298)	(9,068)
<b>Net cash flow used in operating activities</b>	(44,274,416)	(28,246,764)
<b>Cash flow from investing activities</b>		
Interest received	10,608,853	4,223,128
Purchase of property, plant & equipment	(15,491,154)	(2,014,978)
Net Loan recovery	331,691	(5,841,616)
Investment in Associate/Shares	(1,310,150)	(27,500)
Proceeds received on disposal of property, plant & equipment	-	17,267
<b>Net cash used in investing activities</b>	(5,860,761)	(3,643,699)
<b>Cash flow from financing activities</b>		
Redemption of debentures	(1,325,000)	(3,975,000)
Term loan repayment	(15,000,000)	-
Proceeds received on right issue	-	187,418,889
<b>Net cash (used in)/ from financing activities</b>	(16,325,000)	183,443,889
<b>Net (decrease) / increase in cash and cash equivalents</b>	(66,460,177)	151,553,426
Cash & cash equivalents at the beginning of the year	173,887,804	22,334,378
Cash & cash equivalents at the end of the year (Note 19)	107,427,627	173,887,804

The annexed Notes to the financial statements form an integral part of these financial statements.  
Figures in bracket indicate deductions.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

#### 1.1 DOMICILE AND LEGAL FORM

Blue Diamonds Jewellery Worldwide PLC ("the Company") is a public limited liability company incorporated and domiciled in Sri Lanka on 21st November 1990. The registered office of the Company and the principal place of business is situated at No.49, Ring Road, Phase 1, IPZ, Katunayake. The ordinary shares of the Company are listed in the Colombo Stock Exchange.

#### 1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal activities of the Company are manufacturing and exporting of diamond studded gold jewellery.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

#### 1.3 PARENT ENTERPRISE AND ULTIMATE PARENT ENTERPRISE

The Company does not have an identifiable parent or an ultimate parent of its own in the opinion of the Directors.

#### 1.4 NUMBER OF EMPLOYEES

The number of employees of the Company as at 31st March 2012 was 64 (2011 – 59)

#### 1.5 DATE OF AUTHORIZATION FOR ISSUE

The financial statements for the year ended 31st March 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 24th August 2012.

#### 1.6 RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible for preparation and presentation of these financial statements.

### 2. BASIS OF PREPARATION

#### 2.1 STATEMENT OF COMPLIANCE

The financial statements comprise the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements. The financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) as laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 7 of 2007.

#### 2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for Employee Benefits (retiring gratuity), which is measured based on actuarial Valuation. No adjustments have been made for inflationary factors in the financial statements.

#### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency.

#### 2.4 USE OF ESTIMATE AND JUDGMENTS

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The Actual results may differ from these estimates.



## NOTES TO THE FINANCIAL STATEMENTS (Contd)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimates and uncertainty that have the most significant effects on the amounts recognized in the financial statements are as follow:

Measurement of employee benefit obligations (Note 21)

Provisions and contingencies (Note 28)

Impairment of assets (Note 3.9)

### 2.5 MATERIALITY AND AGGREGATION

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

### 2.6 COMPARATIVE INFORMATION

Comparative information has been reclassified wherever necessary to conform to the current year's presentation.

### 3. SIGNIFICANT ACCOUNTING POLICES

The accounting policies are consistent with those used in the previous year and have been consistently applied by the entity.

#### 3.1 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated into Sri Lankan Rupees at the spot exchange rate at the time the transaction is effected. Where foreign exchange transactions are covered by forward contracts the rate used is that of the contract. Assets and liabilities denominated in foreign currencies are converted into Sri Lanka Rupees using the rate that prevailed on the Balance Sheet date. All profits or losses arising from transactions in foreign currencies are recognised in the period in which they arise.

#### 3.2 ASSETS AND BASES OF THEIR VALUATION

##### PROPERTY, PLANT AND EQUIPMENT

###### Recognition and measurement

Property, plant and equipment are recorded at cost of purchase or construction together with any incidental expenses thereon. These assets are stated at cost less accumulated depreciation and accumulated impairment losses which are provided for on the basis specified below.

The cost of property, plant & equipment includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

### Subsequent expenditure

The cost of replacing a part of an item of property, plant & equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of these parts that are replaced is derecognized in accordance with the derecognition policy given below.

The cost of the day-to-day servicing of property, plant & equipment are recognized in profit and loss as incurred.

### Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal; or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition are recognized in profit and loss and gains are not classified as revenue.

### Depreciation

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of items of each part of an item of property, plant and equipment,

The estimated useful lives for the current and comparative periods are as follows.

Plant & Machinery	20 years
Buildings	13.33 years
Furniture & Fittings	4 years
Equipment	4 years
Motor Vehicles	4 years

Plant & Machinery which was written down to its recoverable amount in the year ended 31st March 2000 are depreciated over the balance 11 years of the estimated useful life.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognized.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### 3.3 LEASEHOLD PROPERTY

Operating leases and any prepayments are recognised in the Company's balance sheet as lease hold rights. Leasehold property comprises of land use right and stated at cost.

The leasehold rights under operating leases are charged to the income statement on a straight- line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The cost of improvements to or on leased property is capitalized, and depreciated over the unexpired period of the lease or the estimated useful lives of improvements, whichever is shorter.

Leasehold land is amortized over the lease period of 99 years.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

### 3.4 INTANGIBLE ASSETS

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply goods or other services, rental to others or for administrative purposes.

#### Basis of recognition

An intangible asset is initially recognized at cost, if it is probable that future economic benefit will flow to the enterprise, and the cost of the asset can be measured reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

#### Computer software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Balance Sheet under the category intangible assets and carried at cost less accumulated amortization and any accumulated impairment losses.

#### Amortization

Intangible assets with finite lives are amortized over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets are amortized on a straight line basis in the Income Statement from the date on which the asset was available for use, over the best estimate of its useful life. The estimated useful life of software is 4 years. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

#### Retirement and disposal

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal.

### 3.5 INVESTMENTS

#### 3.5.1 LONG TERM INVESTMENTS

Investments are stated at cost or market price whichever is lower. Any diminution in value is provided for in the financial statements.

#### 3.5.2 INVESTMENTS IN ASSOCIATES

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating activities.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognized at cost. The cost of the investment includes transaction costs.

The financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. Associate Companies of the Company which have been accounted for under the equity method of accounting are disclosed under Notes to these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

The Company's Associate Company, Fior Drissage Jewellers Ltd has a common financial year end which ends on 31st March.

### 3.6 INVENTORIES

Inventories are stated at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The general basis on which cost is determined is as follows.

All inventory items except Finished Products, Work-in-Progress and Gold Frames - WIP are stated at weighted average cost and include expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Finished Products and Work-in-Progress based on the standard costing which included all direct expenditure and production overheads.

Gold, and Gold frames - WIP stock are valued based on cost or net realizable value whichever is lower.

A provision is made for all non-moving and obsolete items of inventory.

### 3.7 TRADE AND OTHER RECEIVABLES

Trade and Other Receivables are stated at the values estimated to be realised. Provision has been made in the accounts where necessary for bad and doubtful debts.

### 3.8 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are defined as cash-in-hand, deposits held at call with the banks net of bank overdraft, short term highly liquid investments, and readily convertible loan amounts subject to insignificant risk of changes in value.

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents comprises of cash-in-hand, deposits held at call with banks, net of overdrafts, short term highly liquid investments, and readily convertible loan amounts.

Overdrafts are classified under Current Liabilities on the Balance Sheet.

### 3.9 IMPAIRMENT OF ASSETS

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

### Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

### Reversal of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment losses are recognized in the income statement.

### 3.10 LIABILITIES AND PROVISIONS

Liabilities classified as Current Liabilities in the Balance Sheet are those obligations payable on demand or within one year from the Balance Sheet date. Items classified as Non-current Liabilities are those obligations which will be repaid after a period of one year from the Balance Sheet date. Provisions and Liabilities are recognised when the company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligations.

### 3.11 EMPLOYEE BENEFITS

#### (a) Defined Contribution Plans - ( Employees Provident Fund & Employees Trust Fund)

All employees of the Company are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 12% and 3% respectively of such employees consolidated salary. The Company contributions are recognised as an expense in the Income Statement when incurred.

#### (b) Defined benefit plans – Retirement gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. Gratuity is a defined benefit plan. The liability recognized in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by using the 'projected unit credit method' as required by SLAS 16 (Revised 2006) – "Employee Benefit" An actuarial valuation is carried out once in every three years.

However, according to the payment of Gratuity Act, No. 12 of 1983, the liability to an employer arises only on completion of five years of continued service.

The liability is not externally funded.

#### (c) Short-Term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.



## NOTES TO THE FINANCIAL STATEMENTS (Contd)

### 3.12 TRADE AND OTHER PAYABLES

Trade and other payables are stated at Cost.

### 3.13 COMMITMENTS AND CONTINGENCIES

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recorded in the balance sheet but are disclosed unless they are remote.

### 3.14 REVENUE

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowance, trade discounts. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Interest income is recognized on an accrual basis.

Dividend income is recognized when the shareholders' right to receive the payment is established.

Profit or loss of a revenue nature on the disposal of property, plant and equipment and other non current assets have been accounted for in the income statement having deducted from the proceeds on disposal, the carrying amount of the asset and the related selling expenses.

### 3.15 EXPENDITURE RECOGNITION

#### 3.15.1 Operational Expenses

Expenses are recognized in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

#### 3.15.2 Financial Expenses

Interest expenses are recognised on an accrual basis.

#### 3.15.3 Borrowing Costs

All borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalized as part of the cost of that asset.

### 3.16 INCOME TAX EXPENSE

#### 3.16.1 Current Taxation

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and amendments thereto.

Company's export income from gold, gems or jewellery is exempt from income tax as per Section 13(i) of the Inland Revenue Act No. 10 of 2006. However, the local sales are liable for current tax.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

### 3.16.2 Deferred Taxation

Deferred Taxation has been provided for under the liability method on temporary differences as at the Balance Sheet date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred Tax Assets are recognised for all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of Deferred Tax Assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the Deferred Tax assets to be utilised. Unrecognised Deferred Tax Assets are re-assessed at each Balance Sheet date and are recognised to the extent that future taxable profit will be available to recover the Deferred Tax Assets.

Deferred Tax Assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the Balance Sheet date.

### 3.17 BASIC EARNINGS PER SHARE

The financial statements present basic earnings per share (EPS) data for its ordinary shareholders.

The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

### 3.18 CASH FLOW STATEMENT

The Cash Flow Statement has been prepared using the indirect method. Interest paid is classified as an Operating cash flow. Interest received is classified as an investing cash flow, while dividends paid is classified as a financing cash flow for the purpose of presentation of the Cash Flow Statement.

## 4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT BALANCE SHEET DATE

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the year ended 31st March 2012.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Company is currently in the process of evaluating the potential effects of these Standards on its financial statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the year ended 31st March,	2012	2011
	Rs.	Rs.
<b>5 REVENUE</b>		
Gross revenue		
Export sales	65,990,736	55,122,856
Local sales	<u>7,135,892</u>	<u>258,766</u>
	73,126,628	55,381,622
Less: Sales return	<u>(1,968,942)</u>	<u>(341,658)</u>
Net sales	<u>71,157,686</u>	<u>55,039,964</u>
Total value of export (Inclusive of raw materials) - Note 5.1	<u>154,154,163</u>	<u>163,485,734</u>

5.1 The Company receives raw materials from most of its customers. Therefore the Company charges a margin on labour cost and does not consider the raw material portion for product costing and pricing. Accordingly no revenue is recognized.

### 6 OTHER INCOME

Sundry income	85,850	35,000
Profit on disposal of property, plant and equipment	-	17,267
Reversal of ESC receivable previously written off	-	294,699
Royalty income (Note 6.2)	144,543	131,531
Amount payable to Creditors written back (Note 6.1)	<u>43,245,601</u>	<u>9,204,417</u>
	<u>43,475,994</u>	<u>9,682,914</u>

#### 6.1 Amount payable to Creditors written back

The Board of Directors has decided to write back long outstanding amount payable to non operating companies to the income statement based on the internal assessment and legal opinion. The details are as follow:

Ceylinco Investment Company Limited (Note 24)	19,376,991	4,500,000
The Finance Company PLC (Note 25)	23,868,610	-
India Diamonds	-	2,959,789
Geeson Diamonds	-	504,287
S&L Investment (Pvt) Ltd	-	300,000
Ceylinco Worldwide Trading (Pvt) Ltd	-	272,242
Gemplus Jewellery	-	232,213
Ceylinco Colored Stones (Pvt) Ltd	-	322,972
Other	-	112,914
	<u>43,245,601</u>	<u>9,204,417</u>

6.2 The Company has entered into an agreement with its Associate, for Drissage Jewellers Ltd, to receive a Royalty Fee for the manufacture and supply of Corbonlok (floating - Diamond) Jewellery.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the Year Ended 31st March

	2012	2011
	Rs.	Rs.

### 7 LOSS FROM OPERATIONS

Loss from operations is stated after charging all expenses including the following:

Directors' emoluments	11,382,800	8,308,768
Auditors' remuneration - Statutory audit	700,000	675,000
- Non audit fee	200,000	84,810
Depreciation and amortization	2,764,378	3,300,620
Provision/(reversal of provision) for bad & doubtful debts	3,788,985	(428,268)
Personal cost (Note 7.1)	38,898,005	31,679,939
Provision/(reversal of provision) for slow moving inventory	(9,947,816)	4,654,138
Registrars and secretarial fees	476,286	487,023
Legal fees	16,013,112	1,026,126

#### 7.1 Personal cost

Salaries and wages	35,863,225	26,356,307
Defined contribution plan cost - EPF & ETF	2,951,876	2,386,030
Defined benefit plan cost - Retiring gratuity	571,336	2,937,602
	<u>38,898,005</u>	<u>31,679,939</u>

### 8 NET FINANCE INCOME

#### 8.1 Finance income

Interest on call / fixed deposits	5,330,591	618,649
Interest on treasury bills	-	146,082
Interest on repo	4,595,409	3,734,790
Interest on term loan	682,852	117,857
Net Gain/(loss) on translation of foreign currency	9,175,715	(1,289,468)
Reversal of excess interest accrued on redeemed debentures	66,667	210,416
Total finance income	<u>19,851,234</u>	<u>3,538,326</u>

#### 8.2 Finance expenses

Interest on term loan - The Finance Company PLC	-	(3,155,803)
Interest on debentures	-	(91,666)
Total finance expenses	<u>-</u>	<u>(3,247,469)</u>
Net finance income	<u>19,851,234</u>	<u>290,857</u>

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the year ended 31st March, 2012 2011  
Rs. Rs.

### 9 INCOME TAX EXPENSE

#### 9.1 Income tax

Current tax on profits for the year (Note 9.3)	2,701,781	685,795
Under provision for the prior years	-	7,301
Social Responsibility Levy	-	10,287
Total income tax expense	<u>2,701,781</u>	<u>703,383</u>

9.2 As per the agreement under Section 17 of BOI Law No.4 of 1978, the tax exemption period ended on 31st March 2004. However, the Company's export income of gold, gems or jewellery are exempted from income tax as per Section 13 (i) of the Inland Revenue Act No.10 of 2006 and amendments thereto. Local sales are liable for income tax.

#### 9.3 Reconciliation of accounting profit/(loss) and taxable income

Profit/(loss) before taxation	12,717,734	(13,510,183)
Non business income	(10,608,853)	(4,617,378)
Disallowed expenses and provisions	7,851,416	14,652,274
Allowable expenses	<u>(19,161,958)</u>	<u>(4,613,064)</u>
Statutory loss from business	<u>(9,201,661)</u>	<u>8,008,351</u>
Non business income	10,608,853	4,617,378
Utilisation of tax losses from local sales	(959,635)	(45,409)
Taxable income	<u>9,649,218</u>	<u>4,571,969</u>
Current tax on non business income for the year at 28% (2011-15%)	<u>2,701,781</u>	<u>685,795</u>

#### 9.4 Deferred tax

No deferred tax has been provided since there are no material tax effects on temporary differences due to the fact that the Company's export income is exempted from income tax as mentioned above.

### 10 BASIC EARNINGS/ (LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders of the entity by the weighted average number of ordinary shares outstanding during the year.



## NOTES TO THE FINANCIAL STATEMENTS (Contd)

for the year ended 31st March,	2012	2011
10 BASIC EARNINGS/ (LOSS) PER SHARE	Rs.	Rs.

The followings reflect the profit/(loss) and share data used in the basic earnings per share computation:

Profit/(loss) for the year	10,015,953	(14,213,566)
Weighted average number of ordinary shares (Note 10.1)	256,670,691	213,213,996
Basic earnings/(loss) per share	<u>0.04</u>	<u>(0.07)</u>

### 10.1 Weighted average number of ordinary shares

Issued ordinary shares at the beginning of the year	256,670,691	161,236,061
Effect of the rights issue	-	51,977,935
Weighted average number of shares for the year	<u>256,670,691</u>	<u>213,213,996</u>

10.2 There were no potential dilution as at year end. Therefore, diluted earnings/ (loss) per share is same as basic earnings/ (loss) per share shown above.

### 11 PROPERTY, PLANT & EQUIPMENT

	Buildings	Plant & Machinery	Furniture & Fittings	Office & Factory Equipment	Total 2012	Total 2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>						
As at 01st April	14,162,449	153,083,849	4,695,515	24,982,291	196,924,104	198,170,033
Additions	-	12,450,901	32,772	3,007,481	15,491,154	2,014,978
Disposal	-	-	-	-	-	(3,260,907)
Balance as at 31st March	<u>14,162,449</u>	<u>165,534,750</u>	<u>4,728,287</u>	<u>27,989,772</u>	<u>212,415,258</u>	<u>196,924,104</u>
<b>Depreciation</b>						
As at 01st April	11,293,400	141,523,010	4,620,343	24,088,717	181,525,470	181,612,874
Charge for the year	451,587	1,403,932	77,044	704,698	2,637,261	3,173,503
Disposal	-	-	-	-	-	(3,260,907)
Balance as at 31st March	<u>11,744,987</u>	<u>142,926,942</u>	<u>4,697,387</u>	<u>24,793,415</u>	<u>184,162,731</u>	<u>181,525,470</u>
<b>Carrying amount</b>						
As at 31st March 2012	<u>2,417,462</u>	<u>22,607,808</u>	<u>30,900</u>	<u>3,196,357</u>	<u>28,252,527</u>	
As at 31st March 2011	<u>2,869,049</u>	<u>11,560,839</u>	<u>75,172</u>	<u>893,574</u>		<u>15,398,634</u>

11.1 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 15 Mn. and cash payments amounting to Rs. 15 Mn were made during the year for purchase of Property, Plant and Equipment.

11.2 Property, Plant and Equipment includes fully depreciated assets with the cost of Rs. 172 Mn (2011: Rs.137Mn), which are being used in the normal business activities.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March,	2012 Rs.	2011 Rs.
<b>12 LEASEHOLD PROPERTY</b>		
Balance at the beginning of the year	2,284,227	2,311,344
Amortized during the year	<u>(27,117)</u>	<u>(27,117)</u>
Balance at the end of the year	<u>2,257,110</u>	<u>2,284,227</u>

12.1 Leasehold land has been obtained from Government of Sri Lanka on a 99 years lease. This lease commenced on 7th March 1991. The remaining lease period is 78 years.

### 13 INTANGIBLE ASSETS

Computer software Note 13.1	60,416	160,416
Technological rights Note 13.2	<u>-</u>	<u>-</u>
	<u>60,416</u>	<u>160,416</u>

#### 13.1 Computer software

##### Cost

Balance at the beginning and the end of the year	<u>11,927,500</u>	<u>11,927,500</u>
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##### Accumulated Amortization

Balance at the beginning of the year	11,767,084	11,667,084
Charge for the year	<u>100,000</u>	<u>100,000</u>
Balance at the end of the year	<u>11,867,084</u>	<u>11,767,084</u>

##### Carrying amount

As at 31st March	<u>60,416</u>	<u>160,416</u>
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#### 13.2 Technological rights

Technological rights purchased value	229,731,188	229,731,188
Provision made during the financial year 2000/2001	<u>(229,731,188)</u>	<u>(229,731,188)</u>
Carrying amount as at 31st March	<u>-</u>	<u>-</u>

The Company entered into an understanding with Energen Holding Company Limited, Mauritius, in 1997/98, to develop solar chimney technology to generate power. The Company subcontracted this development work to a foreign Company and purchased the technological rights at a cost of Rs. 229,731,188/- from the foreign Company. Former deputy Chairman had undertaken to sell the technological rights at the AGM held in 1997/98. However, the sale didn't take place.

Board of Directors of the Company decided to make full provision in 2000/01 against this for the investment due to the uncertainty regarding future economic benefit from the investment in. The said investment has not been written off against the provision as at balance sheet date, as the Board is in the process of re-assessing the economic benefit of the said investment.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March, 2012

### 14 INVESTMENTS

#### 14.1 INVESTMENT IN ASSOCIATES

Fior Drissage Jewellers Ltd

	% Holding	2012		2011	
		Cost	Directors Valuation	Cost	Directors Valuation
		Rs.	Rs.	Rs.	Rs.
Balance at the beginning of the year (at cost)	16.66%	5,000	-	-	-
Investment made during the year		5,378,150		5,000	
Company's share of associate company is retained loss as at 1st April		(5,000)		-	
Current year's share of profits / (loss) after tax		367,896		(5,000)	
Balance at the end of the year	40%	<u>5,746,046</u>	<u>5,746,046</u>	<u>-</u>	<u>-</u>

The Company has invested on Fior Drissage Jewellers Ltd (FDJ) in previous financial year with the intention to enter in the local market. During the year the Company increased its shareholding to 40%.

As at 31st March,

	2012	2011
	Rs.	Rs.
<b>Summaries of financial information of the associate</b>		
<b>Balance sheet</b>		
Total assets	23,160,229	31,668,251
Total liabilities	<u>8,665,223</u>	<u>31,510,885</u>
Net Assets	<u>14,495,006</u>	<u>157,366</u>
<b>Revenue and Profits</b>		
Revenue	29,438,788	13,599,489
Profit / (loss)	919,740	(42,294)

#### 14.2 LONG TERM INVESTMENTS

Quoted Investments (Note 14.3)	12,000	12,000
Non-quoted Investments (Note 14.4)	<u>172,500</u>	<u>172,500</u>
	<u>184,500</u>	<u>184,500</u>

#### 14.3 Quoted Investments

	No of shares	2012		2011	
		Cost	Market Value	Cost	Market Value
		Rs.	Rs.	Rs.	Rs.
Renuka City Hotel PLC	420	12,000	91,938	12,000	139,734

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March, 2012

### 14.4 Non-quoted Investments

	No of shares	2012		2011	
		Cost	Directors	Cost	Directors
		Rs.	valuation	Rs.	valuation
MBSL Savings Bank Ltd	30,000	172,500	172,500	172,500	172,500
Energen Holding Company Ltd. (Note 14.5)	5,000,000	287,500,000	-	287,500,000	-
		<u>287,672,500</u>	<u>172,500</u>	<u>287,672,500</u>	<u>172,500</u>
Provision for fall in value of investment					
Energen Holding Company Ltd.		(287,500,000)		(287,500,000)	
		<u>172,500</u>		<u>172,500</u>	

14.5 The Company holds an investment of Rs. 287.5 Mn in Energen Holding Company Ltd. Based on the internal assessment and opinion of the Directors there will be no future economic benefit to the Company from this investment. Accordingly a full provision was made against the said investment during the year 2000/2001.

As at 31st March,

	2012	2011
	Rs.	Rs.
<b>15 INVENTORIES</b>		
Diamonds	62,692,220	31,695,720
Gems	6,544,000	1,928,160
Raw gold	39,047,627	1,989,220
Gold frames WIP	4,350	14,148,144
Work in progress	5,278,419	342,000
Finished goods	49,452,188	84,023,884
Consumables	8,152,099	7,870,660
Stocks on consignment basis	2,523,319	14,515,985
Stocks on sample basis	19,168,856	15,031,594
	<u>192,863,078</u>	<u>171,545,367</u>
Provision for slow moving inventories	(22,147,044)	(32,094,860)
	<u>170,716,034</u>	<u>139,450,507</u>

A valuation has been carried out on the Gem and Diamond stocks by Mr. Mervyn Nanayakkara a Gemologist, Diamond Appraiser, Jewellery Valuer, as at 31st March 2012.

### 16 TRADE RECEIVABLES

Trade Debtors - related parties (Note 16.1)	26,880,325	23,019,768
Trade Debtors - others	16,374,560	23,177,427
	<u>43,254,885</u>	<u>46,197,195</u>
Less: Provision for doubtful debts - related parties	(26,880,325)	(23,019,768)
Provision for doubtful debts -others	(1,187,348)	(1,258,920)
Trade debtors net of provision	<u>15,187,212</u>	<u>21,918,507</u>

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March, 2012	2012	2011
	Rs.	Rs.
<b>16.1 Trade Debtors - related parties</b>		
A.G.I (Singapore) Ltd	21,290,792	21,857,826
Ceylinco Diamonds Trading Co. Limited	1,728,976	2,003,247
Exchange (Gain)/Loss	<u>3,860,557</u>	<u>(841,305)</u>
	<u>26,880,325</u>	<u>23,019,768</u>

Trade debtors presented in Note 16.1 represent the related party balances as at balance sheet date and full provision has been made against these balances.

### 17 LOAN RECEIVABLE FROM ASSOCIATE

#### Fior Drissage Jewellers Ltd

Balance at the beginning of the year	5,841,616	-
Loans granted during the year	<u>-</u>	<u>5,892,850</u>
	5,841,616	5,892,850
Repayments	<u>(331,691)</u>	<u>(51,234)</u>
Balance at the end of the year	<u>5,509,925</u>	<u>5,841,616</u>
Receivable within one year	373,447	331,671
Receivable after one year	<u>5,136,478</u>	<u>5,509,945</u>
	<u>5,509,925</u>	<u>5,841,616</u>

### 18 OTHER RECEIVABLES

Loans and advances to employees (Note 18.1)	2,168,179	1,979,923
Deposits and advances	2,436,593	5,089,406
Value added tax recoverable	651,311	1,087,483
Interest receivable	2,234,718	1,540,951
WHT receivable	328,063	6,163
Notional tax receivable	636,981	161,407
Economic service charge recoverable	<u>34,891</u>	<u>-</u>
	<u>8,490,736</u>	<u>9,865,333</u>

#### 18.1 Loans and advances to employees

Loan given to Director	525,059	821,600
Loan and advances to employees	<u>1,643,120</u>	<u>1,158,323</u>
	<u>2,168,179</u>	<u>1,979,923</u>



## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March, 2012	2012	2011
	Rs.	Rs.
<b>19 CASH AND CASH EQUIVALENTS</b>		
Cash at bank	3,938,227	5,971,360
Call deposits	600,000	600,000
Fixed deposits	100,886,395	1,455,467
Treasury bills	-	1,869,158
REPO	<u>2,003,068</u>	<u>164,000,000</u>
Cash and cash equivalents	<u>107,427,690</u>	<u>173,895,985</u>
Bank overdraft	<u>(63)</u>	<u>(8,181)</u>
Cash and cash equivalents as per the cash flow statement	<u>107,427,627</u>	<u>173,887,804</u>

20 STATED CAPITAL	No. of shares		Value	
	2012	2011	2012	2011
			Rs.	Rs.
<b>Voting</b>				
No. of shares as at beginning of the year	103,300,891	59,033,947	732,596,729	621,929,369
Right issue of shares during the year	<u>-</u>	<u>44,266,944</u>	<u>-</u>	<u>110,667,360</u>
No. of shares as at end of the year	<u>103,300,891</u>	<u>103,300,891</u>	<u>732,596,729</u>	<u>732,596,729</u>
<b>Non voting</b>				
No. of shares as at beginning of the year	153,369,800	102,202,114	332,256,814	255,505,285
Right issue of shares during the year	<u>-</u>	<u>51,167,686</u>	<u>-</u>	<u>76,751,529</u>
No. of shares as at end of the year	<u>153,369,800</u>	<u>153,369,800</u>	<u>332,256,814</u>	<u>332,256,814</u>
			<u>1,064,853,543</u>	<u>1,064,853,543</u>

During the financial year ended 31 March 2011, the Company raised Rs.187,418,889 via rights issue of ordinary shares to the shareholders of the Company. This resulted in 44,266,944 new ordinary voting shares and 51,167,686 non-voting shares being issued in the proposition of one new ordinary voting and non-voting share for every one ordinary voting and non-voting share held by the respective shareholder of the Company as at 18th November 2010 at a consideration of Rs 2.50 and 1.50 per share respectively.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and voting ordinary shares are entitled to one vote per share at meetings of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March, 2012  
Rs. 2011  
Rs.

### 21 EMPLOYEE BENEFITS

#### 21.1. Defined Contribution Plan

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

Employees' Provident Fund		
Employers' contribution	2,361,501	1,908,824
Employees' contribution	1,574,334	1,272,549
Employees' Trust Fund	590,375	477,206

#### 21.2 Defined benefit plan

Balance at the beginning of the year	9,226,759	8,194,220
Provision during the year	571,336	2,937,602
Payments made during the year	<u>(1,792,461)</u>	<u>(1,905,063)</u>
Balance at the end of the year	<u>8,005,634</u>	<u>9,226,759</u>

Actuarial valuation was performed as at 31st March 2011 by Mr. Poopalanathan, AIA, M/s Actuarial & Management Consultants (Pvt) Limited.

The Retirement Benefit Liability of the current year is based on the formula method. The principal assumptions used in determining the cost of employees benefits were:

Discount rate	10%	10%
Future salary increment rate	8.5%	8%
Staff turnover factor	20%	20%

### 23 DEBENTURES ISSUED

Debentures Issued - Millennium Developers Ltd (Formerly known as Ceylinco Developers Ltd)	-	1,391,667
	<u>-</u>	<u>1,391,667</u>

### 24 AMOUNT DUE TO CEYLINCO INVESTMENT COMPANY LIMITED

Balance at the beginning of the year	19,376,991	23,876,991
Written back during the year (Note 6.1)	<u>(19,376,991)</u>	<u>(4,500,000)</u>
Balance at the end of the year	<u>-</u>	<u>19,376,991</u>

The Board of Directors of the Company has decided to write back the balance payable to Ceylinco Investment Company Limited in two installements due to the non existence of liability. The first installement of Rs.4.5 Mn was written back in 2010/11 and the balance Rs.19.4 Mn was written back during the year ended 31st March 2012. Further, the Company has obtained a legal advice, on 23rd August 2012 on the write back of the amount due to Ceylinco Investment Company Limited and the lawyer has confirmed that there will be no future claim on the said amount.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

As at 31st March,	2012	2011
	Rs.	Rs.
<b>24 INTEREST BEARING LOANS AND BORROWINGS</b>		
Term loan: The Finance Company PLC		
Balance at the beginning of the year	38,868,610	35,712,807
Interest on loan	-	3,155,803
	<u>38,868,610</u>	<u>38,868,610</u>
Repayments during the year	(15,000,000)	-
Written back during the year (Note 6.1)	<u>(23,868,610)</u>	<u>-</u>
Balance at the end of the year	<u>-</u>	<u>38,868,610</u>

The Company had obtained a credit facility from The Finance Company PLC for a sum of Rs.10 Mn (Ten million) in 99/2000. The outstanding balance of the said facility remained at Rs.38,868,610/- with accrued interests as at the financial year end 31st March 2011. On 20th June 2011, The Finance Company PLC had agreed to accept Rs.15 Mn (Fifteen million) from the Company as full and final settlement for the credit facility and the Company has settled the same on 24th June 2011. Accordingly, the balance Rs 23,868,610 has been written back to the income statement as other income during the year ended 31st March 2012.

### 25 OTHER PAYABLES AND ACCRUALS

Accrued Expenses	4,187,078	3,204,399
Advance received on export sales	5,391,384	-
Payable on settlement of legal cases (Note 29.2)	12,000,000	-
Other payables	<u>525,835</u>	<u>444,224</u>
	<u>22,104,298</u>	<u>3,648,623</u>

### 26 RELATED PARTY DISCLOSURE

#### 26.1 Transactions with key management personnel of the Company

According to Sri Lanka Accounting Standard 30 (Revised 2005) - Related Party Disclosure, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (Including Executive and Non executive) of the Company and their immediate family members have been classified as Key Management Personnel of the Company.

Mr. H. A. Wehalla, Mr. M. B. K. Satharasinghe and Mr. M. Thagaraja resigned from the Board with effect from 07th October 2011. Further Mr. K. L. Dias, Mr. W. Ravishankar and Mr. W. W. M. R. K. W. B. Dela were appointed to the Board with effect from 07th October 2011 to replace the outgoing Directors. Mr. W. G. M. B. Ranaweera (Chairman/Managing Director), Mr. Galagoda (Director), Ms. K. N. Gunawansa (Director) resigned from the Board with effect from 22nd November 2011. Mr. U. D. Liyanagamage and Mr. K. C. S. P. K. Gunasinghe resigned from the Board with effect from 28th December 2011.

Mr. W. P. J. L. M. Fernando appointed (w.e.f. 16th June 2011) and resigned during the year (w.e.f. 7th October 2011).

Therefore only those transactions that occurred upto the dates of resignations have been reported under transactions with key Management Personnel (KMP).

Mr. W. A. D. V. Perera (with effect from 22nd November 2011), and Mr. W. D. J. Ruwan Silva (with effect from 12th December 2011) were appointed as Chairman/Managing Director and Chief Executive Officer respectively.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the year ended 31st March 2012

### 26 RELATED PARTY DISCLOSURE (Contd)

#### 26.1 Transactions with key management personnel of the Company (Contd)

Mr. G. De Kretser resigned as Deputy Chairman and reverts to his former position as Executive Director with effect from 22nd November 2011. Mr. K. V. D. D. A. Dias and Mr. M. M. N. Priyantha changed from the post of Joint Managing Directors and revert to their former positions as Executive Directors with effect from 22nd November 2011.

Accordingly transactions with the Company from the date of their appointment as Directors have been reported under transactions with KMP.

Compensation paid to/on behalf of key management personnel of the companies are as follow:

	2012 Rs.	2011 Rs.
Short term employment benefits	11,382,800	8,308,768
Post employment benefits	8,309,532	350,730
	19,692,332	8,659,498

#### Loans to directors

During the year under review the Company has recovered Rs.296,540/- from a loan given to a director of the Company.

Loans given to directors are disclosed in Note 18.1.

#### 26.2 Transactions with related entities

The directors of the Company are also directors of the following companies as set out below and with transactions have been carried out.

##### 26.2.1 Transactions with Associate

Name of the related party	Name of the director	Nature/Rational of transaction
Fior Drissage Jewellers Ltd	Mr.Godfrey de Kretser Mr.K.V.D.D.A.Dias Mr.M.M.N.Priyantha	BDJW gives manufacturing know how to FDJ in lieu of royalty. And also send jewelleryes on consignment basis in order to sell in the local market.  BDJW has granted a term loan as disclosed in Note 17.

##### 26.2.2 The aggregate value of transactions are as follow:

Name of the related party	Nature of transaction	Value of transactions during the year	
		2012 Rs.	2011 Rs.
Fior Drissage Jewellers Ltd	Cash advances given	Nil	3,956,970
	Consignment goods sent	7,184,657	13,668,649
	Term loan granted	Nil	5,892,850
	Loan repayment	331,698	169,091
	Sales made	7,184,667	258,766
	Royalty Income	144,543	131,531

Amount due from Fior Drissage Jewellers Ltd as at 31st March 2012 amounted to Rs.144,543 (2011 : Rs.3,920,035).

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the year ended 31st March 2012

### 26 RELATED PARTY DISCLOSURE (Contd)

#### 26.2.3 Transactions with other related entities

Name of the related party	Name of the director	Nature/Rational of transaction
Ceylinco Diamond Trading Company(Pvt) Ltd	Mr. Godfrey de Kretser	As Shown in Note 16.1 full provision has been made against the balance receivable Ceylinco Diamond Trading Co. (Pvt) Ltd.
A.G.I. (Singapore)	Mr. Godfrey de Kretser	As shown in Note 16.1, full provision has been made against the balance receivable from AGI.

### 27 CAPITAL COMMITMENTS

There are no material capital commitments as at 31st March 2012.

### 28 CONTINGENT LIABILITIES

The following cases have been filed against the Company or claims have been made in reconvencion. No provision is made in the financial statements as the lawyers are of the opinion that the outcome of the potential liability on any of these cases can not be assessed at this stage.

#### 28.1 COMMERCIAL HIGH COURT HC (CIVIL) CASE NO.243/2002

(D.C. COLOMBO CASE NO. 5577/SPL - GOLD LADA Vs SEYLAN BANK LTD, BDJWL AND OTHERS)

This is an action filed by Gold Lada against Seylan Bank and its Directors, Blue Diamonds Jewellery Worldwide PLC, CSFSL and CSEB for the sale of BDJWL shares and for an Enjoining Order, Interim Injunction /permanent Injunction from voting on and/or transferring and/or selling and/or alienating the 5,160,000 ordinary shares of Rs. 10/- held by the Plaintiff Company in BDJWL without the express consent or approval of the Plaintiff Company.

The case is fixed for written submissions on 26/09/2012.

#### 28.2 ARBITRATION MATTER BETWEEN SEYLAN BANK PLC AND BLUE DIAMONDS JEWELLERY WORLDWIDE PLC

The Company obtained a credit facility of US\$ 2,750,000 from Seylan Bank PLC in previous years by pledging inventory of Jewellery as security. During the year ended 31st March 2005, the Directors resolved to write back the balance outstanding to the Bank in respect of the credit facility on the basis that the Company handed over jewellery in lieu of the said credit facility as full and final settlement of the balance due to the bank and there is no further liability due on the said credit facility. Accordingly, a net amount of Rs. 203.5 Mn was written back to profit and loss during that financial year.

The said bank by letter dated 4th December 2009 has demanded a sum of US \$ 4,320,906 (together with further interest at 8% per annum) being the total outstanding su due on the said facilities from the company.



## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the year ended 31st March, 2012

### 28.2 ARBITRATION MATTER BETWEEN SEYLAN BANK PLC AND BLUE DIAMONDS JEWELLERY WORLDWIDE PLC (Cont)

The Company and Seylan Bank PLC agreed to appoint Arbitrator in accordance with the agreement signed by the Company and the Bank on 21st November 2003 in respect of the sale of jewellery that was acquired by Seylan Bank in 1999 in lieu of the credit facilities obtained. The Arbitration process has commenced with Seylan Bank PLC and it is at the trial stage. Next dates of the hearing are 5th September 2012 and 28th September 2012. According to the lawyers evaluation, it is not possible to comment on the outcome of the case at this stage

### 28.3 PAYABLE TO GOLDEN KEY COMPANY LIMITED

The Company has been informed unofficially by the Committee of Chartered Accountants to settle the payment due to Golden Key Company Ltd amounting to Rs.2.45 Mn. However, at the Board of Directors meeting held on 25th May 2011 and 10th August 2011, the Director of the Company has decided that the Company would honor the payment only upon a formal request being made for such liability by the Committee of Chartered Accountants and after determining the existence of the liability. Accordingly no provision has been made in these financial statements as at 31st March 2012

## 29 EVENTS AFTER THE BALANCE SHEET DATE

Following events had occurred subsequent to the reporting date of the financial year 2011/12.

29.1 The shareholders of the Company has resolved to reduce the stated capital of the Company by Rs.856,452,000/- at an Extraordinary General Meeting held on 4th May 2012 to recap the accumulated losses of the Company. Accordingly the current stated capital as at 31st March 2012 of Rs. 1,064,853,543/- has been reduced to Rs.208,401,543/-. The reduction in the stated capital has been credited to retained earnings to reduce the accumulated losses.

29.2 The Company has signed an Litigation Settlement Agreement with Mr. D R Senanayake on 17th May 2012. Accordingly all the cases were settled between the parties and the Company agreed to pay a sum of Rs.12Mn out of court to Mr. D R Senanayake. Further, the Board of Directors has passes a resolution on 19th April 2012 appointing Mr. D R Senanayaka as the Chairman Emeritus of the Company for life. This Settlement has been treated as an adjusting event as per the SLAS 12 Events After the Balance Sheet Date and a provision of Rs.12 Mn has been made and reported under the Administration Expenses in the Income Statement.

### 29.3 Resignations/appointment of directors

Subsequent to the balance sheet date the following changes have taken place at board level:

1. Mr. Godfrey de Kretser, Executive Director of the Company, has resigned from the Board of Directors with effect from 31st July 2012
2. Mr. B.M.A.L.A. Fernando was appointed as Deputy Chairman of the Company with effect from 24th August 2012.
3. Mr. B.B.T.A. Perera, Mr. P.B. Vinoth Kumar, Mr. W.M.R.B. Bandara, Mr. J.H.P. Ratnayake and Mr. B.M.A.L.A. Fernando were appointed as Directors of the Company with effect from 24th August 2012.

Other than those disclosed above, no circumstances have arisen subsequent to the Balance Sheet date which require adjustments to or disclosures in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Contd)

For the year ended 31st March 2012

### 30 GOING CONCERN

The Company's accumulated losses as at 31st March 2012 amounted to Rs. 892,677,238/-. Further, the Company's net assets are less than half of its stated capital and face a serious loss of capital situation in terms of Section 220 of the Companies Act No 7 of 2007.

However, the Board of Directors are of the view that the Company is financially viable to meet its financial obligations in the ensuing financial year considering the liquid assets of the Company. The Company has achieved full factory capacity subsequent to the financial year with the introduction of new buyers and has satisfactory new orders. Further, the overdependence on limited customers has reduced with the expansion of customer base.

As explained in Note 29.2, the Company has also been able to settle major portion of pending legal cases and currently operate at a zero debt basis. Further, as explained in Note 29.1, Events after the balance sheet date, the shareholders have approved to reduce the stated capital of the Company to recoup the accumulated losses.

The strategic direction of the Company has changed with a sound business plan and taken steps to restructure the Company. Based on the above analysis, the Board of Directors is of the view that the Company is a going concern.

### 31 COMPARATIVE FIGURES

Comparative information has been reclassified according to the current year classification wherever, necessary in order to provide a better presentation.

### 32 DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is responsible for preparing and presenting these Financial Statements in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and the requirement of the companies Act No 07 of 2007.

## FINANCIAL HIGHLIGHTS

Year ended 31st March	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

### INCOME STATEMENT

Gross Turnover (Including the cost of Raw Materials)	154,154	163,486	92,283	445,137	477,262
Turnover	71,158	55,039	6,427	116,664	134,702
Gross Profit	18,141	21,904	102	34,298	48,253
Profit/(Loss) before tax	12,718	(13,510)	(20,007)	(18,915)	10,451
Net Profit/(Loss) after tax and extra-ordinary items	10,016	(14,214)	(20,087)	(19,379)	10,422

### BALANCE SHEET

<b>Assets</b>					
Fixed assets	30,510	17,683	19,129	25,854	28,078
Other assets	11,127	5,855	162	162	162
Total non-current assets	41,637	23,538	19,291	26,016	28,240
Current assets	302,340	349,382	190,064	212,357	230,651
<b>Total Assets</b>	<b>343,977</b>	<b>372,920</b>	<b>209,355</b>	<b>238,373</b>	<b>258,891</b>
<b>Equity and Liabilities</b>					
Stated Capital	1,064,854	1,064,854	877,435	877,435	877,435
Revenue reserve	(757,677)	(767,693)	(753,480)	(733,392)	(714,014)
Total capital and reserve	307,177	297,161	123,955	144,043	163,421
Non-current liabilities	8,005	10,618	31,411	35,707	31,909
Total non-current liabilities	8,005	10,618	31,411	35,707	31,909
Current liabilities	28,795	65,141	53,989	58,623	63,560
<b>Total Equity and Liabilities</b>	<b>343,977</b>	<b>372,920</b>	<b>209,355</b>	<b>238,373</b>	<b>258,891</b>

## FINANCIAL HIGHLIGHTS (Contd)

### KEY FINANCIAL INDICATORS

	2012	2011	2010	2009	2008
Turnover growth	0.29	20	-	(0.13)	(0.11)
Gross margin	0.25	0.40	0.02	0.29	0.36
Profit after tax growth	1.70	(0.29)	0.04	(2.86)	0.23
Shareholders fund growth	0.03	1.40	(0.14)	(0.12)	0.07
Current assets growth	(0.13)	0.84	(0.10)	(0.08)	(0.01)
Return on net assets	0.03	(0.05)	(0.16)	(0.13)	0.06
Return on equity	0.01	(0.01)	(0.02)	(0.02)	0.01
Assets/Equity (time)	0.32	0.35	0.24	0.30	0.30
Fixed assets to shareholders fund	0.10	0.06	0.15	0.18	0.17
Current ratio (time)	10.50	5.36	3.52	3.62	3.62
Trade debtors days	229	313	4,443	324	246
Earning/(Loss) Per Share-EPS	0.04	(0.07)	(0.11)	(0.23)	0.12
Price Earning ratio (P/E)	152.50	(42.86)	(17.27)	(6.52)	22.50
Net assets per share	1.20	1.39	0.68	1.72	1.93
Market Price (as at 31st March) Voting	6.10	3.00	1.90	1.50	2.70
Highest market price during the year (Voting)	13.10	13.00	4.40	3.10	3.60
Lowest market price during the year (Voting)	3.00	1.90	1.30	1.30	1.9
Highest market price during the year (Non Voting)	6.30	6.40	1.30	0.90	1.10
Lowest market price during the year (Non Voting)	1.60	0.70	0.30	0.30	0.70

## SHAREHOLDER INFORMATION

### DISTRIBUTION OF SHARE HOLDING - VOTING ORDINARY SHAREHOLDERS - AS AT 31.03.2012

Value band	No. of shareholders	Total no of shares	%	
1	1,000	10,203	2,522,976	2.45
1,001	10,000	2,750	9,989,812	9.68
10,001	100,000	694	21,661,822	20.97
100,001	1,000,000	121	34,784,688	33.68
1,000,001	& Above	8	34,341,599	33.25
Total		13,776	103,300,897	100

### 20 LARGEST SHAREHOLDERS - VOTING

Name of the shareholder	No. of Shares as at 31.03.2012	%	No. of Shares as at 31.03.2011	%
ECL Soft (Pvt) Ltd.	11,336,471	10.97%	-	-
Sri Lanka Insurance Corporation Ltd. (General Fund)	10,865,900	10.52%	-	-
Mr. S.Gurusinghe	2,867,540	2.78%	-	-
Ceylinco Insurance Company PLC (Life Fund)	2,400,300	2.32%	5,085,817	5.24%
Ceylinco Insurance Company PLC (General Fund)	2,400,300	2.32%	-	-
Mr. W.S.V.J.De Silva	1,633,988	1.58%	-	-
Mr. W.D.J.R. Silva	1,537,100	1.49%	-	-
The Finance Portfolio Management Company Ltd.	1,300,000	1.26%	1,300,000	1.26%
Mr. W.P.A.S. Perera	1,000,000	0.97%	-	-
S & L Investments (Private) Ltd	966,900	0.94%	966,900	0.94%
Mr. A.W.L.R.Silva -(Jt. With Mrs. P.M. Abayasekara)	950,000	0.92%	-	-
Mr. M.I. Samsudeen	877,530	0.85%	-	-
The Finance Co PLC	838,770	0.81%	-	-
Mr. J.L.B.Kotelawala	819,916	0.79%	819,916	0.79%
Mr. S.H.M. Rishan	787,100	0.76%	-	-
SMB Leasing PLC	778,280	0.75%	778,200	0.75%
Mr. B.T.Samaraweera	686,284	0.66%	-	-
Mr. S.G.Ajith Premalal	684,500	0.66%	-	-
Mr. P.G.Piyasiri	661,800	0.64%	-	-
Mrs. T.E.I. Wickramasinghe	616,100	0.60%	-	-
TOTAL	44,008,779	42.60%	8,950,833	8.98%

### MARKET VALUE PER SHARE

	2012 Rs.	2011 Rs.
Market Price as at 31st March	6.10	3.00
Highest Market Price during the year	13.10	13.00
Lowest Market Price during the year	3.00	1.90



## SHAREHOLDER INFORMATION

### DISTRIBUTION OF SHARE HOLDING - NON VOTING ORDINARY SHAREHOLDERS - AS AT 31.03.2012

Value band		No. of shareholders	Total no of shares	%
1	1,000	2,247	924,850	0.61
1,001	10,000	2,288	10,559,638	6.88
10,001	100,000	1,211	41,658,999	27.16
100,001	1,000,000	218	60,462,790	39.43
1,000,001	& Above	12	39,763,523	25.93
Total		5,976	153,369,800	100

### 20 LARGEST SHAREHOLDERS - NON VOTING

Name of the shareholder	No. of Shares as at 31.03.2012	%	No. of Shares as at 31.03.2011	%
Seraka Investments Ltd.	16,560,000	10.80%	16,560,000	10.80%
Mr. K.K. Chandrasena	7,327,300	4.78%	-	-
The Golden Key Credit Card Company Ltd.	2,325,000	1.52%	2,762,500	1.80%
Mr.S.N.C.W.M.B.C Kandededara	2,282,167	1.49%	-	-
Mr. K.M.A.R.K.Allmuhairi	2,048,600	1.34%	-	-
Mr. B.M.G.Rathnasiri	1,961,756	1.28%	-	-
Mr R.E.Rambukwelle	1,650,000	1.08%	-	-
Mr. E.A.Sumanasiri	1,300,000	0.85%	-	-
Mr. A.W.L. R. Silva -(Jt. With Mrs. P.M. Abayasekara)	1,204,700	0.79%	-	-
Mr. H.K.Pushpakumara	1,038,000	0.68%	1,070,000	0.70%
Mr. S.M.Nazeer - (Jt. With Mrs. M.A.K.Samsunnisa)	1,036,000	0.68%	1,155,000	0.75%
Mr. K.E.G.Jinapriya	1,030,000	0.67%	-	-
Mr. U.C.Bandaranayake	1,000,000	0.65%	2,000,000	1.30%
Mr.S.C.Hiththathiyage	1,000,000	0.65%	-	-
Ceylinco Capital Investment Co.(Pvt) Ltd	987,906	0.64%	1,720,000	1.12%
Mr.R.D.Kodikara	879,000	0.57%	-	-
Dr. K.A.S.Kumara	848,300	0.55%	-	-
The Finance & Guarantee Company Ltd.	840,000	0.55%	-	-
Mrs. P.P.H.Matarage	836,900	0.55%	-	-
Mr. A.L.F.De Mel	810,000	0.53%	-	-
<b>TOTAL</b>	<b>46,965,629</b>	<b>30.62%</b>	<b>25,267,500</b>	<b>16.47%</b>

### MARKET VALUE PER SHARE

	2012 Rs.	2011 Rs.
Market Price as at 31st March	2.70	2.60
Highest Market Price during the year	6.30	6.40
Lowest Market Price during the year	1.60	0.70

## NOTICE OF MEETING

NOTICE is hereby given that the TWENTY SECOND ANNUAL GENERAL MEETING of BLUE DIAMONDS JEWELLERY WORLDWIDE PLC will be held at Gateway Hotel Airport Garden, No. 234, Colombo - Negombo Road, Seeduwa on Friday, 28th September 2012 at 9.30 a.m for the purposes set out below which purposes include the removal of Mr. Kehalkadu Vithanalage Don Dihan Ajantha Dias from the office of Director of the Company and the removal of Mr Maha Marakkalage Neil Priyantha from the office of Director of the Company.

### AGENDA

1. To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2012 together with the Report of the Auditors thereon.
2. To consider and if thought fit to pass the ordinary resolution set out below to remove Mr. Kehalkadu Vithanalage Don Dihan Ajantha Dias from the office of Director of the Company.

“RESOLVED that Mr. Kehalkadu Vithanalage Don Dihan Ajantha Dias be and hereby removed from the office of Director of the Company”

3. To consider and if thought fit to pass the ordinary resolution set out below to remove Mr. Maha Marakkalage Neil Priyantha from the office of Director of the Company.

“RESOLVED that Mr. Maha Marakkalage Neil Priyantha be and hereby removed from the office of Director of the Company”

4. To re-elect Mr. J H P Ratnayake, who retires in terms of Article 92 of the Articles of Association of the Company.
5. To re-elect Mr. B M A L A Fernando, who retires in terms of Article 92 of the Articles of Association of the Company.
6. To re-elect Mr. B B T A Perera, who retires in terms of Article 92 of the Articles of Association of the Company.
7. To re-elect Mr. P B V Kumar, who retires in terms of Article 92 of the Articles of Association of the Company.
8. To re-elect Mr. W M R B Bandara, who retires in terms of Article 92 of the Articles of Association of the Company.
9. To re-appoint Messrs KPMG Chartered Accountants as the Auditors of the Company and to authorize the Board of Directors to determine their remuneration for the ensuing financial year ending 31st March 2013.

By Order of the Board of  
BLUE DIAMONDS JEWELLERY WORLDWIDE PLC  
S S P CORPORATE SERVICES (PRIVATE) LIMITED



SECRETARIES  
Colombo.  
30th August 2012

### NOTE :

- A member of the Company is entitled to appoint a Proxy to attend and vote on his or her behalf.
- A Proxy need not be a member.
- A Proxy form which is enclosed should be deposited at the Registered Office of the Company not less than 48 hours before the meeting.

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## FORM OF PROXY

I/ We.....of .....  
 ..... being a member/ members of Blue Diamonds Jewellery Worldwide PLC hereby appoint:  
 .....of ..... or failing him/her

Mr. J H P Ratnayake  
 Mr. W Ravishankar  
 Mr. K L Dias  
 Mr. B M A L A Fernando  
 Mr. B B T A Perera  
 Mr. P B Vinoth Kumar  
 Mr. W M R B Bandara  
 Mr. K V D D A Dias  
 Mr. M M N Priyantha

of Colombo failing him  
 of Colombo failing him  
 of Colombo failing him  
 of Colombo failing him  
 of Wennappuwa failing him  
 of Negombo failing him  
 of Kandana failing him  
 of Raddolugama failing him  
 of Rilaula failing him

as my/our proxy to represent me/us to vote for me/us and on my/our behalf at the 22nd Annual General Meeting of the Company to be held on the 28th September 2012 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Agenda Item	For	Against
1. To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2012 together with the Report of the Auditors thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. To remove Mr.Kehalkadu Vithanalage Don Dihan Ajantha Dias from the office of Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To remove Mr.Maha Marakkalage Neil Priyantha from the office of Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re- elect Mr. J H P Ratnayake, who retires in terms of Article 92 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re- elect Mr. B M A L A Fernando, who retires in terms of Article 92 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re- elect Mr. Mr. B B T A Perera, who retires in terms of Article 92 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re- elect Mr. Mr. P B Vinoth Kumar, who retires in terms of Article 92 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
8. To re- elect Mr. W M R B Bandara, who retires in terms of Article 92 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
9. To re-appoint the Auditors and authorize the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of .....2012.

.....  
 Signature of Shareholder

**Note:** Instructions as to completion are noted on the reverse hereof.

# INSTRUCTIONS AS TO COMPLETION OF PROXY

- 1. Kindly perfect the Form of Proxy by legibly filling your full name and address, signing in the space provided, and filling in the date of signature.
- 2. If the Proxy Form is signed by an Attorney, the relative Power of Attorney should also accompany the Proxy form for registration, if such Power of Attorney has not already been registered with the Company.
- 3. In the case of Company/Corporation, the Proxy must be filled and attested in the legally prescribed manner.
- 4. The completed Form of Proxy should be deposited at the office of the Secretaries, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03, not less than 48 hours, before the Meeting.
- 5. A shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the Proxy holder to bring his/her National Identity Card with him/her.

**Please provide the following details**

Shareholder's NIC No. ....  
No. of Shares held .....  
Proxy holder's NIC No. (If not a Director of the Company) .....

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[www.bluediamondjewellery.lk](http://www.bluediamondjewellery.lk)