

29th Annual Report

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KANANI INDUSTRIES LIMITED

Content

MANAGEMENT DISCUSSION AND ANALYSIS	2
COMPARATIVE ANALYSIS OF LAST 3 YEARS RESULTS	6
GENERAL INFORMATION	7
NOTICE	8
DIRECTORS' REPORT	15
CORPORATE GOVERNANCE REPORT	19
AUDITORS' REPORT	31
BALANCE SHEET	34
PROFIT & LOSS	35
CASH FLOW STATEMENT	36
SCHEDULES	37
CONSOLIDATED AUDITORS' REPORT	49
CONSOLIDATED BALANCE SHEET	50
CONSOLIDATED PROFIT & LOSS	51
CONSOLIDATED CASH FLOW STATEMENT	52
CONSOLIDATED SCHEDULES	53

○ Management Discussion and Analysis

Polished diamond prices fell in June as Far East and Indian demand stalled and industry liquidity dried up as the Indian Rupee collapsed. Year on year one carat prices declined 13.7%. Demand in the United States is steady but wholesale buying remains selective as consumer's trend toward more affordable price points. Rough trading is at a standstill and DTC sightholders are rejecting overpriced De Beers boxes.

In June, for 1 ct. certified diamonds fell 1.6 percent. For 0.3 ct. stones declined by 1.2 percent and for 0.5 ct. diamonds dropped 1.4 percent. For 3 ct. diamonds fell 1 percent during the month.

During the first half of 2012, for 1 ct. diamonds fell 3.6 percent with the steepest declines occurring during the latter part of May and through June. For 0.3 ct. stones dropped 3.7 percent and for 0.5 ct. diamonds declined by 3.6 percent during the period. For 3 ct. stones fell 5 percent during the half-year.

According to the just released Research Report "Price Pressures," polished trading has slowed with increasing concern about the global recession. Far East demand is sluggish as wholesale and retail buyers expect further price declines. Indian diamond manufacturers and dealers are under pressure due to high rough prices, the depreciating rupee, high inflation and a declining economy. Liquidity is tight and banks are viewing new proposals with greater caution than before.

Estimates suggest that DTC sales fell 19 percent year on year to about \$2.83 billion in the first half of 2012 as prices rose about 5 percent and the volume of supply dropped. Sightholders are losing money on their De Beers and ALROSA purchases and are refusing boxes. They will continue to do so until rough prices decline, which they inevitably will in the second half of the year.

The second half of 2012 is expected to be challenging for the diamond industry as Far East demand is projected to remain conservative in the near-term while India's industry crisis may be more prolonged. Polished prices are coming under increasing pressure as global diamond market sentiment is expected to remain weak.

Introduction

The Indian jewellery market is dominated by gold, which consists of almost 80 per cent of the market share, followed by fabricated studded jewellery including diamond and gemstone studded jewellery.

India is one of the premier locations for diamond manufacturing. The prospect of being able to open a truly world class diamond mine in India in the next few years and take India into the top 10 diamond producing regions in the world is a strong possibility, as per Stefanie Loader, Bunder Project Director, Rio Tinto. Further, India has also emerged as the largest cutting and polishing industry for diamond in the world.

Industry Structure

The gems and jewellery industry in 2011-12 has gone up by about 5 per cent at ₹ 2,000 billion (US\$ 36.10 billion) against ₹ 1,950 billion (US\$ 35.20 billion) in 2010-11.

The sector accounted for India's 14 per cent of the total merchandise exports. On the contrary, the imports of raw materials for making gems and jewellery stood at 32 per cent at ₹ 721.60 billion (US\$ 35.20 billion) in 2011-12 over ₹ 545.64 billion (US\$ 9.84 billion) in 2010-11.

The jewellery industry in India is estimated at ₹1,500 billion (US\$ 27.07 billion), of which only 5 per cent is organised, thus creating opportunity for the foreign players to enter the Indian market.

Gold

Gold has always been the jewellers' favorite metal given its intrinsic luster and ease of fabrication. Gold jewellery enjoys the leading position in most markets across the world, and in many ways forms the backbone

of the precious jewellery industry. Given the fact that gold is also one of the traded metals, gold jewellery consumption is also impacted by gold price movements.

South Africa has urged Indian jewellery firms to invest in manufacturing facilities as it seeks to encourage value addition to the gold produced in its country. Stefanus Botes, Minister Counsellor - Economic, South African High Commission said his country is willing to offer both fiscal and capital incentives to Indian companies setting up jewellery units. Besides, the Indian firms can take advantage of the "favourite nation status" to export to the US from South Africa. "Exports from South Africa to US are free of import duty and the Indian companies can get a 6 per cent cost advantage over other nations," Botes added.

Diamond

The jewellery companies in India, in particular diamond, have brought about a new trend, by rolling out low-cost diamond range to target the young adults. Jewellery demand in India grew by 13 per cent to ₹ 1,340 billion (US\$ 24.19 billion) in 2011, as per a report by the World Gold Council (WGC).

Coloured Gemstones

This segment includes all other forms of jewellery; precious gemstones (emeralds, sapphires, rubies and tanzanite) and semi-precious gemstones; silver, pearls, etc. The industry is highly fragmented, thus generates business opportunity for the organised retailers and dealers to flourish.

The exports of coloured stone/ gems from India have grown by 15 per cent to ₹ 16.53 billion (US\$ 298.40 million) this year from ₹ 14.32 billion (US\$ 258.58 million) last year. Coloured gemstone processors of Jaipur, one of the world's major hubs for colour stone processing, have come together to form a company. About 50 colour stone makers have initiated procedures to form a company called Color Stone Gems India (CIL) with an equity capital of ₹ 1 billion (US\$ 18.05 million).

"With this company, colour stone processors would be able to earn long-term supply contracts from rough mining nations and can make an impact in export markets by jointly working on creative issues".

Export of Gems and Jewellery

The total exports of gems and jewellery during April 2011 to March 2012 stood at US\$ 42.84 billion, including that of cut and polished diamonds at US\$ 23.33 billion, gold at US\$ 16.52 billion and coloured gemstones at US\$ 342.80 million, according to the provisional data.

India's gems and jewellery exports to Malaysia have the potential to record five-fold growth this year from US\$ 78 million last year. "India one of the largest producers of diamonds in the world, has the potential to increase the wholesale gem purchasing initiatives among Malaysian jewelers," according to GJEPC. Diamond and gold will be the main export drivers to Malaysia.

The 2010 RNCOS report, indirectly supported by the findings of a leading industry body and published in the same year, estimates that by 2015, the gems and jewellery sector will help India earn about US\$ 25 billion to US\$ 35 billion in form of export revenue. A steady sale of jewelleries, especially of gold, has helped the gems and jewellery industry in India flourish at this rapid rate. In addition, India has evolved as a great place for diamond processing, according to the industry body.

Government Initiatives

India is emerging as a huge consumer market for jewellery and other luxury products and thereby appears as a very attractive opportunity for major brands to establish their presence in the Indian market. The booming domestic market along with export advantage of the industry and the Government's decision to review foreign direct investment (FDI) of up to 51 per cent in single brand retail stores has attracted various foreign players to the Indian market.

Foreign Direct Investment Policy

At present, the Indian government allows 100 per cent FDI in gems and jewellery through the automatic route.

For exploration and mining of diamonds and precious stones FDI is allowed up to 74 per cent under the automatic route.

For exploration and mining of gold and silver and minerals other than diamonds and precious stones, metallurgy and processing, FDI is allowed up to 100 per cent under the automatic route.

Foreign Trade Policy (2009-2014) Initiatives

Import of gold of 8 karat (k) and above is allowed under replenishment scheme subject to import being accompanied by an Assay Certificate specifying purity, weight and alloy content. Duty Free Import Entitlement [based on Free On Board (FOB) value of exports during previous financial year] of consumables and tools, for:

- o Jewellery made out of:
 - Precious metals (other than gold & platinum) - 2 per cent
 - Gold and platinum - 1 per cent
 - Rhodium finished silver - 3 per cent
 - Cut and polished diamonds - 1 per cent
- o Duty free import entitlement of commercial samples shall be US\$ 6187.9.
- o Duty free re-import entitlement for rejected jewellery shall be 2 per cent of FOB value of exports.
- o Import of diamonds on consignment basis for certification/ grading & re- export by the authorised offices/ agencies of Gemological Institute of America (GIA) in India or other approved agencies will be permitted.
- o Personal carriage of gems and jewellery products in case of holding/participating in overseas exhibitions increased to US\$ 5 million and to US\$ 1 million in case of export promotion tours.
- o Extension in number of days for re-import of unsold items in case of participation in an exhibition in USA increased to 90 days.
- o In an endeavour to make India an international trading hub for diamond, it is planned to establish "Diamond Bourse(s)".

Road Ahead

The GJEPC is busy propagating the fineries of Indian gems and jewellery industry by organising road shows in Malaysia, Singapore, Jeddah, Riyadh, Korea and China. These road shows would assist in creating awareness about India International Jewellery Show (IIJS) and India International Jewellery Week (IIJW).

The India pavilion at the event held in JCK Las Vegas from June 1 to June 4, 2012, in the US had around 62 exhibitors from India. The exhibitors displayed an array of fine jewellery products carefully handpicked by the GJEPC from the finest and leading manufacturers and retailers in the country. The exhibitors were mostly from Surat (Gujarat), Mumbai and Delhi.

India's gems and jewellery industry is ready for the upcoming jewellery show in the US and expect to obtain huge export orders during 2012-13. "It is an opportunity to further accentuate India's growing recognition in the international arena as the global destination of gems and jewellery."

Note: Exchange rate used: INR 1= US\$ 0.01806 as on May 26, 2012.

Cautionary Statement

Statement in Management discussion and analysis describing the Company's objective and expectations or predictions may be forward looking within the meaning of applicable laws and regulations. Actual result may differ materially from those expressed in the statement.

Future Outlook

Gems & jewellery sector to reach ₹ 2.13 lakh crore by 2015:

The gems and jewellery industry in India is likely to reach ₹ 2.13 lakh crore by 2015.

"Growing at a steady rate of 15 per cent the domestic gems and jewellery market is currently poised at ₹ 1.22 lakh crore," in a study titled 'Current Trends in Indian Gems and Jewellery Sector'.

Sought feedback from around 1,500 key retailers, manufacturers, wholesalers throughout the country including branded players from all verticals of the industry - gold, diamonds, silver and gemstones. The study was carried out between March-June.

The growth in the industry is spurred by its rising constant demand as jewellery is considered a trusted store of value in possession and a large number of Indian consumers approve of it as a safe investment option, said majority of industry bigwigs adding that demand is expected to rise further with onset of the annual festive season during August-October.

"Rising purchasing power, lifestyle changes and overall increasing affordability among Indian middle-class are significant reasons for higher jewellery demand."

Introduction of hallmarking and certifications has transformed the buying preferences as more youngsters can be seen buying jewellery as part of fashion accessory and are even parking their access funds as part of investments in this sector.

Availability of skilled artisans with expertise in jewellery making, designing and diamond cutting, processing at competitive wages is another reason for growth in this sector.

Conscious marketing efforts are also a reason for rapid increase in jewellery demand in India.

Number of people going online to buy jewellery has been rising. Traditional jewelers in India are realising the importance of internet in the contemporary world and providing hassle free shopping experience thereby luring customers from higher strata in large numbers.

"There are various online jewellery shops where customers can choose from a wide variety of items and place an order from the luxury of their home and get it delivered at their doorstep, this trend is catching up fast due to increasing internet penetration and availability of top-notch broadband services."

Exports of gems and jewellery from India are rising at over 15 per cent year-on-year basis and are expected to cross 50 billion dollars by the end of this fiscal.

Demand in the sector is flowing from countries like the UAE, the United States, the European Union, Russia, Latin America Hong Kong and China.

Growth in gems and jewellery is mainly driven by cut and polished diamonds market but China is emerging as a tough competitor as increasing number of diamond processors from various countries including India are setting up facilities in China considering factors like use of better technology, cheap and disciplined workforce, surge in number of Chinese consumers.

○ Comparative Analysis of last 3 years Results

(Amt. in ₹ Lacs)

Particular	2012	2011	2010
Net Sales	14026.89	15166.70	8683.86
Other Income	(50.77)	26.13	(44.08)
Total Income	13976.12	15192.83	8639.79
Expenditure	13707.57	13513.49	7817.02
PBIT	268.55	1679.34	822.76
Interest	231.88	47.38	53.18
Depreciation	12.19	13.56	14.84
PBT	24.48	1618.40	754.74
Tax	4.75	–	–
PAT	19.73	1618.40	754.74
Net Profit	19.73	1618.40	754.74
Basic & Diluted EPS (₹)	0.11	9.00	4.20
Dividend Paid / Proposed (In %)	–	–	10.00%
Equity Capital	899.40	899.40	899.40
Reserves & Surplus	3099.26	3079.53	1461.12
Net worth	3998.66	3978.93	2360.52
Book Value per share (₹)	22.23	22.12	13.12
Operating Profit Margin (%)	1.91%	11.07%	9.47%
Net Profit Margin (%)	0.14%	10.67%	8.69%
Basic & Diluted Cash EPS (₹)	0.18	9.07	4.28

○ General Information

BOARD OF DIRECTORS:	PREMJIBHAI D. KANANI HARSHIL P. KANANI SHAILESH R. PATEL DEVENDRA K. KIKANI GAUTAM B. PAREKH NAGJIBHAI K. VITHANI	<i>CHAIRMAN</i> <i>MANAGING DIRECTOR</i> <i>DIRECTOR</i> <i>DIRECTOR</i> <i>DIRECTOR</i> <i>DIRECTOR</i>
COMPLIANCE OFFICER:	DARSHAK A. PANDYA	
STATUTORY AUDITORS:	RAVI & DEV <i>CHARTERED ACCOUNTANTS</i> 601 AURUS CHAMBERS, "A" WING, BEHIND MAHINDRA TOWER S S AMRUTWAR MARG, WORLI MUMBAI - 400013	
BANKERS:	DENA BANK CANARA BANK STATE BANK OF INDIA BANK OF BARODA	
REGISTERED OFFICE:	G-6, PRASAD CHAMBERS, TATA ROAD NO. 2, OPERA HOUSE, MUMBAI - 400004	
FACTORY:	PLOT NO. 42, SURAT SPECIAL ECONOMIC ZONE, NEAR SACHIN RLY. STN., SACHIN, DIST: SURAT, GUJARAT	
REGISTRAR AND SHARE TRANSFER AGENT:	M/S. SHAREX DYNAMIC (INDIA) PRIVATE LIMITED UNIT-1, LUTHRA IND. PREMISES, SAFED POOL, ANDHERI KURLA ROAD, ANDHERI (E), MUMBAI - 400072 PH: 022 28515606 FAX: 022 28512885	

○ Notice

Notice is hereby given that the 29th Annual General Meeting of the Members of KANANI INDUSTRIES LIMITED will be held at Krishna Palace Residency Hotel, 96/98, Grant Road, Mumbai – 400007 on Friday, September 28, 2012 at 9.30 A.M. to transact the following Business:

ORDINARY BUSINESS

1. To receive, consider, adopt and approve the Balance Sheet as at March 31, 2012 and the Profit and Loss Account for the year ended as on that date along with Reports of the Directors' and Auditor's thereon.
2. To appoint a Director in place of Mr. Shailesh Patel, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Gautam Parekh, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint M/s. Ravi & Dev, Chartered Accountants as Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

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

“RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310 and 311 of the Companies Act, 1956 and further subject to the provisions of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof) and further subject to such other approvals as may be necessary, the Company hereby approves the reappointment of Mr. Premjibhai Kanani as the Whole time Director designated as the Chairman of the Company for the term of Five years commencing from August 01, 2012 and ending on July 31, 2017 upon the terms and conditions including remuneration as set out in the draft agreement submitted to the meeting duly initialed, for the purpose of identification, which draft agreement is hereby specifically approved and sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or the Agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto, as may be agreed to between the Board of Directors and Mr. Premjibhai Kanani.”

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

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

“RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310 and 311 of the Companies Act, 1956 and further subject to the provisions of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof) and further subject to such other approvals as may be necessary, the Company hereby approves the reappointment of Mr. Harshil Kanani as the Managing Director of the Company for the term of Five years commencing

from August 01, 2012 and ending on July 31, 2017 upon the terms and conditions including remuneration as set out in the draft agreement submitted to the meeting duly initialed, for the purpose of identification, which draft agreement is hereby specifically approved and sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or the Agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto, as may be agreed to between the Board of Directors and Mr. Harshil Kanani.”

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

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

“RESOLVED THAT pursuant to the provisions of Section 94 (1)(d) and other applicable provisions, if any of the Companies Act, 1956 and pursuant to relevant Article of the Articles of Association of the company and such other approvals, consents, permissions and sanctions as may be required from the stock exchanges, the depositories and other statutory authorities, the consent of the company be and is hereby accorded to sub-divide 1,79,88,000 equity shares having a nominal face value of ₹ 5/- (Rupees Five) each comprising the fully paid up Equity Share Capital of the company into 8,99,40,000 Equity Shares having nominal face value of ₹ 1/- (Rupee One Only) each fully paid.”

“RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to take such actions as may be necessary and incidental and to agree to such terms and conditions, if any as may be prescribed by the stock exchanges, the depositories and other statutory authorities and delegate all or any of the powers hereby vested in the Board for the purposes of implementing sub-division of the equity share capital referred above.”

“RESOLVED FURTHER THAT the Board of Directors be and are hereby authorized to allot to each shareholder, Equity Shares of ₹1/- each equal in number to 5 (Five) times the number of shares of ₹ 5/- each held by each shareholder on the date to be determined by the Board of Directors, and/or to issue fresh share certificates and/or credit the Beneficiary Accounts maintained by the shareholders with Depositories accordingly.”

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

**Place: Mumbai
Date: August 9th, 2012**

**PREMJIBHAI KANANI
Chairman**

Registered Office:

G/6, Prasad Chambers,
Tata Road No. 2, Opera House,
Mumbai - 400004

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
The proxy form should be lodged with the Company at its Registered Office at least 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from **Tuesday, September 25, 2012 to Friday, September 28, 2012** (both days inclusive.)
3. Members are requested to promptly notify any changes in their addresses to the Company at its Registered Office.
4. Corporate members intending to send their authorized representatives to attend the Meeting are requested to send to the Company, in advance, a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the Meeting.
5. All documents referred to in the Notice are open for inspection at the Registered Office of the Company during office hours on all days except Sunday & public holidays between 11.00 a.m. and 1.00 p.m. up to the date of Annual General Meeting.
6. For convenience of members, an attendance slip is annexed to the proxy form. Members are requested to affix their signature at the space provided and hand over the attendance slips at the place of meeting. The proxy of a member should mark on the attendance slip as 'proxy'.
7. IF THE MEMBERS HAVE ANY QUERIES ON THE AUDITED ACCOUNTS, DIRECTORS' REPORT & AUDITOR'S REPORT, THE SAME SHOULD BE FORWARDED TO THE COMPANY IN WRITING AT ITS REGISTERED OFFICE AT LEAST 10 DAYS BEFORE THE MEETING SO THAT THE SAME CAN BE REPLIED AT THE TIME OF ANNUAL GENERAL MEETING TO THE MEMBERS' SATISFACTION.
8. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed herewith.
9. Members are requested to bring their copies of the reports to Annual General Meeting.
10. Members holding shares in the same set of names under different ledger folios are requested to apply for consolidation of such folios along with share certificates to the Company.
11. In order to exercise strict control over the transfer documents, members are requested to send the transfer documents/ correspondence, if any, directly to:

SHAREX DYNAMIC (INDIA) PRIVATE LIMITED

Unit-1, Luthra Ind. Premises, Safed Pool, Andheri Kurla Road,
Andheri (E), Mumbai – 400072
Ph. 022 28515606 • Fax: 022 28512885

Important Communication to Members

The Ministry of Corporate Affairs has taken a "Green Initiative in the Corporate Governance" by allowing paperless compliances by the companies and has issued circulars stating that service of notice/documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government in full measure, members who have not registered their e-mail addresses, so far, are requested to register their e-mail addresses, in respect of electronic holdings with the Depository through their concerned Depository Participants.

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

(In pursuance clause 49 of the Listing Agreement)

Name of Director	Age	Nature of expertise	Qualifications	Other Director-ship	Membership in the committees of other Public Companies	Share-holding
Mr. Shailesh Patel	44	wide experience in the diamond industry and he has been associate with us from more than 2 decades	Commerce Graduation	-	-	-
Mr. Gautam Parekh	39	wide experience in the diamond industry and he has been associate with us from more than 2 decades	Commerce Graduate	-	-	-
Mr. Premjibhai Kanani	54	wide experience in the diamond industry and he has been associate with us from more than 2 decades	Under Graduate	-	-	14,55,660
Mr. Harshil Kanani	29	wide experience in the diamond industry and he has been associate with us from more than 2 decades	Commerce Graduate	-	-	1,14,45,000

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 5:

Mr. Premjibhai Kanani, aged 54 years, is proposed to be reappointed as the Executive Chairman of our Company. Mr. Premjibhai Kanani is an experienced businessman and possesses good knowledge of Diamond Industry and considering his expertise and vast experience in the Diamond Industry, his reappointment as the Executive Chairman of the Company is recommended.

In view of the above, and taking into consideration the leadership qualities, your Board proposes to designate Mr. Premjibhai Kanani as the Executive Chairman of the Company on the remuneration package as detailed below and as approved by the Remuneration Committee.

CATEGORY	PARTICULARS
Basic Salary	Upto maximum ₹ 30,00,000/- (Rupees Thirty Lakhs Only) per annum or ₹ 2,50,000/- (Rupees Two Lakh Fifty Thousand Only) per month based on merit and taking into account the Company's Performance.
Perquisites and Allowances	Category A
	Medical Reimbursement: Medical expenses actually incurred for self and family shall be reimbursed by the Company under the mediclaim Policy. Leave Travel Concession: Company shall provide leave travel fare for the Chairman and his family once a year, anywhere in India as per the Rules applicable to the Company and per Income Tax Rules.
	Category B
	The Company shall contribute towards Provident Funds/ Superannuation Fund/Annuity Fund, as agreed upon, provided that such contributions either singly or put together shall not exceed the tax free limit prescribed under the IT Act. The Company shall pay Gratuity, as agreed upon, at the rate not exceeding half month's salary for each completed year of service. Leave on full pay and allowances, as per rules of the Company, but not more than one month's leave for every eleven months of service. However, the leave accumulated but not availed of will be allowed to be encashed at the end of the term as per Company rules. The perquisites under this category shall not be included in the computation of ceiling on remuneration.
	Category C
	The Company shall provide a car with a driver at the cost of the Company for business use of the Company. The Chairman shall be entitled to reimbursement of all expenses incurred in connection with the business of the Company. Reimbursement of entertainment expenses actually and properly incurred in the course of business of the Company shall be reimbursed. Any and all expenditure actually and properly incurred on Company's business shall be reimbursed to the Chairman.

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

Except Mr. Premjibhai Kanani (being himself) and Mr. Harshil Kanani (being son), no other Director of the Company may be deemed to be concerned or interested in passing of said resolution.

Item No. 6:

Mr. Harshil Kanani, aged 29 years, is proposed to be reappointed as the Managing Director of our Company. Mr. Harshil Kanani is an experienced businessman and possesses good knowledge of Diamond Industry and considering his expertise and experience in the Diamond Industry and his dynamic leadership, his reappointment as the Managing Director of the Company is recommended.

In view of the above, and taking into consideration the leadership qualities, your Board proposes to designate Mr. Harshil Kanani as the Managing Director of the Company on the remuneration package as detailed below and as approved by the Remuneration Committee.

CATEGORY	PARTICULARS
Basic Salary	Upto maximum ₹ 30,00,000/- (Rupees Thirty Lakhs Only) per annum or ₹ 2,50,000/- (Rupees Two Lakh Fifty Thousand Only) per month based on merit and taking into account the Company's Performance.
Perquisites and Allowances	Category A
	Medical Reimbursement: Medical expenses actually incurred for self and family shall be reimbursed by the Company under the medi claim Policy. Leave Travel Concession: Company shall provide leave travel fare for the Managing Director and his family once a year, anywhere in India as per the Rules applicable to the Company and per Income Tax Rules.
	Category B
	The Company shall contribute towards Provident Funds/ Superannuation Fund/Annuity Fund, as agreed upon, provided that such contributions either singly or put together shall not exceed the tax free limit prescribed under the IT Act. The Company shall pay Gratuity, as agreed upon, at the rate not exceeding half month's salary for each completed year of service.

	<p>Leave on full pay and allowances, as per rules of the Company, but not more than one month's leave for every eleven months of service. However, the leave accumulated but not availed of will be allowed to be encashed at the end of the term as per Company rules.</p> <p>The perquisites under this category shall not be included in the computation of ceiling on remuneration.</p>
	Category C
	<p>The Company shall provide a car with a driver at the cost of the Company for business use of the Company.</p> <p>The Managing Director shall be entitled to reimbursement of all expenses incurred in connection with the business of the Company. Reimbursement of entertainment expenses actually and properly incurred in the course of business of the Company shall be reimbursed.</p> <p>Any and all expenditure actually and properly incurred on Company's business shall be reimbursed to the Managing Director.</p>
Sitting Fees	<p>The Managing Director shall not be entitled to sitting fees for attending meetings of the Board of Directors or Committees thereof. He shall, however be reimbursed the actual travelling, lodging and boarding expenses incurred by him for attending meeting of the Board of Directors and the Committees thereof.</p>
Minimum Remuneration	<p>The remuneration referred to above is subject to the limit of 5% of the annual net profits of the Company and subject further to the overall limit of 10% of the annual net profits of the Company on the remuneration of the Chairman and other Whole Time Directors, if any, of the Company taken together. Provided however that in the event of absence or inadequacy of profit, the Managing Director shall be entitled to remuneration mentioned under above and perquisites as above within the minimum remuneration specified in Schedule XIII of the Companies Act, 1956. However Managing Director shall not be paid any sitting fees for attending the Board or Committee meetings.</p>

Except Mr. Harshil Kanani (being himself) and Mr. Premjibhai Kanani (being father), no other Director of the Company may be deemed to be concerned or interested in passing of said resolution.

Item No. 7:

The present authorized equity share capital of the company is ₹ 15,00,00,000/- divided into 3,00,00,000 equity shares of ₹ 5/- each. The paid up equity share capital is ₹ 8,99,40,000/- divided into 1,79,88,000 equity shares of ₹ 5/- each. It is felt that a reduction in the nominal value of equity shares will improve the liquidity of the shares and enable a larger number of shareholders and other investors to trade in the equity shares of your company. Hence, it is proposed to sub-divide the equity shares of your company from the present denomination of ₹ 5/- per equity share to ₹ 1/- per equity share.

None of the Directors of the company is concerned or interested in the resolution.

The Board of Directors of the Company accordingly recommends the resolution for approval of members.

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

**Place: Mumbai
Date: August 9th, 2012**

**PREMJIBHAI KANANI
Chairman**

○ Directors' Report

To,
The Members of
KANANI INDUSTRIES LIMITED

Your Directors present the **Twenty-Ninth Annual Report** together with the Audited Statement of Accounts for the year ended March 31, 2012.

Financial Results

The Financial Results for the year ended March 31, 2012 are summarized below:

(Amt. in ₹)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Sales	1,402,688,573	1,516,669,978
Other Income	(5,076,578)	2,613,413
Total Income	139,76,11,995	151,92,83,391
Expenditure [before depreciation]	139,39,44,576	135,60,86,486
Profit before Dep. & Tax	36,67,419	16,31,96,905
Less: Depreciation	12,19,078	13,56,120
Profit(Loss) before Tax	24,48,341	16,18,40,785
Less: Provision for Tax	4,75,000	—
Previous year tax	150	—
Profit(Loss) after Tax	19,73,191	16,18,40,785

Dividend

In order to conserve the resources for the further growth of the Company your Directors think fit not to recommend any dividend for the year under review.

Performance

Your company is engaged in the manufacturing activities and during the year under review, the Company has posted Total Income of ₹ 139,76,11,995/- as against Total Income of ₹ 151,92,83,391/- in the corresponding previous year. Net Profit after Tax for the year under review was ₹ 19,73,191/- as against Net Profit after Tax of ₹ 16,18,40,785/- in the corresponding previous year.

Auditors

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

Auditors' Report

The Report of the Auditors of the Company is self explanatory and do not call for any further explanation by the Board of Directors.

Directors

During the year under review, Mr. Shailesh Patel and Mr. Gautam Parekh, Directors of the Company retire by rotation and being eligible offer themselves for reappointment at the forthcoming Annual General Meeting.

Further, Mr. Premjibhai Kanani be is hereby proposed to be reappointed as the Chairman and Mr. Harshil Kanani be and is hereby proposed to be reappointed as the Managing Director of the Company w.e.f. August 1, 2012 respectively for a period of five years each.

Directors' Responsibility Statement

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

- i. that in the preparation of the annual accounts for the year 2011-12, the applicable accounting standards have been followed and there are no material departures;
- ii. that the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the statement at the end of the financial year and of the loss of the
- iii. that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv. that the directors have prepared the Annual Accounts of the company on a going concern basis.

Fixed Deposits

The Company has not accepted any fixed deposits during the year ended March 31, 2012.

Details of Employees under the Companies (Particulars of Employees) Rule, 1975 (as Amended Upto Date)

The information required under sub-section (2A) of Section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 duly amended by the Companies (Particulars of Employees) Rule, 2011 for the year ended 31st March, 2012 is not applicable to the Company as none of the employee is drawing remuneration more than the limits presently specified under the said rules.

Conservation of Energy, Technology Absorption & Foreign Exchange Earning and Outgo

The manufacturing activities carried out by the Company do not fall under the list of industries specified for which Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is applicable and hence disclosures required therein are not applicable to the Company.

Further the details regarding foreign exchange earnings and outgo are given in Note Nos. 3 to 6 under Schedule '21' i.e. Significant Accounting Policies of the Notes to Accounts.

Consolidated Financial Statements

Your Directors have pleasure in attaching the Consolidated Financial Statements pursuant to Clause 32 of the Listing Agreement entered into with the Stock Exchange and prepared in accordance with the Accounting Standards prescribed by the Institute of Chartered Accountants of India, in this regard.

Management Discussion and Analysis

The Report on Management Discussion and Analysis as required under the Listing Agreement with the Stock Exchanges is enclosed to this Report. Certain statements in this section may be forward looking. Many factors may affect the actual results, which could be different from what the Directors envisage in terms of the future performance and outlook.

Corporate Governance

The Company continues to remain committed for high standards of corporate governance. The report of corporate governance as per the requirement of the listing agreement with the stock exchanges form part of this report as Annexure. The company has complied with all the requirements of the corporate governance and the same is certified by the Statutory Auditors.

Subsidiary Company

Your Company formed its subsidiary in Special Administrative Region of Hong Kong under the name & style 'KIL INTERNATIONAL LIMITED' w.e.f. 4th July 2011.

Statement U/S. 212 Regarding Subsidiary Company

The Statement pursuant to the provisions of Section 212 of the Companies Act, 1956 regarding Subsidiary Company is annexed to this Report.

Listing of Shares of the Company on National Stock Exchange of India Limited (NSE)

Your Directors are pleased to inform that on an application made by the Company, National Stock Exchange of India Limited (NSE) approved the listing of 1,79,88,000 equity shares of the Company on its exchange and admitted to its dealings w.e.f. December 14, 2011.

Acknowledgment

Your Directors would like to express their appreciation for the assistance and co-operation received from Bankers, Govt authorities, customers, and vendors during the year.

Your Directors also wish to place on record their deep sense of appreciation for the committed services of Executives, Staff and workers of the company.

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

**Place: Mumbai
Date: August 9th, 2012**

**PREMJIBHAI KANANI
Chairman**

Statement pursuant to Section 212 of the Companies Act, 1956.

Sr. No.	Name of the Subsidiary	KIL International Limited
1	Financial Year Ended	31/03/2012
2	Date from which it became subsidiary company	04/07/2011
3	Shares of Subsidiary held as on 31st March, 2012	30225000
	a. Total Number of Shares and face value	30225000
	b. Extent of holding	100%
4	Net aggregate amount of profit/(loss) of the subsidiary so far as it concerns the members of Kanani Industries Limited for current financial year	
	a. Dealt with in the accounts of Kanani Industries Ltd.	4834905 INR
	b. Not dealt with in the accounts of Kanani Industries Ltd.	
5	Net aggregate amount of profit/(loss) of the subsidiary so far as it concerns the members of Kanani Industries Ltd. for the previous financial year	
	a. Dealt with in the accounts of Kanani Industries Ltd.	Not Applicable
	b. Not dealt with in the accounts of Kanani Industries Ltd.	Not Applicable

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

**Place: Mumbai
Date: August 9th, 2012**

**PREMJIBHAI KANANI
Chairman**

○ Corporate Governance Report

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

A report on Corporate Governance is given below:

1. *Company's Philosophy On Code Of Governance:*

Good governance practices stem from the culture and mindset of the organisation. The governance is about out-performing sustainable organisation. These are the organisations that succeed consistently in the market place, gain a greater share of market opportunities and sustainably drive their top and bottom lines.

Corporate Governance contains a set of principles, process and systems to be followed by directors, Management and all Employees of the Company for increasing the shareholders' value, keeping in view interest of other stakeholders. While adhering to the above, the Company is committed integrity, transparency, accountability and compliance with laws in all dealings with shareholders, employees, the Government, customers, suppliers and other stakeholders.

Corporate Governance is a journey for constantly improving sustainable value creation and is an upward moving target. We have undertaken several initiatives towards maintaining the highest standards.

2. *Board Of Directors*

As on 31st March, 2012 the strength of Board of Directors was 06, comprising of 2 Executive Directors and 4 Non-Executive Independent Directors. The Chairman of the Company is Executive Promoter Director.

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

The composition of the Board of Directors and also the number of other Companies of which he is a Director and Member/Chairman as on March 31, 2012 are as under:

Sr. No.	Name of the Directors	Category of Directorship	Directorship in other Companies	Committee Membership(s) of other Companies	Chairman in other Companies
1.	Mr. Premjibhai Kanani	Chairman & Executive	–	–	–
2.	Mr. Harshil Kanani	Managing Director	–	–	–
3.	Mr. Gautam Parekh	Non Executive Independent	–	–	–
4.	Mr. Devendrakumar Kikani	Non Executive Independent	–	–	–
5.	Mr. Shailesh Patel	Non Executive Independent	–	–	–
6.	Mr. Nagjibhai Vithani	Non Executive Independent	–	–	–

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

- (i) Number of Board Meetings held and the dates on which held

During the financial year 2011-2012, Four [4] meetings of the Board of Directors were held on 14th May, 2011; 12th August, 2011, 11th November, 2011; 31st January, 2012.

- (ii) Directors' Attendance Record at the Board Meetings and the Last Annual General Meeting.

Name of Directors	Category	No. of Board Meetings Attended during the F.Y. 2011-2012	Attendance at Previous AGM on, 26 th September, 2011
Mr. Premjibhai Kanani	Chairman & Executive	4	Absent
Mr. Harshil Kanani	Managing Director	4	Attended
Mr. Gautam Parekh	Non Executive Independent	3	Attended
Mr. Devendrakumar Kikani	Non Executive Independent	1	Absent
Mr. Shailesh Patel	Non Executive Independent	3	Absent
Mr. Nagjibhai Vithani	Non Executive Independent	NIL	Absent

Board Committees

The Board has constituted three committees of namely Audit committee, Shareholders'/Investors' Grievance Committee and Remuneration committee. The committee of Board provides and evaluates the strategic direction of the company, Management policies and their effectiveness and ensures that the long-term interests as the shareholders are being served.

Board Procedure

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

3. Audit Committee

Broad Terms of Reference

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

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

- Overseeing of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other service.

- c. Reviewing with management the financial statements before submission to the Board.
- d. Reviewing with the management and the external and internal auditors, the adequacy of internal control systems.
- e. Reviewing the adequacy of internal audit function and procedures.
- f. Discussion with internal auditors on any significant findings and follow up there on.
- g. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting the matter to the Board.
- h. Discussions with External Auditors before the audit commences the nature and the scope of Audit as well as have post audit discussion.
- i. Reviewing the Company's financial and risk management policies.

Composition

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

The constitution of the Audit Committee is as follows:

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

Meetings And Attendance

During the financial year ended March 31, 2012, Four Audit Committee Meetings were held on 14th May, 2011, 12th August, 2011, 11th November, 2011 and 31st January, 2012.

The attendance at the Audit Committee Meetings is as under:

Name of Director	No. of meetings attended
Mr. Gautam Parekh	04
Mr. Devendrakumar Kikani	02
Mr. Shailesh Patel	04

4. SHARE TRANSFER/INVESTOR GRIEVANCE COMMITTEE

Functions

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

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

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

Composition

The constitution of the Committee of Directors is as under:

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

Details of shareholders' complaints received, not solved and pending share transfers:

The Company did not received any investors complaint and no complaints are pending for the financial year ended 31st March, 2012.

5. Remuneration Policy

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

The details of Remuneration paid to Executive Directors for the Financial Year 2011-12.

Sr.No.	Name of Directors	Executive/Non-Executive Independent	Remuneration Paid (in ₹)
1.	Mr. Premjibhai Kanani	Executive Chairman	-
2.	Mr. Harshil Kanani	Managing Director	5,01,000/-

6. General Body Meetings

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

Financial Year	Date	Location of the Meeting	Time
2008-2009	24/07/2009	G/6, PRASAD CHAMBERS, TATA ROAD NO.2, OPERA HOUSE, MUMBAI - 400004	11.00 A.M
2009-2010	02/08/2010	KRISHNA PALACE RESIDENCY HOTEL, GRANT ROAD, MUMBAI - 400007	9.30 A.M
2010-2011	26/09/2011	KRISHNA PALACE RESIDENCY HOTEL, GRANT ROAD, MUMBAI - 400007	9.30 A.M

7. Disclosures

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

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

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

8. Means of Communication

As the Financial Results of the Company are published in the newspaper and press release is issued in leading newspapers, a separate half yearly report is not sent to each Shareholder. The Company has displayed the Annual reports for last 3 years on 2008-2009, 2009-2010 and 2010-2011 on website of the company.

The Quarterly Reports of the Company are published in accordance with the Requirements of the Listing Agreement.

News Papers in which results are normally published:

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

9. Implementation of Code of Conduct for Insider Trading

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

10. Secretarial Audit for Reconciliation of Capital

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

11. General Shareholders' Information

Annual General Meeting	
Day, Date and Time	Friday, 28 th September, 2012 at 9.30 A.M.
Venue	Krishna Palace Residency Hotel, 96/98, Grant Road, Mumbai: 400 007
Financial Year	1 st April, 2012 to 31 st March, 2013
	Financial Reporting for the quarter ending 30 th June, 2012
	Up to 15 th August, 2012
	Financial Reporting for the quarter ending 30 th September, 2012
	Up to 15 th November 2012
	Financial Reporting for the quarter ending 31 st December, 2012
	Up to 15 th February 2013
	Financial Reporting for the quarter ending 31 st March, 2013
	Up to 15 th May 2013
Date of Book Closure	Tuesday, September 25, 2012 to Friday, September 28, 2012 (both days inclusive)
Listing on Stock Exchange	Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001, Web: www.bseindia.com
	National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400051 Web : www.nseindia.com
Scrip Code [BSE/NSE]	506184
ISIN	KANANIIND
	INE879E01029

12. Stock Price Data

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

MONTH	BOMBAY STOCK EXCHANGE (BSE)		
	High (₹)	Low (₹)	No. of shares traded
April, 2011	280.00	210.00	72,777
May, 2011	280.00	210.60	2,13,840
June, 2011	255.00	201.10	14,239
July, 2011	246.90	177.70	1,21,282
August, 2011	238.00	117.00	1,51,026
September, 2011	160.00	124.50	7,883
October, 2011	153.25	136.95	5,770
November, 2011	157.70	131.50	1,27,733
December, 2011	154.00	132.10	8,86,853
January, 2012	174.95	138.05	971
February, 2012	204.00	143.30	1,20,433
March, 2012	219.00	134.95	1,27,804

MONTH	NATIONAL STOCK EXCHANGE (NSE)		
	High (₹)	Low (₹)	No. of shares traded
December, 2011	159.00	134.10	57,088
January, 2012	159.59	123.00	828
February, 2012	209.00	145.40	95,503
March, 2012	220.00	144.40	58,585

13. Address for Correspondence

- Register Office:** G/6, Prasad Chambers,
Tata Road No. 2,
Opera House, Mumbai - 400004
Tel: +91-22-65263333
Fax: +91-22-30084000
Web Site: www.kananiindustries.com
- Registrar & Share Transfer Agent** Sharex Dynamic (India) Private Limited
Register Office: Luthra Indus. Estate,
1st Floor, Safed Pool, Andheri-Kurla Road,
Mumbai - 400072
Tel: 022-28515606, 28515644
Fax: 022-228512885
Web Site: www.sharexindia.com
- Compliance Officer** Mr. Darshak Pandya

Share Transfer System

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

Dematerialisation of shares

As on 31st March, 2012, out of total Equity Shares of 1,79,88,000; 17,979,600 shares are held in dematerialized form with NSDL and CDSL which aggregates to 99.95%.

Distribution of shareholding as on March 31, 2012

No. of shares held	No. of shareholders	No. of shares held	% of Shareholding
1 to 100	685	20700	0.12
101 to 200	145	21480	0.12
201 to 500	61	21559	0.12
501 to 1000	35	24254	0.13
1001 to 5000	47	125443	0.70
5001 to 10,000	6	40359	0.22
10,001 to 1,00,000	19	692608	3.85
1,00,001 and above	18	17041597	94.74
TOTAL	1016	17988000	100.00

Shareholding Pattern As on 31st March, 2012

Category	No. of Shares Held	% of Share holding
Promoter's holding		
1. Indian		
- Individuals/ Hindu Undivided	13,460,880	74.83
- Bodies Corporate	NIL	NIL
2. Foreign	NIL	NIL
Sub-Total.....	13,460,880	74.83
Non-Promoters holding		
3. Institutional Investors		
a. Mutual Funds and UTI	NIL	NIL
b. Banks, Financial Institutions, Insurance Companies (Central/State Government Institutions/Non-Government Institutions	NIL	NIL
c. FIIS	NIL	NIL
Sub-Total.....	1,34,60,880	74.83
4. Others		
a. Bodies Corporate	1,49,270	0.83
b. Indian Public	43,45,972	24.16
c. NRI/OCBs	5,235	0.03
d. Clearing Members	26,643	0.15
Sub-Total.....	45,27,120	25.17
Grand Total.....	17,988,000	100.00

Note

Shareholding pattern in case of demated shares has been prepared based on download of data received from NSDL / CDSL as on 31st March 2012.

Permanent Account Number

The Securities and Exchange Board of India has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit the PAN to the Depository Participants with whom they are maintaining demat accounts. Members holding shares in physical form are required to submit their PAN details to the Company/ Registrar and Share Transfer Agent.

Insider Trading

In order to prohibit insider trading and protect the rights of innocent investors, SEBI has enacted the SEBI (Prohibition of Insider Trading) Regulations, 1992. As per Regulation 13 of the said Regulations, initial and continual disclosures are required to be made by investors as under:

Initial Disclosure

As per sub-regulation 1, any person who holds more than 5% shares or voting rights in any listed company shall disclose to the company in Form A, the number of shares or voting rights held by such person, on becoming such holder, within 2 working days of: (a) the receipt of intimation of allotment of shares; or (b) the acquisition of shares or voting rights, as the case may be.

Continual Disclosure

As per sub-regulation 3, any person who holds more than 5% shares or voting rights in any listed company shall disclose to the company in Form C the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below 5%, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub-regulation; and such change exceeds 2% of total shareholding or voting rights in the company.

Green Initiative

The Ministry of Corporate Affairs ("MCA"), Government of India, through its Circular No. 17/2011 dated 21st April, 2011 and Circular No. 18/2011 dated 29th April, 2011, has allowed companies to send Annual Report comprising of Balance Sheet, Profit & Loss Account, Directors' Report, Auditors' Report and Explanatory Statement etc., through electronic mode to the registered e-mail address of the members Keeping in view the underlying theme and the circulars issued by MCA, we propose to send future communications in electronic mode to the e-mail address provided by you to the depositories and made available by them being the registered address. By opting to receive communication through electronic mode you have the benefit of receiving communications promptly and avoiding loss in postal transit.

Members who hold shares in physical form and desire to receive the documents in electronic mode are requested to provide their details (name, folio no, e-mail id) on the Company's e-mail address viz. investorgrievances@kananiindustries.com Members who hold shares in electronic form are requested to get their details updated with the respective Depositories.

DECLARATION

I, Harshil Kanani, Managing Director of Kanani Industries Limited, based on confirmations received from all the Directors and Senior Management of the Company, do hereby state that all Board Members and senior management personnel have affirmed compliances with the Code of Conduct of the Company for the year ended 31st March, 2012.

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

**Place: Mumbai
Date: August 9th, 2012**

**HARSHIL KANANI
Managing Director**

CERTIFICATION BY MANAGING DIRECTOR

I, Harshil Kanani, Managing Director of **KANANI INDUSTRIES LIMITED**, to the best of our knowledge and belief, certify that:

- a) We have reviewed the balance sheet and profit and loss account and all the schedules and notes on accounts, as well as the cash flow statements, and the directors' report;
- b) Based on our knowledge and information, these statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the statements made;
- c) Based on our knowledge and information, the financial statements, and other financial information included in this report, present in all material respects, a true and fair view of the Company's affairs, the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report, and are in compliance with the existing accounting standards and / or applicable laws and regulations;
- d) To the best of our knowledge and belief, no transactions entered into by the Company during the year are fraudulent, illegal or violative of the Company's code of conduct;
- e) We accept the responsibility for establishing and maintaining internal controls for financial reporting evaluate the effectiveness, disclosing the deficiencies in the design or operation of internal controls, if any, to the Auditors and Audit Committee and take steps or purpose to take steps to rectify these deficiencies.
- f) We have indicated, wherever applicable, to the Auditors and the Audit Committee:
 - (i) Significant changes in Internal Control over financial reporting during the period; and
 - (ii) Significant changes in Accounting Policies, the same have been disclosed in the notes to the financial statement;

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

**Place: Mumbai
Date: August 9th, 2012**

**HARSHIL KANANI
Managing Director**

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of
Kanani Industries Limited
Mumbai

We have examined the compliance of conditions of Corporate Governance by **KANANI INDUSTRIES LIMITED** for the year ended on 31st March, 2012 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedure and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

We have to state that in respect of investors' grievances, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the shareholders/investor's Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For RAVI & DEV
Chartered Accountants
(FRN: 108752W)

(DEVENDRA A. MEHTA)
Partner
M. No.82325

Place: Mumbai
Date: August 9th, 2012

○ Auditors Report

To the Members
Kanani Industries Limited
Mumbai

We have audited the attached Balance Sheet of Kanani Industries Limited as at 31st March, 2012 and both the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, which we have signed under reference to this Report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government in terms of sub-section 4A of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the annexure referred to in the paragraph (1) above :
 - (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
 - (b) In our opinion, proper books of account as required by the law have been maintained by the company so far as appears from our examination of such books.
 - (c) The balance sheet and the profit & loss account are in agreement with the books of account;
 - (d) in our opinion, the profit & loss Account and the balance sheet comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (e) on the basis of written representations received from the directors of the company and taken on record by the Board of Directors, we report that none of the directors of the company is disqualified from being appointed as a director under clause (g) of sub-section(1) of section 274 of the companies Act,1956;
 - (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes thereon, give the information required under the Companies Act, 1956 in the manner so required give a true and fair view in conformity with the accounting principles generally accepted in India :
 - i. in the case of balance sheet, of the state of affairs as at 31st March, 2012; and
 - ii. in the case of profit and loss account, of the profit for the year ended on that date.

For RAVI & DEV
Chartered Accountants
(FRN: 108752W)

(DEVENDRA A. MEHTA)
Partner
M. No.82325

Place: Mumbai
Date: May 30th, 2012

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

To The Members of
KANANI INDUSTRIES LIMITED
Mumbai

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

- ix. (a) The company is generally regular in depositing undisputed statutory dues including investor education protection fund, income tax, sales tax, service tax, wealth tax, custom duty, excise duty, cess and other material statutory dues with appropriate authorities, wherever applicable to it. The Company has yet to apply for registration with employees' state Insurance authorities.
- (b) According to the information and explanations given to us, as at 31st March, 2012, no undisputed amounts payable in respect of income-tax, wealth tax, service tax, sales tax, custom duty, excise duty and cess were in arrears for a period exceeding six months from the date they became payable.
- (c) As per the records of the company and in accordance with the information and explanation given to us, there are no dues of sales-tax, income-tax, custom duty, wealth tax, service tax, excise duty and cess which have not been deposited on account of any dispute.
- x. The Company does not have any accumulated losses. The company has not incurred cash losses during the current financial year or in the immediately preceding financial year.
- xi. In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to the bank. It has not borrowed any funds from financial institution or debenture holders.
- xii. The company has not granted any loans and/or advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. In our opinion, the company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
- xiv. In our opinion and according to Information and explanation given to us, the Company does not deal in shares, securities, debentures etc.
- xv. According to the information and explanation given to us, the company has not given guarantees for loans taken by others from banks or financial institutions.
- xvi. In our opinion, the company has not taken any term loan.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investments. No long term funds have been used to finance short term assets except permanent working capital.
- xviii. During the year under consideration, the Company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.
- xix. During the year, the company has not issued any debentures.
- xx. During the year, the company has not raised any money by way of public issue.
- xxi. In our opinion, on the basis of audit conducted by us and in accordance with the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

For RAVI & DEV
Chartered Accountants
(FRN: 108752W)

(DEVENDRA A. MEHTA)
Partner
M. No.82325

Place: Mumbai
Date: May 30th, 2012

○ Balance Sheet As On 31st March, 2012

	<u>Notes</u>	<u>2012</u> ₹	<u>2011</u> ₹
I. EQUITY AND LIABILITIES			
1 Shareholders' Funds			
a. Share Capital	1	8,99,40,000	8,99,40,000
b. Reserves & Surplus	2	30,99,26,324	30,79,52,833
		39,98,66,324	39,78,92,833
2 Non-current liabilities			
a. Long Term Provision	3	4,75,000	—
		4,75,000	—
3 Current liabilities			
a. Short-term borrowings	4	48,07,10,681	49,57,91,978
b. Trade payables		25,85,56,410	5,21,94,544
c. Other current liabilities	5	5,14,752	5,89,605
d. Short-term provisions	6	2,88,600	3,99,726
		74,00,70,443	54,89,75,853
TOTAL		1,14,04,11,767	94,68,68,686
II. ASSETS			
1 Non-current assets			
a. <u>Fixed Assets</u>	7		
(i) Tangible assets		1,02,07,961	1,14,27,039
b. Non-current investments	8	20,06,33,280	—
c. Long-term loans and advances	9	3,95,692	1,15,710
d. Other non-current assets	10	—	30,26,448
2 Current assets			
a. Inventories	11	5,36,39,231	9,03,03,447
b. Trade receivables	12	79,89,22,703	76,12,51,386
c. Cash and bank balances	13	6,79,61,475	7,74,58,432
d. Short-term loans and advances	14	81,99,610	26,77,610
e. Other current assets	15	4,51,815	6,08,614
		92,91,74,834	93,22,99,489
TOTAL		1,14,04,11,767	94,68,68,686

Notes to Accounts

23

In terms of our report of even date attached.

For & on behalf of Board of Directors

For **RAVI & DEV**

Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA

Partner

M. No.82325

Mumbai

May 30th, 2012

PREMJIBHAI KANANI

Chairman

HARSHIL KANANI

Managing Director

Mumbai

May 30th, 2012

○ Profit & Loss Statement for the year ended 31st March, 2012

	<u>Notes</u>	<u>2012</u> ₹	<u>2011</u> ₹
I. INCOME			
Revenue from operation	16	1,40,26,88,573	1,51,66,69,978
Other Income	17	(50,76,578)	26,13,413
TOTAL		1,39,76,11,995	1,51,92,83,391
II. EXPENDITURE			
Cost of raw materials consumed	18	1,32,43,29,197	1,36,95,17,033
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade	19	3,78,20,634	(3,18,69,589)
Employee benefit expenses	20	48,69,770	52,83,000
Finance costs	21	2,31,88,052	47,37,594
Depreciation and amortization expense	7	12,19,078	13,56,120
Other expenses	22	37,36,923	84,18,448
TOTAL		1,39,51,63,654	1,35,74,42,606
Profit for the year before taxes		24,48,341	16,18,40,785
<u>Less : Provision for taxes</u>			
Current Taxes		(4,75,000)	—
Previous year taxes		150	—
Profit for the year after taxes		19,73,491	16,18,40,785
Earnings per equity share:			
(1) Basic		0.11	9.00
(2) Diluted		0.11	9.00

Notes to Accounts

23

In terms of our report of even date attached.

For **RAVI & DEV**

Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA

Partner
M. No.82325

Mumbai
May 30th, 2012

For & on behalf of Board of Directors

PREMJIBHAI KANANI

Chairman

HARSHIL KANANI

Managing Director

Mumbai
May 30th, 2012

○ Cash Flow Statement For The Year Ended 31st March, 2012

	2012 ₹	2011 ₹
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) Before tax	24,48,341	16,18,40,785
Adjustments for		
Depreciation	12,19,078	13,56,120
Adjustments for Working Capital Changes		
Inventories	3,66,64,216	3,86,13,072
Trade receivables	(3,76,71,317)	(42,84,17,761)
Short-term loans and advances	(55,22,000)	(16,651)
Other current assets	1,56,799	(6,05,713)
Trade Payables	20,61,80,087	(2,96,58,136)
Long-term loans and advances	-	(864)
<i>Cash Generated from Operations</i>	20,34,75,204	(25,68,89,148)
Direct taxes paid	(2,84,032)	(75,665)
<i>Net cash from Operating activities</i>	(a) 20,31,91,172	(25,69,64,813)
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed assets	-	(41,250)
Investment in Equity Instruments	(20,06,33,280)	-
Change in long term Fixed Deposit	30,26,448	(30,26,448)
<i>Net Cash Utilised in Investing Activities</i>	(b) (19,76,06,832)	(30,67,698)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Borrowings	(1,50,81,297)	25,18,35,838
Interim Dividend	-	(44,97,000)
Corporate tax	-	(7,64,265)
<i>Net Cash utilised in Financing Activities</i>	(c) (1,50,81,297)	24,65,74,573
NET INCREASE IN CASH AND CASH EQUIVALENTS (a+b+c)	(94,96,957)	(1,34,57,938)
CASH & CASH EQUIVALENTS AS AT 1st APRIL (OPENING BALANCE)	7,74,58,432	9,09,16,370
CASH & CASH EQUIVALENTS AS AT 31st MARCH (CLOSING BALANCE)	6,79,61,475	7,74,58,432

For **RAVI & DEV**
Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA
Partner
M. No.82325

Mumbai
May 30th, 2012

For Kanani Industries Limited
PREMJIBHAI KANANI
Chairman

HARSHIL KANANI
Managing Director

Mumbai
May 30th, 2012

○ Schedule for the year ended 31st March, 2012

NOTE 1 : SHARE CAPITAL

Authorised

30000000 (Previous Year : 30000000) Equity Shares of ₹ 5/- Each

Issued, subscribed & paid-up

17988000 (Previous Year : 17988000) Equity shares of ₹ 5/- each.

	2012 ₹	2011 ₹
Authorised	15,00,00,000	15,00,00,000
Issued, subscribed & paid-up	8,99,40,000	8,99,40,000
	8,99,40,000	8,99,40,000

Notes :

(a) Reconciliation of the Equity Shares outstanding at the beginning and at the end of the year :

Particulars	31st March, 2012		31st March, 2011	
	No. of Shares	Amount	No. of Shares	Amount
At the beginning of the period	1,79,88,000	8,99,40,000	1,79,88,000	8,99,40,000
Issued during the period - Bonus Issue	-	-	-	-
Issued during the period - Prefential Allotment	-	-	-	-
Outstanding at the end of the year	1,79,88,000	8,99,40,000	1,79,88,000	8,99,40,000

(b) Equity Shareholder holding more than 5% equity shares along with number of equity shares is given below :

Name of Share holders	31st March, 2012		31st March, 2011	
	No. of Shares	%	No. of Shares	%
Premjibhai Devjibhai Kanani	14,55,660	8.09	16,80,660	9.34
Harshil Premjibhai Kanani	1,14,45,000	63.63	1,12,20,000	62.37

(c) Issue of Bonus Shares :

During the year ending March 31, 2009, the company had issued 14,99,000 fully paid bonus shares of ₹ 10/- each to the equity shareholders by capitalisation of Securities Premium Account and during the year ending March 31, 2010, the company issued 59,96,000 fully paid up bonus shares of ₹ 10/- each by capitalisation of Securities premium account (₹ 1,62,60,000/-) and Profit and Loss Account (₹ 4,37,00,000/-).

(d) Terms/rights attached to equity shares :

The company has only one class of equity shares having a par value of ₹ 5/- per share. Each holder of equity shares is entitled to one vote per share. The company declares and pays dividends in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

NOTE 2 : RESERVES & SURPLUS

General Reserve

Opening Balance

Add: Current year transfer

Less: Written back in current year

Closing Balance

Profit & Loss Account

Opening Balance

Add: Net Profit/(Net Loss) for the year

Amount available for the appropriation

Appropriations :

Closing Balance

	2012 ₹	2011 ₹
Opening Balance	16,61,027	16,61,027
Add: Current year transfer	—	—
Less: Written back in current year	—	—
Closing Balance	<u>16,61,027</u>	<u>16,61,027</u>
Opening Balance	30,62,91,806	14,44,51,021
Add: Net Profit/(Net Loss) for the year	19,73,491	16,18,40,785
Amount available for the appropriation	<u>30,82,65,297</u>	<u>30,62,91,806</u>
Appropriations :	—	—
Closing Balance	<u>30,82,65,297</u>	<u>30,62,91,806</u>
	<u>30,99,26,324</u>	<u>30,79,52,833</u>
Provision for income tax	<u>4,75,000</u>	—
	<u>4,75,000</u>	—

NOTE 3 : LONG TERM PROVISIONS

Provision for income tax

NOTE 4 : SHORT-TERM BORROWINGS**1 Secured**i) *From Banks*

Post Shipment Credit Facility

Dena Bank

Canara Bank

(Prime Security: Hypothecation of Export Bills/Receivables

Collateral Security:

1. Plot No. 42, Surat SEZ at Sachin, Surat owned by Kanani Ind. Ltd.
2. Plot No. 586/587/588/D, Adarsh CHS Ltd, Vijayrajnagar, Bhavnagar owned by Nanduben P. Kanani
3. Flat No. 104 and Garage No. 25 of Navyug Nagar CHS Ltd., 662, Forjet Hill Road, Off Tardev Road, Mumbai-36 owned by Premjibhai D. Kanani & Nanduben P. Kanani and Premjibhai D. Kanani respectively.
4. Land & Building on plot no. 9 Surat SEZ, Sachin, Surat belonging to M/s. Star Diam
5. Land & Building on plot no. 28 and on plot no. 43, Pyramid Town Ship, Madhav Baug, Bhesan Rd, Jahangirbad, Surat both owned by Premjibhai D. Kanani
6. F.D. No. 4795178 with Dena Bank of ₹ 2,48,58,000/-
7. Personal Guarantee of Premjibhai D. Kanani, Harshil P. Kanani, Nanduben P. Kanani & Corporate guarantee of M/s Star Diam)

2012
₹2011
₹

36,15,12,000

36,62,81,806

11,91,98,681

12,95,10,172

48,07,10,681**49,57,91,978****NOTE 5 : OTHER CURRENT LIABILITIES**

Other Expenses payable

Taxes Payable

Unclaimed Dividend

4,86,554

5,61,308

22,594

22,693

5,604

5,604

5,14,752**5,89,605****NOTE 6 : SHORT-TERM PROVISIONS**a) Provision for employee benefits
Salary & Wages

b) Others

Provision for Fringe Benefit Tax

2,88,600

3,95,526

—

4,200

2,88,600**3,99,726**

NOTE 7 : FIXED ASSETS											
Name of the Assets	←----- GROSS BLOCK -----→			←----- DEPRECIATION -----→				NET BLOCK			
	As on 01/04/11	Additions During the year	Sale	Total	Rate %	As on 01/04/11	Written Off	Back During the year	Total	As on 31/03/12	As on 31/03/11
a) Tangible Assets											
Leasehold Land	47,00,000	-	-	47,00,000	-	9,39,999	3,13,333	-	12,53,332	34,46,668	37,60,001
Factory Building	59,69,514	-	-	59,69,514	10.00	13,51,282	4,61,823	-	18,13,105	41,56,409	46,18,232
Plant & Machinery	37,63,087	-	-	37,63,087	13.91	11,70,401	3,60,643	-	15,31,044	22,32,043	25,92,686
Generator	1,40,000	-	-	1,40,000	13.91	25,996	15,858	-	41,854	98,146	1,14,004
Office Equipment	90,550	-	-	90,550	13.91	34,096	7,853	-	41,949	48,601	56,454
Air Conditioner	3,04,074	-	-	3,04,074	13.91	94,427	29,162	-	1,23,589	1,80,485	2,09,647
Computer	2,18,554	-	-	2,18,554	40.00	1,42,539	30,406	-	1,72,945	45,609	76,015
	1,51,85,779	-	-	1,51,85,779		37,58,740	12,19,078	-	49,77,818	1,02,07,961	1,14,27,039
b) Intangible Assets											
Capital	-	-	-	-	-	-	-	-	-	-	-
Work In Progress	-	-	-	-	-	-	-	-	-	-	-
d) Intangible Assets Under Development											
Total	1,51,85,779	-	-	1,51,85,779		37,58,740	12,19,078	-	49,77,818	1,02,07,961	1,14,27,039
Previous Year Total	1,51,44,529	41,250	-	1,51,85,779		24,02,620	13,56,120	-	37,58,740	1,14,27,039	1,27,41,909

NOTE 8 : NON-CURRENT INVESTMENTS**1 Trade Investments**

Investment in Equity Instruments (Unquoted)
[30225000 unquoted Equity Shares of KIL International Ltd.
fully paid up (100% holding)]

2 Other Investments

	2012 ₹	2011 ₹
	20,06,33,280	—
	—	—
	20,06,33,280	—

NOTE 9 : LONG TERM LOANS AND ADVANCES

Advances recoverable in cash or in kind or for value to be received
(Unsecured & considered good)

Security Deposits

Taxes Paid

	33,229	33,229
	3,62,463	82,481
	3,95,692	1,15,710

NOTE 10 : OTHER NON-CURRENT ASSETS

Non-current bank balances with banks

Fixed Deposits

	—	30,26,448
	—	30,26,448

NOTE 11 : INVENTORIES

(As taken, valued and certified by the Management)

(Valued at lower of cost or net realisable value)

Raw material

Diamonds

Bullion

	5,35,70,598	5,24,21,468
	68,633	61,345

Finished Goods

Diamond Studded Jewellery

	—	3,78,20,634
	5,36,39,231	9,03,03,447

NOTE 12 : TRADE RECEIVABLES

(Unsecured & considered good, subject to confirmation)

1 Trade receivables outstanding for a period less than
six months from the date they are due for payment

2 Trade receivables outstanding for a period exceeding
six months from the date they are due for payment

	79,89,22,703	65,36,37,966
	—	10,76,13,420
	79,89,22,703	76,12,51,386

Trade Receivable stated above include debts due by:

Directors

Other officers of the Company

Firm in which director is a partner

Private Company in which director is a member

	—	—
	—	—
	—	—
	—	—

NOTE 13 : CASH AND BANK BALANCE**Cash and cash equivalents**

a) Balances with banks		
Current account	3,69,29,087	5,23,61,340
Deposits with original maturity of less than three months	2,48,58,000	–
b) Cheques, drafts on hand	–	–
c) Cash on hand	41,101	2,39,092
Other Bank Balances		
Deposits with original maturity for more than 12 months maturing within 12 months	61,33,287	2,48,58,000

6,79,61,475**7,74,58,432****NOTE 14 : SHORT TERM LOANS AND ADVANCES**

(Unsecured & considered good)

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

Prepaid Expenses	81,31,540	26,77,610
Loan to Subsidiary	68,070	–
	81,99,610	26,77,610

NOTE 15 : OTHER CURRENT ASSETS

Accrued Interest on F.D.

	4,51,815	6,08,614
	4,51,815	6,08,614

NOTE 16 : REVENUE FROM OPERATIONS

Sale of products

Finished Goods (Jewellery)

	1,40,26,88,573	1,51,66,69,978
	1,40,26,88,573	1,51,66,69,978

NOTE 17 : OTHER INCOME

Exchange rate difference

Loss from trading in currency futures

	3,74,03,970	26,13,413
	(4,24,80,548)	–
	(50,76,578)	26,13,413

NOTE 18 : COST OF RAW MATERIALS CONSUMED

Opening Stock

Add: Purchases

Less: Closing Stock

	5,24,82,813	12,29,65,474
	1,32,54,85,615	1,29,90,34,372
	(5,36,39,231)	(5,24,82,813)

Cost of raw material consumed

1,32,43,29,197 **1,36,95,17,033****Details of raw material consumed**

Diamond

Silver

	1,32,35,03,055	1,36,87,11,802
	8,26,142	8,05,231

1,32,43,29,197 **1,36,95,17,033****Details of Inventory of Raw Material**

Diamond

Silver

	5,35,70,598	5,24,21,468
	68,633	61,345

5,36,39,231 **5,24,82,813**

**NOTE 19 : CHANGES IN INVENTORIES OF FINISHED GOODS,
WORK-IN-PROGRESS AND STOCK-IN-TRADE**

Finished Goods–Jewellery

Opening Stock

Less: Closing Stock

	2012	2011
	₹	₹
	3,78,20,634	59,51,045
	–	(3,78,20,634)
	<u>3,78,20,634</u>	<u>(3,18,69,589)</u>

NOTE 20 : EMPLOYEE BENEFIT EXPENSES

Director's Remuneration

House Rent Allowance

Salary & Wages

Other Allowances

Conveyance Allowance

	3,60,000	3,60,000
	1,20,000	1,20,000
	43,59,170	47,73,200
	11,400	11,400
	19,200	18,400
	<u>48,69,770</u>	<u>52,83,000</u>

NOTE 21 : FINANCE COSTS

Interest on Loan (Net)

	2,31,88,052	47,37,594
	<u>2,31,88,052</u>	<u>47,37,594</u>

NOTE 22 : OTHER EXPENSES

Consumption of Stores & Consumables

Power & Fuel

Repairs & Maintenance

Rates and Taxes

Miscellaneous Expenses

	3,98,428	10,75,882
	3,05,804	3,27,193
	4,843	53,268
	3,40,517	4,72,314
	26,87,331	64,89,791
	<u>37,36,923</u>	<u>84,18,448</u>

NOTE 23 : NOTES TO ACCOUNTS

1. **SIGNIFICANT ACCOUNTING POLICIES**

I. **Basis of accounting**

The financial statements of the company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The financial statements are prepared under the historical cost convention on a going concern basis. The accounting policies not specifically mentioned are consistent with generally accepted accounting principles.

The preparation of financial statement in conformity with generally accepted accounting principles in India requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities on the date of financial statements and reported amounts of income and expenses during the period.

II. **Presentation of financial statements**

The Balance Sheet and the Statement of Profit and Loss are prepared and presented in the format prescribed in the Schedule VI to the Companies Act, 1956 ("the Act"). The Cash Flow Statement has been prepared and presented as per the requirement of Accounting Standard (AS)3 "Cash Flow Statements". The disclosure requirements with respect to items in the Balance Sheet and Statement of Profit and Loss, as prescribed in the Schedule VI to the Act, are presented by the way of notes forming part of accounts along with the other notes required to be disclosed under the notified Accounting Standards and the Listing Agreement.

III. **Fixed Assets**

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

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

IV. **Depreciation**

The depreciation on fixed assets has been provided on Written Down Value Method on Pro rata basis at the rates specified in Schedule XIV of the Companies Act, 1956. Leasehold land is being amortised over the period of lease.

V. **Closing Stock**

i. Raw materials are valued at cost.

ii. Finished Goods are stated at lower of the cost or net realisable value.

iii. Stores items purchased are treated as consumed in the year of purchase.

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

VII. **Foreign Currency Transactions**

a) Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of the transaction.

b) Foreign currency transactions remaining unsettled till the finalisation of accounts of the year are translated at contracted rates, when covered by forward exchange contracts and at year end rates, in all other cases.

VIII. **Investments**

Investments are either classified as current or long term based on the management intention at the time of purchase.

Current Investment are carried at the lower of cost or market value. The comparison of cost and market value is done separately in respect of each category of investments.

Long term investments are carried at cost less any permanent diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is rise in the value of investments or if the reasons for the reduction no longer exist.

IX. Taxation

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

X. Earning Per Share

The basic earning per share (EPS) is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the current year. For the purpose of calculating diluted earning per share, net profit after tax and the weighted number of equity shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

XI. Financial Derivatives & Commodity Hedging Transactions

- a. Financial derivatives and commodity hedging contracts are accounted on the date of their settlement and realised gain/loss in respect of settled contracts are recognised in the profit & loss account.
- b. The unrealised loss on contracts outstanding at the year end are provided for in the books of account of the Company in accordance with the guidance note on Accounting for Equity Index & Equity Stock Futures and Options issued by the Chartered Accountants of India.

XII. Contingent Liability

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

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

	2012	2011
	₹	₹
3. Expenditure in Foreign Currency (Payment basis)		
Foreign Travelling Expenses	–	–
Interest on Loan	9,924,709	7,081,426
4. C. I. F. Value of Imports		
Raw Material	1,324,535,983	1,298,105,697
5. F.O.B. Value of Exports	1,402,688,573	1,516,669,979
6. <u>Auditors' Remuneration</u>		
Audit Fee	125,000	125,000
Tax Audit Fee	25,000	25,000
	<hr/>	<hr/>
	150,000	150,000
7. Directors' Remuneration	501,000	501,000

8. Value of imported & indigenous material consumed :

	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
Raw Material				
Indigenous	0.06	826,142	0.06	805,231
Imported	99.94	1,323,503,055	99.94	1,368,711,802
Stores & Spares				
Indigenous	100.00	398,428	100.00	1,075,882
Imported	-	-	-	-

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

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

Subsidiary Company

KIL International Limited

Key Management Personnel

Harshil P. Kanani

Premji D. Kanani

Enterprises where key management personnel have control

M/s. Star Diam

b) Transactions with related parties

Remuneration to Director

Loan given to subsidiary

Investment in Subsidiary

c) Balances at the year end

Remuneration to Director Payable

Loan given to subsidiary

	2012	2011
	₹	₹
Remuneration to Director	501,000	501,000
Loan given to subsidiary	68,070	-
Investment in Subsidiary	200,633,280	-
Remuneration to Director Payable	161,940	242,526
Loan given to subsidiary	68,070	-

10. Disclosure under Clause 32 of the Listing Agreement

Loans and advances in the nature of loans given to subsidiaries:

KIL International Limited

Maximum Balance outstanding during the year

Closing Balance

68,070

68,070

-

-

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

	2012 ₹	2011 ₹
12. Basic & Diluted Earning per Share (Face Value : ₹ 5/- each)		
Profit after tax as per Profit & Loss Account	1,973,491	161,840,786
Weighted average number of shares outstanding	17,988,000	17,988,000
Basic & Diluted earning per share in Rupees	0.11	9.00

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

14. Derivative contracts entered into by the company and outstanding as on 31st March, 2012 :

Particulars	Nominal Value \$	Quantity	
		Long	Short
USD Forward Contract 15.04.2012 - 30.04.2012	1,012,000.00		1.00
USD Forward Contract 15.04.2012 - 30.04.2012	249,524.76		1.00
USD Forward Contract 01.05.2012 - 15.05.2012	1,005,000.00		1.00
USD Forward Contract 16.05.2012 - 31.05.2012	646,500.00		1.00
USD Forward Contract 01.06.2012 - 30.06.2012	566,000.00		1.00
USD Forward Contract 01.07.2012 - 31.07.2012	522,000.00		1.00
USD Forward Contract 16.07.2012 - 31.07.2012	965,000.00		1.00
USD Forward Contract 16.08.2012 - 31.08.2012	602,000.00		1.00
USD Forward Contract 01.07.2012 - 31.07.2012	100,000.00		1.00

15. During the year ended 31st March, 2012, the company has prepared the financial statements as per the format prescribed by the Revised Schedule VI to the Companies Act, 1956 issued by Ministry of Corporate Affairs. The company has also reclassified the previous year figures in accordance with requirement for the current period.

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

Signature to Schedule 1 to 23 :

In terms of our report of even date attached.

For **RAVI & DEV**
Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA
Partner
M. No.82325

Mumbai
May 30th, 2012

For & on behalf of Board of Directors

PREMJIBHAI KANANI
Chairman

HARSHIL KANANI
Managing Director

Mumbai
May 30th, 2012



CONSOLIDATED FINANCIAL STATEMENT

○ Consolidated Auditors Report on Financial Statement

The Board of Directors
Kanani Industries Limited
Mumbai

1. We have audited the attached Consolidated Balance Sheet of Kanani Industries Limited (the Company) and its subsidiaries, (the Company and its subsidiaries constitute 'the Group') as at 31st March, 2012, the Consolidated Statement of Profit & Loss and the Consolidated Cash Flow Statement for the year ended on that date.
2. These Consolidated Financial Statements are the responsibility of the company management of Kanani Industries Limited. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These standards required that we plan and perform the audit to obtain reasonable assurance whether the financial statement are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. We have not audited the financial statements of one subsidiary, whose financial statement reflects the total assets of ₹ 2,257.99 lacs as at 31st March, 2012, and total revenue of ₹ 2528.21 lacs for the year then ended. These financial statements and other financial information have been audited by other auditors whose report have been furnished to us and our opinion in so far as it relates to the amount included in respect of this subsidiary is based solely on the report of other auditors.
4. We report that the consolidated financial statements have been prepared by the company in accordance with the requirement of Accounting Standard (AS) 21, in Consolidated Financial Statements issued under the Companies (Accounting Standard) Rules, 2006.
5. Based on our audit and on other financial information of the subsidiary as referred to above, and to the best of our information and according to the explanation given to us, we are of the opinion that the attached consolidated financial statement of Kanani Industries Limited gives true and fair view in conformity with the accounting principles generally accepted in India ;
 - a) In the case of consolidated Balance Sheet, of the state of affairs of the group as at 31st March, 2012;
 - b) In the case of consolidated Profit & Loss Statement, of the profit of the group for the year ended on that date ; and
 - c) In the case of consolidated Cash Flow Statement, of the consolidated Cash Flow of the group for the year ended on that date.

For RAVI & DEV
Chartered Accountants
(FRN: 108752W)

(DEVENDRA A. MEHTA)
Partner
M. No.82325

Place: Mumbai
Date: May 30th, 2012

○ Consolidated Balance Sheet As On 31st March, 2012

	<u>Notes</u>	2012 ₹
I. EQUITY AND LIABILITIES		
1 Shareholders' Funds		
a. Share Capital	1	8,99,40,000
b. Reserves & Surplus	2	30,81,50,578
		39,80,90,578
2 Non-current liabilities		
a. Long Term Provision	3	4,75,000
		4,75,000
3 Current liabilities		
a. Short-term borrowings	4	48,07,86,845
b. Trade payables		28,50,38,998
c. Other current liabilities	5	7,17,855
d. Short-term provisions	6	4,68,346
		76,70,12,045
TOTAL		1,16,55,77,623
II. ASSETS		
1 Non-current assets		
a. <u>Fixed Assets</u>	7	
(i) Tangible assets		1,02,07,961
b. Long-term loans and advances	8	3,95,692
c. Other non-current assets		—
2 Current assets		
a. Inventories	9	11,61,80,296
b. Trade receivables	10	95,84,89,194
c. Cash and bank balances	11	7,16,53,055
d. Short-term loans and advances	12	81,99,610
e. Other current assets	13	4,51,815
		1,15,49,73,970
TOTAL		1,16,55,77,623
Notes to Accounts	22	

In terms of our report of even date attached.

For **RAVI & DEV**

Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA

Partner

M. No.82325

Mumbai

May 30th, 2012

For & on behalf of Board of Directors

PREMJIBHAI KANANI

Chairman

HARSHIL KANANI

Managing Director

Mumbai

May 30th, 2012

○ Consolidated Profit & Loss Statement for the year ended 31st March, 2012

	<u>Notes</u>	<u>2012</u> ₹
I. INCOME		
Revenue from operation	14	1,65,55,09,213
Other Income	15	(50,76,578)
TOTAL		1,65,04,32,635
II. EXPENDITURE		
Cost of raw materials consumed	16	1,32,43,29,197
Purchases of traded goods	17	30,95,65,928
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade	18	(2,47,20,431)
Employee benefit expenses	19	48,69,770
Finance costs	20	2,31,88,052
Depreciation and amortization expense	7	12,19,078
Other expenses	21	45,18,049
TOTAL		1,64,29,69,643
Profit for the year before taxes		74,62,992
<u>Less : Provision for taxes</u>		
Current Taxes		(6,54,746)
Previous year taxes		150
Profit for the year after taxes		68,08,396
Earnings per equity share:		
(1) Basic		0.38
(2) Diluted		0.38
Notes to Accounts	22	

In terms of our report of even date attached.

For **RAVI & DEV**
Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA
Partner
M. No.82325

Mumbai
May 30th, 2012

For & on behalf of Board of Directors

PREMJIBHAI KANANI
Chairman

HARSHIL KANANI
Managing Director

Mumbai
May 30th, 2012

○ Consolidated Cash Flow Statement For The Year Ended 31st March, 2012

		2012
		₹
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) Before tax		74,62,993
Adjustments for		
Depreciation		12,19,078
Opening Balance of Profit and Loss Account		30,62,91,806
Opening Balance of General Reserve		16,61,027
Provision for taxation net of paid		150
Foreign currency translation reserve		(66,10,651)
Adjustments for Working Capital Changes		
Inventories		(11,61,80,296)
Trade receivables		(95,84,89,194)
Short-term loans and advances		(79,15,578)
Other current assets		(4,51,815)
Long-term loans and advances		(3,95,692)
Trade Payables		28,60,45,453
<i>Cash Generated from Operations</i>		(48,73,62,719)
Direct taxes paid		(2,84,032)
<i>Net cash from Operating activities</i>	(a)	(48,76,46,751)
B. CASH FLOW FROM INVESTING ACTIVITIES		
Opening balance of Fixed Assets		(1,14,27,039)
<i>Net Cash Utilised in Investing Activities</i>	(b)	(1,14,27,039)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Capital		8,99,40,000
Borrowings		48,07,86,845
Interim Dividend		-
Corporate tax		-
<i>Net Cash utilised in Financing Activities</i>	(c)	57,07,26,845
NET INCREASE IN CASH AND CASH EQUIVALENTS	(a+b+c)	7,16,53,055
CASH & CASH EQUIVALENTS AS AT 1st APRIL (OPENING BALANCE)		-
CASH & CASH EQUIVALENTS AS AT 31st MARCH (CLOSING BALANCE)		7,16,53,055

For **RAVI & DEV**

Chartered Accountants
(FRN : 108752W)

DEVENDRA MEHTA
Partner
M. No.82325

Mumbai
May 30th, 2012

For Kanani Industries Limited

PREMJIBHAI KANANI
Chairman

HARSHIL KANANI
Managing Director

Mumbai
May 30th, 2012

○ Consolidated Schedule for the year ended 31st March, 2012

NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 : SHARE CAPITAL

Authorised

30000000 (Previous Year : 30000000) Equity Shares of ₹ 5/- Each

Issued, subscribed & paid-up

17988000 (Previous Year : 17988000) Equity shares of ₹ 5/- each.

2012

₹

15,00,00,000

8,99,40,000

8,99,40,000

Notes :

(a) Reconciliation of the Equity Shares outstanding at the beginning and at the end of the year :

Particulars	31st March, 2012	
	No. of Shares	Amount
At the beginning of the period	1,79,88,000	8,99,40,000
Issued during the period - Bonus Issue	—	—
Issued during the period - Prefential Allotment	—	—
Outstanding at the end of the year	1,79,88,000	8,99,40,000

(b) Equity Shareholder holding more than 5% equity shares along with number of equity shares is given below :

Name of Shareholders	31st March, 2012	
	No. of Shares	%
Premjibhai Devjibhai Kanani	14,55,660	8.09
Harshil Premjibhai Kanani	1,14,45,000	63.63

(c) Issue of Bonus Shares :

During the year ending March 31, 2009, the company had issued 14,99,000 fully paid bonus shares of ₹10/- each to the equity shareholders by capitalisation of Securities Premium Account and during the year ending March 31, 2010, the company issued 59,96,000 fully paid up bonus shares of ₹10/- each by capitalisation of Securities premium account (₹1,62,60,000/-) and Profit and Loss Account (₹ 4,37,00,000/-).

(d) Terms/rights attached to equity shares :

The company has only one class of equity shares having a par value of ₹ 5/- per share. Each holder of equity shares is entitled to one vote per share. The company declares and pays dividends in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

NOTE 2 : RESERVES & SURPLUS

General Reserve

Opening Balance

Add: Current year transfer

Less: Written back in current year

Closing Balance

Foreign currency translation reserve

Opening Balance

Add: Additions in current year

Less: Written back in current year

Closing Balance

Profit & Loss Account

Opening Balance

Add: Net Profit/(Net Loss) for the year

Amount available for the appropriation

Appropriations :

Closing Balance

NOTE 3 : LONG TERM PROVISIONS

Provision for income tax

	2012
	₹
	16,61,027
	—
	—
	<u>16,61,027</u>
	—
	(66,10,651)
	—
	<u>(66,10,651)</u>
	30,62,91,806
	68,08,397
	<u>31,31,00,203</u>
	—
	<u>31,31,00,203</u>
	<u>30,81,50,578</u>
	4,75,000
	<u>4,75,000</u>

2012

₹

NOTE 4 : SHORT-TERM BORROWINGS**1 Secured**i) *From Banks*

Post Shipment Credit Facility

Dena Bank

36,15,12,000

Canara Bank

11,91,98,681

(Prime Security: Hypothecation of Export Bills/Receivables)

Collateral Security:

1. Plot No. 42, Surat SEZ at Sachin, Surat owned by Kanani Ind. Ltd.

2. Plot No. 586/587/588/D, Adarsh CHS Ltd, Vijayrajnagar, Bhavnagar owned by Nanduben P. Kanani

3. Flat No. 104 and Garage No. 25 of Navyug Nagar CHS Ltd., 662, Forjet Hill Road, Off Tardev Road, Mumbai-36 owned by Premjibhai D. Kanani & Nanduben P. Kanani and Premjibhai D. Kanani respectively.

4. Land & Building on plot no. 9 Surat SEZ, Sachin, Surat belonging to M/s. Star Diam

5. Land & Building on plot no. 28 and on plot no. 43, Pyramid Town Ship, Madhav Baug, Bhesan Rd, Jahangirbad, Surat both owned by Premjibhai D. Kanani

6. F.D. No. 4795178 with Dena Bank of ₹ 2,48,58,000/-

7. Personal Guarantee of Premjibhai D. Kanani, Harshil P. Kanani, Nanduben P. Kanani & Corporate guarantee of M/s Star Diam)

2 Unsecured

Loan - Subsidiary

76,164

48,07,86,845**NOTE 5 : OTHER CURRENT LIABILITIES**

Other Expenses payable

6,89,657

Taxes Payable

22,594

Unclaimed Dividend

5,604

7,17,855**NOTE 6 : SHORT-TERM PROVISIONS**

a) Provision for employee benefits

Salary & Wages

2,88,600

b) Others

Provision for Fringe Benefit Tax

1,79,746

4,68,346

NOTE 7 : FIXED ASSETS										
Name of the Assets	←----- GROSS BLOCK -----→			←----- DEPRECIATION -----→			NET BLOCK			
	As on 01/04/11	Additions During the year	Sale	Total	Rate %	As on 01/04/11	Written Off During the year	Back	As on 31/03/12	
a) Tangible Assets										
Leasehold Land	47,00,000	-	-	47,00,000	-	9,39,999	3,13,333	-	34,46,668	
Factory Building	59,69,514	-	-	59,69,514	10.00	13,51,282	4,61,823	-	41,56,409	
Plant & Machinery	37,63,087	-	-	37,63,087	13.91	11,70,401	3,60,643	-	22,32,043	
Generator	1,40,000	-	-	1,40,000	13.91	25,996	15,858	-	98,146	
Office Equipment	90,550	-	-	90,550	13.91	34,096	7,853	-	48,601	
Air Conditioner	3,04,074	-	-	3,04,074	13.91	94,427	29,162	-	1,80,485	
Computer	2,18,554	-	-	2,18,554	40.00	1,42,539	30,406	-	45,609	
	1,51,85,779	-	-	1,51,85,779		37,58,740	12,19,078	-	1,02,07,961	
b) Intangible Assets										
Capital	-	-	-	-	-	-	-	-	-	
Work In Progress	-	-	-	-	-	-	-	-	-	
d) Intangible Assets Under Development										
	-	-	-	-	-	-	-	-	-	
Total	1,51,85,779	-	-	1,51,85,779		37,58,740	12,19,078	-	1,02,07,961	
Previous Year Total	1,51,44,529	41,250	-	1,51,85,779		24,02,620	13,56,120	-	1,14,27,039	

2012

₹

NOTE 8 : LONG TERM LOANS AND ADVANCES

Advances recoverable in cash or in kind or for value to be received
(Unsecured & considered good)

Security Deposits

33,229

Taxes Paid

3,62,463

3,95,692**NOTE 9 : INVENTORIES**

(As taken, valued and certified by the Management)
(Valued at lower of cost or net realisable value)

Raw material

Diamonds

5,35,70,598

Bullion

68,633

Finished Goods

Diamonds

1,34,29,866

Diamond Studded Jewellery

4,91,11,199

11,61,80,296**NOTE 10 : TRADE RECEIVABLES**

(Unsecured & considered good, subject to confirmation)

- 1 Trade receivables outstanding for a period less than six months from the date they are due for payment
- 2 Trade receivables outstanding for a period exceeding six months from the date they are due for payment

95,84,89,194

—

95,84,89,194

Trade Receivable stated above include debts due by:

Directors

—

Other officers of the Company

—

Firm in which director is a partner

—

Private Company in which director is a member

—

NOTE 11 : CASH AND BANK BALANCE**Cash and cash equivalents**

- a) Balances with banks

Current account

3,69,29,087

Deposits with original maturity of less than three months

2,48,58,000

- b) Cheques, drafts on hand

—

- c) Cash on hand

41,101

Other Bank Balances

Deposits with original maturity for more than 12 months maturing within 12 months

98,24,867

7,16,53,055

	2012
	₹
NOTE 12 : SHORT TERM LOANS AND ADVANCES	
(Unsecured & considered good)	
(Advances recoverable in cash or in kind or for value to be received)	
Prepaid Expenses	81,31,540
Loan to Subsidiary	68,070
	81,99,610
NOTE 13 : OTHER CURRENT ASSETS	
Accrued Interest on F.D.	4,51,815
	4,51,815
NOTE 14 : REVENUE FROM OPERATIONS	
Sale of products	
Finished Goods (Jewellery)	165,55,09,213
	165,55,09,213
NOTE 15 : OTHER INCOME	
Exchange rate difference	3,74,03,970
Loss from trading in currency futures	(4,24,80,548)
	(50,76,578)
NOTE 16 : COST OF RAW MATERIALS CONSUMED	
Opening Stock	5,24,82,813
Add: Purchases	1,32,54,85,615
Less: Closing Stock	(5,36,39,231)
Cost of raw material consumed	1,32,43,29,197
Details of raw material consumed	
Diamond	1,32,35,03,055
Silver	8,26,142
	1,32,43,29,197
Details of Inventory of Raw Material	
Diamond	5,35,70,598
Silver	68,633
	5,36,39,231
NOTE 17 : PURCHASES OF TRADED GOODS	
Diamond	24,38,47,402
Diamond studded Jewellery	6,57,18,526
	30,95,65,928

2012

₹

**NOTE 18 : CHANGES IN INVENTORIES OF FINISHED GOODS,
WORK-IN-PROGRESS AND STOCK-IN-TRADE**

Opening Stock		
Finished Goods	3,78,20,634	
Stock in Trade	—	
	<u>3,78,20,634</u>	3,78,20,634
Closing Stock		
Finished Goods	—	
Stock in Trade	6,25,41,065	
	<u>6,25,41,065</u>	6,25,41,065
		<u>(2,47,20,431)</u>

NOTE 19 : EMPLOYEE BENEFIT EXPENSES

Director's Remuneration		3,60,000
House Rent Allowance		1,20,000
Salary & Wages		43,59,170
Other Allowances		11,400
Conveyance Allowance		19,200
		<u>48,69,770</u>

NOTE 20 : FINANCE COSTS

Interest on Loan (Net)		2,31,88,052
		<u>2,31,88,052</u>

NOTE 21 : OTHER EXPENSES

Consumption of Stores & Consumables		3,98,428
Power & Fuel		3,05,804
Repairs & Maintenance		4,843
Rates and Taxes		3,40,517
Miscellaneous Expenses		34,68,457
		<u>45,18,049</u>

NOTE 21 : NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

I. Basis of accounting

The financial statements of the company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The financial statements are prepared under the historical cost convention on a going concern basis. The accounting policies not specifically mentioned are consistent with generally accepted accounting principles.

The preparation of financial statement in conformity with generally accepted accounting principles in India requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities on the date of financial statements and reported amounts of income and expenses during the period.

II. Basis of Consolidation

These financial statements are prepared in accordance with the principles and procedures prescribed under AS 21 - 'Consolidated Financial Statements' for the purpose of preparation and presentation of consolidated financial statements.

The financial Statements of the Parent company and its subsidiaries have been consolidated on a line-by-line basis by adding together the book values of like item of assets, liabilities, income and expenses after fully eliminating intra group balances and inter group transactions resulting in unrealized profits and losses.

III. Presentation of financial statements

The Balance Sheet and the Statement of Profit and Loss are prepared and presented in the format prescribed in the Schedule VI to the Companies Act, 1956 ("the Act"). The Cash Flow Statement has been prepared and presented as per the requirement of Accounting Standard (AS)3 "Cash Flow Statements". The disclosure requirements with respect to items in the Balance Sheet and Statement of Profit and Loss, as prescribed in the Schedule VI to the Act, are presented by the way of notes forming part of accounts along with the other notes required to be disclosed under the notified Accounting Standards and the Listing Agreement.

IV. Fixed Assets

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

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

V. **Depreciation**

The depreciation on fixed assets has been provided on Written Down Value Method on Pro rata basis at the rates specified in Schedule XIV of the Companies Act, 1956. Leasehold land is being amortised over the period of lease.

VI. **Closing Stock**

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

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

VII. **Foreign Currency Transactions**

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

VIII. **Investments**

Investments are either classified as current or long term based on the management intention at the time of purchase.

Current Investment are carried at the lower of cost or market value. The comparison of cost and market value is done separately in respect of each category of investments.

Long term investments are carried at cost less any permanent diminution in value, determined separately for each individual investments. The reduction in the carrying amount is reversed when there is rise in the value of investments or if the reason for the reduction no longer exist.

IX. **Taxation**

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

X. Earning Per Share

The basic earning per share (EPS) is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the current year. For the purpose of calculating diluted earning per share, net profit after tax and the weighted number of equity shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

XI. Financial Derivatives & Commodity Hedging Transactions

- a. Financial derivatives and commodity hedging contracts are accounted on the date of their settlement and realised gain/loss in respect of settled contracts are recognised in the profit & loss account.
- b. The unrealised loss on contracts outstanding at the year end are provided for in the books of account of the Company in accordance with the guidance note on Accounting for Equity Index & Equity Stock Futures and Options issued by the Chartered Accountants of India.

XII. Contingent Liability

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

2. In the opinion of the management, Current Assets and Loans & Advances are approximately of the value stated if realised in the ordinary course of the business. The provision for all liabilities is, in the opinion of the management, adequate and not in excess of amount reasonably necessary.
3. Disclosures as required by Accounting Standard AS-18 "Related Parties Disclosure" issued by The Institute of Chartered Accountants of India are as follows :

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

Subsidiary Company

KIL International Limited

Key Management Personnel

Harshil P. Kanani

Premji D. Kanani

Enterprises where key management personnel have control

M/s. Star Diam

- b) Transactions with related parties
- Remuneration to Director
- c) Balances at the year end
- Remuneration to Director Payable

2012

₹

5,01,000

1,61,940

2012

₹

4. Basic & Diluted Earning per Share (Face Value : ₹ 5/- each)

Profit after tax as per Profit & Loss Account

68,08,396

Weighted average number of shares outstanding

1,79,88,000

Basic & Diluted earning per share in Rupees

0.38

5. The Company is trying to ascertain the enterprises covered under the Micro, Small and Medium Enterprises Development Act, 2006 (the Act). Based on the details regarding the status of the suppliers, to the extent obtained, no supplier is covered under the Act.
6. During the year ended 31st March, 2012, the company has prepared the financial statements as per the format prescribed by the Revised Schedule VI to the Companies Act, 1956 issued by Ministry of Corporate Affairs. The company has also reclassified the previous year figures in accordance with requirement for the current period.
7. Previous year figures have not been given in view of first year of consolidation.
8. Figures have been rounded off to the nearest of a rupee.

Signature to Schedule 1 to 21 :

In terms of our report of even date attached.

For **RAVI & DEV**Chartered Accountants
(FRN : 108752W)**DEVENDRA MEHTA**

Partner

M. No.82325

Mumbai

May 30, 2012

For & on behalf of Board of Directors

PREMJIBHAI KANANI

Chairman

HARSHIL KANANI

Managing Director

Mumbai

May 30, 2012

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES FOR THE YEAR ENDED 31 MARCH, 2012

Information regarding subsidiary Companies

Name of the Company	KIL INTERNATIONAL LTD.
Financial year ending on	31.03.2012
Currency	USD
Exchange rate on the last day of financial year	50.88
a. Share capital	19,80,25,728
b. Reserves	8,31,806
c. Liabilities	2,69,41,602
d. Total liabilities	22,57,99,136
e. Total assets	22,57,99,136
f. Turnover	25,28,20,640
g. Profit before taxation	50,14,652
h. Provision for Taxation	1,79,747
i. Profit after taxation	48,34,905

KANANI INDUSTRIES LIMITED

REGISTERED OFFICE: G-6, PRASAD CHAMBERS, OPERA HOUSE, MUMBAI - 400004

ATTENDANCE SLIP

D.P.Id.	
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Folio No.	
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Client Id.	
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I/We hereby record my/our presence at the Twenty Ninth Annual General Meeting of the Company at Krishna Palace Residency Hotel, 96/98, Grant Road, Mumbai, Maharashtra 400007, on Friday, 28th September, 2012 at 9.30 A.M.

Name of the Shareholder

(In Block Letters)

Signature of the Shareholder/Proxy

NOTE :

1. You are requested to sign and hand this over at the entrance.
2. If you are attending the meeting in person or by proxy, your copy of Notice may please be brought by you/your proxy for reference at the meeting.

KANANI INDUSTRIES LIMITED

REGISTERED OFFICE: G-6, PRASAD CHAMBERS, OPERA HOUSE, MUMBAI - 400004

PROXY FORM

D.P.Id.	
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Folio No.	
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Client Id.	
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I/weof

In the district of Being a member /members of the

above named Company hereby appoint.....

ofin

The District ofor failing him

of.....in the District of as my/
our proxy to vote for me/us on my/our behalf at the Twenty Ninth Annual General Meeting to be held on Friday,
28th September, 2012 at 9.30 A.M. or at any adjournment thereof

Signed this.....day of

Affix ₹1
Revenue
Stamp

NOTE:

1. This form should be signed across the stamp as per specimen signature registered with the Company.
2. The proxy must be deposited at the Registered Office of the Company at G-6, Prasad Chambers, Opera House, Mumbai - 400004 a not less than 48 hours before the time of holding the meeting.
3. This form is to be used in favor of/against the resolution. Unless otherwise directed, the proxy will vote as he thinks Fit
4. A proxy need not be a member.

IN DEFERENCE TO THE GOVT. POLICY, NO GIFTS WILL BE DISTRIBUTED AT THE ANNUAL GENERAL MEETING

BOOK POST

If undelivered, please return to :

KANANI INDUSTRIES LIMITED

REGISTERED OFFICE: G-6, PRASAD CHAMBERS, OPERA HOUSE, MUMBAI - 400004