

**SHRENUJ & COMPANY LIMITED**  
**ESOS - 2006**

**SCHEME –CUM- DISCLOSURE DOCUMENT**

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## **Part A: Statement of Risks**

All investments in shares or options on shares are subject to risk as the value of shares may go down or up. In addition, employee stock options are subject to the following additional risks:

1. **Concentration:** The risk arising out of any fall in value of shares is aggravated if the employee's holding is concentrated in the shares of a single company.
2. **Leverage:** Any change in the value of the share can lead to a significantly larger change in the value of the option as an option amounts to a levered position in the share.
3. **Illiquidity:** The options cannot be transferred to anybody, and therefore the employees cannot mitigate their risks by selling the whole or part of their options before they are exercised.
4. **Vesting:** The options will lapse if the employment is terminated prior to vesting. Even after the options are vested, the unexercised options may be forfeited if the employment is terminated for gross misconduct.

## **Part B: Information about the Company**

1. **Business of the Company: History and main objects and present business of the Company.**

### **History: -**

The Company was incorporated on 13<sup>th</sup> April, 1982, as Shrenuj & Company Private Limited under the Companies Act, 1956 with Registration No. 11-26903 of 1982. The Company was converted into a public limited w.e.f. 4<sup>th</sup> September, 1986 and was renamed as Shrenuj & Company Limited.

The Company made its Initial Public Offer of Equity Shares in the year 1989 and is currently listed on the Bombay Stock Exchange Ltd & National Stock Exchange of India Limited.

Shrenuj and Company Ltd manufactures and exports cut and polished diamonds studded and branded jewellery in domestic and overseas markets and is also in the business of jewellery retailing etc. The company has a laser processing unit at Tardeo, Mumbai and bagging division at MIDC, Andheri which carries out the activities of bagging, assorting and export of diamond studded jewellery. Further, the Company has also diversified into jewellery manufacture with a unit set up at Seepz, Andheri.

The Company has 9 subsidiary Companies viz;

- Moon Diamonds Limited
- Aditi Diamimpex Trading & Manufacturing Company Limited
- Shrenuj Overseas Limited
- Lume Jewellery Limited
- S. N. Jewellery Private Limited
- Shrenuj DMCC
- Shrenuj (Mauritius) Private Limited
- Daily Jewellery limited
- Astral USA, Inc

Out of the 9 subsidiary companies, 5 subsidiary companies are based in India and the remaining are based out of India.

The total Income on a standalone basis has grown from Rs.48, 945.10 lacs in 2004-2005 to Rs 55,731.18 lacs in 2005-2006. The net profit on a standalone basis has grown from Rs.1,116.83 lacs in 2004 – 2005 to Rs. 1,761.39 lacs in 2005-2006. Further, the total income on consolidated basis has grown from Rs.55,970.16 lacs in 2004-2005 to Rs.64,864.10 lacs in 2005-06. The net profit on a consolidated basis has grown from Rs.1,206.36 lacs in 2004 – 2005 to Rs. 1,954.50 lacs in 2005-2006.

**Main Objects: -**

1. To acquire and take over as a going concern and/or to purchase and/or to enter into partnership with SHRENUJ & COMPANY, a partnership firm carrying on business and activities of manufacturing, cleaving, sawing, cutting, polishing, processing, assorting and of buying, selling, importing, exporting, supplying, distributing, disposing and dealing as wholesalers for self and as agents and retailers in cut and uncut diamonds, industrial diamonds, Boart, cut and uncut precious and semiprecious stones and pearls and to act as recognised Export house and Trading house.
2. To buy, sell, import, export, supply, distribute, dispose and deal in bullion, gold, silver, platinum and precious metals and as gem merchants, goldsmiths, silversmiths, jewellers.

**Present Business : -**

Shrenuj and Company Limited was incorporated in the year 1982 .The Company mainly imports rough diamonds ,gets them cut, processed, polished through skilled artisans and exports them to major international markets.

Presently, the Company is carrying out the business activities of manufacturing and export of polished diamonds, studded and branded jewellery, jewellery retailing, development of distribution base across the globe, etc.The Company carries out these activities through its units set up at various parts in Mumbai.

Further, the Company has also diversified into jewellery manufacture. Through its consumer-focused strategies, there has been an expansion in the Company’s retailing and branding activities. Exports of branded jewellery Sveni and Bhavya is growing in the Middle East.The Company has moved further the value chain through innovative retailing and branding. The Company is developing a distribution base across the world for its generic diamonds and jewellery business and on the other hand it is developing jewellery retailing through its subsidiaries in Hong Kong.

The Company has nine subsidiary companies through which the company carries out its various activities as follows:

<b>Sr. No.</b>	<b>Name &amp; Address of the Subsidiary</b>	<b>Business activity of the Company</b>
1.	Moon Diamonds Limited G –35, Gem & Jewellery III, SEEPZ SEZ, Andheri – East, Mumbai – 400 093.	Jewellery manufacturing, sales and distribution
2.	Aditi Diamimpex Trading & Manufacturing Company Ltd. G –20, Gem & Jewellery II, SEEPZ SEZ, Andheri – East, Mumbai – 400 093.	Jewellery manufacturing, sales and distribution

3.	Shrenuj Overseas Limited 4/12, Sona Udyog Industrial Estate, Parsi Panchayat Road, Andheri – East, Mumbai – 400 069.	Proposed activities to commence.
4.	Lume Jewellery Limited 405, Dharam Palace, 100-103, N. S. Patkar Marg, Mumbai – 400 007.	Proposed activities to commence .
5.	Shrenuj DMCC Unit No. 106, Gold Land Building, Plot No. 113-453, Al-Daghaya, Deira Dubai (U.A.E.)	Diamond & Jewellery sales and distribution
6.	Shrenuj (Mauritius) Private Ltd. St. James Court, Suite 308, St. Denis Street, Port Louis, Republic of Mauritius	Investment company
7.	Daily Jewellery Limited 5/F, Kaiseng Commercial Centre, 4/6, Hankow Road, Tsim Sha Tsui, Kln.	Jewellery manufacturing and retailing
8.	Astral USA, Inc. 3500 South Du Pont Highway, In the city of Dover (DE 19901) Country of Kent, State of Delaware.	Investment company
9.	S. N. Jewellery Pvt. Ltd. 4/12, Sona Udyog Industrial Estate, Parsi Panchayat Road, Andheri – East, Mumbai – 400 069.	Proposed activities to commence .

**2. Abridged Financial Information: Abridged Financial Information for the last five years in respect of the Company and its subsidiaries:**

**a) Abridged Financial Information of the Company :**

**BALANCE SHEET AS AT**

PARTICULARS	(Rs. In Lacs)				
	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002
<b>SHAREHOLDERS' FUNDS</b>					
Share capital	1,090.61	1,090.61	1,090.61	1,090.61	1,090.61
Reserves & Surplus	11,632.29	10,306.13	9,567.15	8,417.02	7,864.67
<b>Total</b>	<b>12,722.90</b>	<b>11,396.74</b>	<b>10,657.76</b>	<b>9,507.63</b>	<b>8,955.28</b>
<b>LOAN FUNDS</b>					
Secured Loans	34,046.16	24,767.33	22,268.58	16,307.54	10,609.98

Unsecured Loans		498.83	959.19	577.64	616.87	196.65
<b>Total</b>		<b>34,544.99</b>	<b>25,726.52</b>	<b>22,846.22</b>	<b>16,924.41</b>	<b>10,806.63</b>
Deferred Tax (Assets)/ Liabilities		395.61	331.76	227.24	107.26	21.23
<b>TOTAL</b>		<b>47,663.50</b>	<b>37,455.02</b>	<b>33,731.22</b>	<b>26,539.30</b>	<b>19,783.14</b>
<b>APPLICATION OF FUNDS</b>						
<b>Fixed Assets</b>						
Gross Block		6,324.66	5,967.71	4,730.71	4,465.71	1,910.69
Less: Depreciation		1,136.20	871.95	678.16	504.25	411.64
Net Block		5,188.46	5,095.76	4,052.55	3,961.46	1,499.05
Capital Work in Progress		322.75	345.77	261.13	217.11	1,216.82
<b>Total</b>		<b>5,511.21</b>	<b>5,441.53</b>	<b>4,313.68</b>	<b>4,178.57</b>	<b>2,715.87</b>
Investments		1,515.05	287.95	282.95	134.43	126.51
Current Assets Loans & Advances						
Inventories		26,711.61	20,225.84	15,989.91	14,683.76	10,262.00
Sundry Debtors		20,256.71	13,184.19	12,016.26	8,998.80	7,861.61
Cash & Bank Balances		598.36	1,043.45	585.17	151.88	260.28
Loans & Advances and other Current Assets		4,778.35	2,758.83	4,259.60	2,088.00	926.02
Total	A	52,345.03	37,212.31	32,850.94	25,922.44	19,309.91
Current Liabilities & Provisions						
Current Liabilities		9,254.71	4,019.25	2,836.76	3,093.87	1,882.28
Provisions		2,453.08	1,467.52	879.59	602.27	486.87
Total	B	11,707.79	5,486.77	3,716.35	3,696.14	2,369.15
Net Current Assets (A-B)		40,637.24	31,725.54	29,134.59	22,226.30	16,940.76
Miscellaneous Expenditure		-	-	-	-	-
<b>TOTAL</b>		<b>47,663.50</b>	<b>37,455.02</b>	<b>33,731.22</b>	<b>26,539.30</b>	<b>19,783.14</b>

#### PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED

(Rupees in lacs)

PARTICULARS	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002
<b>Income</b>					
Sales & Services	55,653.56	48,945.10	40,973.98	29,393.69	25,748.98
Other Income	77.62	0.04	17.14	9.00	24.85
<b>Total Income</b>	<b>55,731.18</b>	<b>48,945.14</b>	<b>40,991.12</b>	<b>29,402.69</b>	<b>25,773.83</b>
<b>Expenditure</b>					
Material Cost & Manufacturing Other Expense	45,514.32	39,768.15	33,360.69	23,978.36	21,170.67
Interest	1,996.19	1,607.61	1,677.82	1,255.17	982.90
Depreciation	294.57	259.07	205.95	145.09	69.57
<b>Total</b>	<b>52,990.94</b>	<b>47,212.79</b>	<b>39,764.42</b>	<b>28,573.63</b>	<b>24,866.99</b>

Profit Before Taxation	2,740.24	1,732.35	1,226.70	829.06	906.84
Less: Provision for Taxation					
Current	875.00	511.00	231.00	120.00	90.00
Fringe Benefit Tax	40.00	-	-	-	-
Deferred	63.85	104.52	119.97	86.03	21.88
<b>Profit After Taxation</b>	<b>1,761.39</b>	<b>1,116.83</b>	<b>875.73</b>	<b>623.03</b>	<b>794.96</b>
Add: Balance B/f	1,362.54	1,318.78	1,300.63	1,010.58	1,028.56
Total	3,123.93	2,435.61	2,176.36	1,633.61	1,823.52
<b>Appropriations</b>					
Transfer to General Reserve	1,084.48	700.00	550.00	62.30	550.00
Proposed Dividend	381.72	327.18	272.65	239.94	262.94
Tax on Proposed Dividend	53.51	45.89	34.93	30.74	-
Balance Carried to Balance Sheet	1,604.22	1,362.54	1,318.78	1,300.63	1,010.58
Total	3,123.93	2,435.61	2,176.36	1,633.61	1,823.52
Earnings per share					
Basic & <i>Diluted</i>	3.23	2.05	8.03	5.71	8.16

*Note: Figures of previous years are regrouped*

**b) Abridged Consolidated Financial Information of the Company and its subsidiaries:**

**CONSOLIDATED BALANCE SHEET AS AT**

PARTICULARS OF FUNDS	(Rupees in lacs)				
	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002
<b>SHAREHOLDERS' FUNDS</b>					
Share capital	1,090.61	1,090.61	1,090.61	1,090.61	1,090.61
Reserves & Surplus	12,497.65	10,951.59	10,122.90	9,004.72	8,370.91
Minority Interest	222.33	99.48	91.00	0.00	0.00
Total	13,810.59	12,141.68	11,304.51	10,095.33	9,461.52
<b>LOAN FUNDS</b>					
Secured Loans	37,906.65	26,655.95	23,275.76	17,090.79	11,204.56
Unsecured Loans	686.55	959.19	580.17	616.87	196.65
<b>Total</b>	<b>38,593.20</b>	<b>27,615.14</b>	<b>23,855.93</b>	<b>17,707.66</b>	<b>11,401.21</b>
Deferred Tax (Assets)/ Liabilities	465.60	398.77	276.38	157.26	68.23
<b>TOTAL</b>	<b>52,869.39</b>	<b>40,155.59</b>	<b>35,436.82</b>	<b>27,960.25</b>	<b>20,930.96</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	8,242.39	7,061.39	5,230.61	4,872.41	2,303.30

Less: Depreciation	1,531.91	1139.01	853.02	637.55	519.78
Net Block	6,710.48	5,922.38	4,377.59	4,234.86	1,783.52
Capital Work in Progress	388.97	345.77	356.79	217.11	1,216.82
Total	7099.45	6,268.15	4,734.38	4,451.97	3,000.34
Investments	905.72	1.11	0.25	2.94	0.00
Current Assets Loans & Advances					
Inventories	32,844.85	22,468.53	17,449.53	15,621.68	10,881.48
Sundry Debtors	22,890.25	15,767.87	14,369.80	10,317.96	9,176.21
Cash & Bank Balances	1070.12	1,454.47	646.76	189.74	291.76
Loans & Advances and other Current Assets	3,431.80	1,488.13	3905.71	1,746.26	351.02
Total	60,237.02	41,179.00	33,371.80	27,875.64	20,700.47
Current Liabilities & Provisions					
Current Liabilities	12,807.49	5,775.22	4,776.04	3,757.47	2,276.95
Provisions	2,565.31	1,517.45	893.57	614.54	494.61
Total	15,372.80	7,292.67	5,669.61	4,372.01	2,771.56
New Current Assets	44,864.22	33,886.33	30,702.19	23,503.63	17,928.91
Miscellaneous Expenditure	0.00	0.00	0.00	1.71	1.71
<b>TOTAL</b>	<b>52,869.39</b>	<b>40,155.59</b>	<b>35,436.82</b>	<b>27,960.25</b>	<b>20,930.96</b>

**CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED**

(Rupees in lacs)

PARTICULARS	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002
<b>Income</b>					
Sales & Services	64,780.48	55,827.54	46,255.61	31,852.92	28,026.94
Other Income	83.62	142.62	20.20	13.79	25.59
<b>Total Income</b>	<b>64,864.10</b>	<b>55,970.16</b>	<b>46,275.81</b>	<b>31,866.71</b>	<b>28,052.53</b>
<b>Expenditure</b>					
Material Cost Manufacturing & Other Expense	51,553.89	44,647.76	37,595.22	25,906.91	22,876.34
Interest	7,759.05	7,390.50	5,553.40	3,547.93	3,040.41
Depreciation	2,219.65	1,699.43	1,742.84	1,322.60	1,039.24
<b>Total</b>	<b>61,955.80</b>	<b>54,088.98</b>	<b>45,143.88</b>	<b>30,947.69</b>	<b>27,050.08</b>
Profit Before Taxation	2,908.30	1,881.18	1,131.93	919.02	1002.45
Less: Provision for Taxation					
Current Tax	928.20	545.00	231.01	125.50	93.01

Fringe Benefit Tax	43.10	0.00	0.00	0.00	0.00
Deferred	66.83	122.39	119.12	89.03	24.13
<b>Profit After Taxation</b>	<b>1,870.17</b>	<b>1,213.79</b>	<b>781.80</b>	<b>704.49</b>	<b>885.31</b>
Share of Loss in Associate	(2.45)	0.00	0.00	0.00	0.00
Add/(Less) : Minority Interest	86.78	(7.43)	57.67	0.00	0.00
Profit After Taxation	1,954.50	1206.36	839.47	0.00	0.00
Tax in respect of earlier years	(3.00)	0.00	0.00	0.00	0.00
	1,951.50	1206.36	839.47	704.49	885.31
Add: Balance B/fd	2,003.11	1,870.13	1,888.23	1,516.72	1,583.95
Less : Goodwill	0.00	(0.31)	0.00	0.00	94.77
Deferred Tax	0.00	0.00	0.00	0.00	44.75
Capital Reserve	0.00	0.00	0.00	0.00	0.08
<b>Total</b>	<b>3,954.61</b>	<b>3,076.18</b>	<b>2,727.70</b>	<b>2,221.21</b>	<b>2,329.66</b>
<b>Appropriations</b>					
Transfer to General Reserve	1,084.48	700.00	549.99	62.30	550.00
Proposed Dividend	381.72	327.18	272.65	239.94	262.94
Tax on Proposed Dividend	53.51	45.89	34.93	30.74	0.00
Balance Carried to Balance Sheet	2, 434.90	2,003.11	1,870.13	1,888.23	1,516.72
<b>Total</b>	<b>3,954.61</b>	<b>3076.18</b>	<b>2,727.70</b>	<b>2,221.21</b>	<b>2,329.66</b>
Earnings per share					
					9.09
Basic & Diluted	3.58	2.21	7.70	6.46	8.73

*Note: Figures of previous years are regrouped*

### 3. Risk Factors:

**The risks and uncertainties include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in Diamond and jewellery industry including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, client concentration, our ability to manage marketing & sales operations, liability for damages on our service contracts, the success of the companies in which the Company has made strategic investments, change in current tax structure, political instability and general economic conditions affecting our industry.**

**Some of the risks are normal to the nature of industry in which the Company operates and some others are beyond the control of the Company.**

#### 1. We face significant competition in our business from Indian and international diamond and jewellery manufacturing and retailing companies.

We sell our diamonds and jewellery products in highly competitive markets, and competition in these markets is based primarily on the quality, design, availability and pricing of such products. To remain competitive in our markets, we must continuously

strive to reduce our cost in respect of procurement, production and distribution costs and improve our operating efficiencies. If we fail to do so, other producers of diamonds and jewellery may be able to sell their products at prices lower than our prices, which would have an adverse impact on our market share and results of operations. We compete with various diamond and jewellery manufacturing companies including companies that are sightholders with Diamond Trading Company Limited (DTC). Current and potential competitors include independent jewellery stores, retail jewellery store chains, online retailers that sell jewellery, department stores, chain stores and mass retailers, and discounters and wholesale diamond traders that may enter the retail markets in the future. Because of the continued focus on branding and retail sales under DTC's Supplier of Choice program and the higher margins associated with branded jewellery sales as compared to the sale of processed diamonds, other DTC sightholders may enter the business of retailing of branded jewellery. In addition, any deregulation in restrictions on foreign ownership in the retail sector by the Government of India could bring new competition to the Indian market. Some of our current and potential competitors have advantages over us, including longer operating histories, greater brand recognition, existing customer relationships, and significantly greater financial, marketing and other resources, all of which could have a material adverse effect on our results of operations and financial condition. They may also benefit from greater economies of scale and operating efficiencies. There can be no assurance that we can continue to effectively compete with such competitors in the future, and failure to compete effectively may have a material adverse effect on our business, financial condition and results of operations.

**2. Our future operating results are difficult to predict.**

Our operating results may fluctuate in the future due to a number of factors, many of which are beyond our control. Our results of operations during any fiscal year and from period to period are difficult to predict. Our business and results of operations may be adversely affected by, among other factors:

- demand for our products;
- our ability to retain existing customers or encourage repeat purchases;
- our ability to manage our inventory;
- consumer tastes and preferences for diamonds and fine jewellery;
- general economic conditions;
- advertising and other marketing costs;
- the costs to acquire rough diamonds and precious metals;
- our, or our competitors' pricing and marketing strategies; and
- conditions or trends in the diamond and fine jewellery industry.

Unfavorable changes in any of the above factors may significantly affect our business and results of operations, which may vary significantly from the expectations of shareholders.

**3. We rely exclusively on the sale of diamonds and fine jewellery for our sales, and demand for these products could decline.**

Luxury products, such as diamonds and fine jewellery, form part of the discretionary purchases for consumers. The volume and value of such purchases may significantly decrease during economic downturns. The success of our business depends partly on macroeconomic factors such as economic growth, employment levels, income levels, tax rates and credit availability, all of which affect consumer spending and disposable income. Any reduction in consumer spending or disposable income may affect us more significantly than companies in other industries. Our sales and results of operations are highly dependent on the demand for diamonds and diamond jewellery. Should the consumer tastes for diamonds and jewellery decline, demand for our products would decline and our business and results of operations would be adversely affected. Our jewellery offerings must reflect the tastes and preferences of a wide range of consumers

whose preferences may change regularly. Our strategy has been to offer a wide variety of styles of fine jewellery, but there can be no assurance that these styles will continue to be popular with consumers in the future. If the styles we offer become less popular with consumers and we are not able to adjust our inventory in a timely manner, our sales may decline or fail to meet expected levels.

**4. We are subject to international market and regulatory risks.**

Developments in the international diamonds and jewellery markets could have an impact on our export sales. From time to time, tariffs, quotas and other tariff and non-tariff trade barriers may be imposed on our products in jurisdictions in which we operate and/or seek to sell our products. There can be no assurance that the United States or any other jurisdiction in which we seek to sell our products will not impose trade restrictions in the future. Any such imposition of trade barriers may have a material adverse effect on our financial condition and results of operations.

**5. We are subject to risks arising from currency exchange rate fluctuations, which could adversely affect our business, financial condition and results of operations.**

Changes in currency exchange rates influence our results of operations. We report results in our consolidated financial statements in Indian rupees, while significant portions of our revenues and expenses are denominated in currencies other than Indian rupees, most significantly the U.S. dollar. Almost all of our rough diamonds purchases and our exports are denominated in U.S. dollars. In fiscal 2006, approximately 95.00% of our total income was by way of export in foreign currencies 71% of our total expenditure was towards import of raw materials. Accordingly, while our operations provide a degree of natural hedge protection against currency exchange fluctuations, to the extent that our income and expenditure are not denominated in the same currency, exchange rate fluctuations could cause some of our costs to increase more than the proportionate revenues on a given contract. The exchange rate between the Indian rupee and the U.S. dollar has changed substantially in recent years and may continue to fluctuate significantly in the future. While we enter into currency hedging arrangements as part of our treasury operations, there can be no assurance that these arrangements will successfully protect us from losses due to fluctuations in currency exchange rates.

- 4. Continuing Disclosures:** The Optionee will receive copies of all documents that are sent to the members of the Company. This shall include the annual accounts of the Company as well as notices of meetings and the accompanying explanatory statements.

**Part C: Salient Features of the Scheme**

This Scheme is pursuant to and under the authority granted / to be granted in terms of approval by the Shareholders through Postal ballot of the Company and in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines 1999 (hereinafter referred to as 'the ESOP Guidelines'), prescribed by the Securities and Exchange Board of India.

This Scheme shall be called the "**SHRENUJ ESOS - 2006**".

The Scheme applies to all permanent employees, in whole time employment of the Company and its subsidiaries, and eligible Directors of the Company, whether working in India or abroad. The Compensation Committee of Directors of the Company would decide the entitlement of each employee based on his/her level, grade and seniority.

The eligible Directors of the Company shall each be granted Stock Options not exceeding 1% of the issued, subscribed and paid - up share capital of the Company or 1% of then existing issued, subscribed and paid-up equity share capital of the Company whichever is higher under the Scheme.

It shall be deemed to have come into force on \_6<sup>th</sup> February, 2007.

**Definitions:**

In this Scheme, unless the context otherwise requires,

- a. "**Board**" means the Board of Directors for the time being of the Company.
- b. "**Company**" means Shrenuj & Company Limited and any successor Company thereof.
- c. "**Compensation Committee**" means a Committee of Directors of the Company as constituted by the Board of Directors of the Company consisting of a majority of independent Directors and entrusted with the authority to formulate, implement and administer the SHRENUJ ESOS 2006.
- d. "**Eligible Director**" means a member of the Board of Directors of the Company who is eligible to get stock options under the ESOP Guidelines.
- e. "**Employee**" means a permanent Employee of the Company or its subsidiaries, whether working in India or abroad.
- f. "**ESOP Guidelines**" means the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
- g. "**Exercise**" is the act of a written application being made by the Eligible Employee to the Company to convert the vested options into Equity Shares upon payment of the Exercise Price as per the terms of issue.
- h. "**Exercise Application**" means the application for exercising vested options as may be prescribed from time to time.
- i. "**Exercise Price**" means, the price at which an Optionee is entitled to subscribe to the shares arising out of the Options granted to him under ESOS 2006.
- j. "**Grant**" means the process whereby the Compensation Committee passes a resolution granting a specified number of Options to the employees and/or Directors, under the ESOS 2006.
- k. "**Letter of grant**" means the letter issued by the Company intimating the employee/Director of the Options granted to him for acquiring a specified number of shares at the exercise price.
- l. "**Option**" means a stock Option granted by the Company pursuant to the Scheme, which would be convertible into Equity shares of the Company. This is a right but not an obligation granted to an Employee/Director under the Scheme to apply for and be allotted Equity shares of the Company at a predetermined price (the Exercise Price), during or within the Exercise Period, subject to the requirements of vesting. Each Option granted would represent the right to apply for one equity share of the Company of the face value of Rs.2/- per share.
- m. "**Optionee**" means the holder of an outstanding Option granted pursuant to this Scheme.
- n. "**Scheme**" means Shrenuj ESOS 2006
- o. "**Share**" means the Equity share of the Company of a face value of Rs.2/- each.
- p. "**Vesting period**," means the period, from the date of grant of Options till the date on which the Optionee becomes eligible to exercise the Options.

- q. **“Vested Option”** means an Option in respect of which the relevant vesting period is over.
- r. **“Unvested Option”** means an Option in respect of which the relevant vesting period is not over.

**All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Guidelines issued by The Securities and Exchange Board of India Act, 1992 or the Securities Contracts (Regulation) Act, 1956 or the Companies Act 1956, SEBI Guidelines on Disclosure and Investor Protection or any statutory modification or re-enactment thereof, as the case may be.**

#### **I. The main Objectives of the Scheme:**

1. To recognize and reward the efforts of employees and their continued association with the Company.
2. To introduce an objective component of employee compensation which would provide a direct linkage to the efforts of the employees with a measurable and widely accepted criterion i.e. the share price of the Company. The Board envisages this to act as a motivational tool for the employees of the Company.
3. To keep long association with the Company.
4. Employee participation in shareholding of the Company.
5. To provide an opportunity to the employees to develop a sense of ownership of the Company through their shareholding.
6. To provide the employees an incentive to continue and strengthen their association with the Company so as to result in long term benefits to the Company as well as the employee – shareowner.
7. Bring long-term value to the shareholders. Motivate senior employees to better the Company’s performance continuously.

#### **II. Duration of the Scheme:**

The options will be granted within three years.

#### **III. Quantum of Options under the Scheme:**

**27,26,537** Options equivalent to approx. 5% of the issued, subscribed and paid - up share capital of the Company or 5% of then existing issued, subscribed and paid-up equity share capital of the Company whichever is higher spread over a period of three years.

#### **IV. Vesting Period:**

The options shall vest after a minimum period of one year from the date of grant or as may be decided by the Compensation Committee, whichever is later.

#### **V. Grant of Options:**

A one time grant of options will be made to the existing employees as decided by the Compensation Committee. The grant of options may also be made on a quarterly basis to eligible employees who newly join the Company, or as the case may be, the subsidiaries of the

Company. The number of options granted to each participant shall be determined by the Committee based on the following

- Grade and length of service
- Performance
- Criticality of Skills
- Such other factors as the Committee may deem relevant.

A one time grant not exceeding 1% of issued, subscribed and paid - up share capital of the Company or 1% of then existing issued, subscribed and paid-up equity share capital of the Company whichever is higher will be made to each of the eligible Directors of the Company.

#### **VI. Exercise Period:**

The vested options shall be exercisable within a period of two years from the date of vesting.

#### **VII. Vesting of the Options after Grant:**

Vesting will start only after one year from the date of grant or after such period as may be decided by the Compensation Committee, whichever is later, provided the employee is in continuous employment and has not served any notice of resignation. The number of options to be vested will depend on the achievement of revenue and profit targets set by the Company and the performance of the employee. Thus, it is possible that only some or even none of the options granted may vest in the employees. The Compensation Committee shall be empowered to decide the parameters and number of options that may vest in each employee upon the achievement of targets and the performance of the employee.

Furthermore, the Compensation Committee is empowered to amend or modify such targets at its sole discretion from time to time taking into account all relevant factors, including but not limited to, the market conditions then prevailing; the business environment; regulatory environment; impact of acquisitions and consolidation, if any. The decision of the Compensation Committee with regard to the terms under which options will vest shall be final and binding on the employee.

As on date, the consolidated revenue target set by the Compensation Committee in consultation with the management of the Company is between Rs. 850 crs. and Rs. 900 crs. for the year ending on March 31, 2007; and the EBIDTA target has been set at between 7% and 9% of the corresponding consolidated revenue.

**IMPORTANT DISCLAIMER: THE TARGET OF CONSOLIDATED REVENUE AND PROFIT BEFORE TAX ARE ONLY INTERNAL TARGETS OF THE COMPANY. THESE CANNOT BE TREATED AS A “GUIDANCE” OR ANY ATTEMPT TO FORECAST THE FUTURE PERFORMANCE OF THE COMPANY.**

For the purpose of targets:

- a. Consolidated Revenue would mean the total consolidated revenue including other income of the Company and its subsidiaries for the financial year ended March 31, 2007.
- b. Consolidated Profit before Tax would mean the consolidated profit before tax, prior period and extraordinary items, and adjustment for minority interest in net profit of the subsidiaries for the financial year ending March 31, 2007 as approved by the shareholders following the close of the financial year ending March 31, 2007.

The options would vest in a Director only if he/she continues to remain a Director of the Company on the date of the vesting of the options.

### **VIII. Exercise Price:**

The exercise price for the purpose of the grant of Option shall be the 'market price' within the meaning set out in the Guidelines, i.e., the latest available closing price, prior to the date when Options are granted, of the Stock Exchange where there is highest trading volume on the said date or such other price as may be decided by the Compensation Committee, in accordance with the Guidelines, from time to time.

### **IX. Other Terms and Conditions:**

1. The Compensation Committee shall, based on the recommendations of the Management, determine the exact allocation and eligibility criteria, the entitlement of employees etc. in respect of different categories of employees.
2. While leaving the Company by way of resignation, an Optionee will be entitled to exercise, before leaving the Company, all Options which vested prior to the starting of the notice period. Such an employee shall be required to surrender all unvested and unexercised Options before leaving the Company.

In the event of termination of employment on grounds of misconduct, the options shall lapse, whether or not they are vested.

3. An Optionee can carry forward the unexercised vested options throughout the exercise period. At the end of the exercise period, all unexercised options will lapse.
4. Each option shall be convertible into 1 equity share of Rs.2/- each at the exercise price.
5. The equity shares resulting from such conversion shall be subject to lock-in of one year..
6. The equity shares resulting from such conversion shall rank pari-passu in all respects with the existing equity shares of the Company.
7. In the event of any bonus/split/rights issue of equity shares, the entitlement of shares will be suitably revised.
8. In the event, there is a Change of Control, the Optionee shall be eligible to exercise forthwith the minimum number of Options entitled. For the purpose of this clause, "Change of Control" means any person or entity (or group of affiliated persons or entities) acquiring, in one or more transactions, ownership of 50% or more of the outstanding Equity Share Capital of the Company OR any sale, transfer or other conveyance of all or substantially all of the Company's assets in one transaction or a series of related transactions.
9. In the event, there is dilution of equity pursuant to any corporate restructuring/merger/acquisition, the Compensation Committee of Directors of the Company shall be empowered to make pro-rata adjustment in the entitlement of Options.
10. The issue of shares upon exercise shall only be in Demat form and it can be for any number of vested options.
11. The options and the rights of the holder thereunder are NOT TRANSFERABLE.
12. Optionee shall not be construed as a member of the Company and as such shall not be entitled to any rights and privileges applicable to the members of the Company, until conversion of options into equity shares as provided herein.

13. In the event of an Optionee ceasing to be an Employee/Director of the Company by reason of resignation or dismissal of employment due to reasons of non-performance or otherwise, the un-vested Options held by the Optionee shall forthwith lapse.
14. In the event of death of an Optionee all Options granted to him shall be transferred to the legal heirs / nominee of the Optionee and would vest immediately. The Options would be exercisable at any time within the exercise period.
15. In the event of “Permanent Incapacity” of an Optionee while in employment, all Options granted to him would vest immediately. The Options would be exercisable at any time within the exercise period. In the event of an Optionee being transferred to a subsidiary company at the instance of or with consent of the Company, the Optionee will continue to hold all vested Options and can exercise them anytime within the exercise period. All unvested Options shall vest as per the vesting schedule. The Options can be exercised at any time within the exercise period provided he continues to be an employee of the subsidiary.
16. The Optionee can opt for conversion of his Options by applying to the Company during the exercise period, by way of an “Exercise Application”.
17. The equity shares issued to the holder upon conversion of options shall be subject to the Memorandum and Articles of Association of the Company.
18. For allotment of shares in Demat form, Optionee shall be required to give his Depository Participant (D.P.) Code Number and Client I.D. Number and mention the names in application in the same manner and order as is/are registered with the Depository.
19. The Optionee, shall, on the exercise day, inform in writing (and not by email) the number of options in respect of which he/she wishes to exercise the option to convert the options into equity shares and send them to the Company Secretary with the relevant Option certificate and inform the Demat Account details giving Depository Participant (D.P.) No. and Client I.D. Account No., together with cheque/demand draft payable at Mumbai for an amount equal to the aggregate exercise price payable in respect of the options for which the conversion option is exercised. The cheque/demand draft must be drawn in favour of “Shrenuj & Company Limited”.

#### **X. Administration of the ESOS Scheme 2006:**

The Compensation Committee of the Board of Directors of the Company shall administer the Scheme. Without prejudice to the foregoing, the Compensation Committee shall inter-alia have authority to settle and decide the following and related matters:

- determining the Employees to whom the Options are to be granted;
- the time when the Options are to be granted;
- the quantum of Options to be granted at various points in time;
- the number of Options to be granted to each employee;
- the grant and vesting of options to the employees who are on long leave;
- determination of Exercise Price based on ‘Market Price’ as defined in ESOP Guidelines;
- the terms and conditions subject to which the Options granted would vest in the employee;

- the date of vesting of the Options granted;
- the terms and conditions subject to which the Options vested could be exercised by the Optionee;
- the date within which the Options have to be exercised by the Optionee;
- the number of Options to be apportioned / allocated for various grades of employees;
- deciding the treatment of unvested Options upon termination of employment;
- deciding adjustments to grant size and exercise price of Options in case of bonus issue or rights issue or share split or consolidation of shares;
- deciding on disallowance of Options in case of misconduct on the part of Optionee;
- obtaining permissions from, making periodic reports to regulatory authorities, as may be required and ensuring compliance with all guidelines applicable to the Scheme;
- framing suitable policies and systems to ensure that there is no violation by any optionee of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, the Securities Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997; and
- framing appropriate procedures for granting, vesting and exercising of Options, amend and rescind rules and regulations relating to the scheme.

The terms prescribed by the Compensation Committee shall be final and binding on all the employees.

#### **XI. Governmental Regulations:**

This Scheme shall be subject to all applicable laws, rules, and regulations and to such approvals of any governmental agencies as may be required. The allotment/grant of shares/Options under this Scheme shall entitle the Company to require the Optionee to comply with such requirements of Law as may be necessary in the opinion of the Company.

#### **XII. General Risks:**

Participation in this Scheme shall not be construed as any guarantee of return on the equity investment. Any loss due to fluctuations in the market price of the equity and the risks associated with the investments is that of the Optionee alone.

#### **XIII. Individual Limits for Grant of Options:**

No single Employee shall be granted Options to purchase more than 1% of the outstanding issued, subscribed and paid-up share capital of the Company as on the date of a grant, (excluding outstanding Options and conversion).

Notwithstanding the foregoing, the Compensation Committee may grant to the Employee/s Options to purchase Shares exceeding or equal to the abovementioned percentage of the outstanding issued share capital as on the date of the grant, (excluding outstanding Options and conversions) subject to the prior approval by the shareholders of the company.

#### **XIV. Listing of Shares:**

The shares issued on conversion of the Options shall be listed on all the stock exchanges where the Company's shares are listed and will be subject to terms and conditions of the listing agreements with the stock exchanges and the **SHRENUJ ESOS 2006**.

#### **XV. Accounting Policy:**

1. The Company shall conform to the accounting policies specified in the SEBI (ESOS & ESOS) Guidelines, 1999.
2. The Company shall use 'Intrinsic Value' method to value its options and to calculate employee compensation cost.
3. In case the Company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors' Report along with the impact of this difference on profits and on EPS of the Company.

#### **XVI. Tax Liability:**

- a. In the event of any tax liability arising on account of the issue of the Options/conversion into shares/sale of shares or any other event, to the Optionee the liability shall be that of the Optionee alone.
- b. In the event of any tax liability arising on account of the **Shrenuj ESOS 2006** to the Company, the Company on the advise of the Compensation Committee shall have the right to collect the same from the Optionees.

Optionees are advised to consult their respective tax advisors.

#### **XVII. Changes in the terms and Conditions of the SHRENUJ ESOS 2006:**

The Compensation Committee may at any time at its discretion change the terms and conditions of the **Shrenuj ESOS 2006** as long as it is within the legal framework prescribed by SEBI. This change however will not be to the detriment of the option holder or the allottee of shares under the **Shrenuj ESOS 2006**.

#### **XVIII. Confidentiality:**

- a. The Optionee who holds any Options / shares under the ESOS 2006 shall not divulge the details of the Scheme and his holding to any person except with the prior permission of the Company obtained in writing.
- b. The Optionee shall enter into such agreement, as the Company may desire from time to time to fully and effectively implement this Scheme.

#### **XIX. Contract of Employment:**

- a. Nothing in this Scheme shall be construed as affording such an individual any additional rights as to compensation or damages in consequence of the termination of such office or employment for any reason.

- b. This Scheme shall not confer on any person any legal or equitable rights against the Company either directly or indirectly or give rise to any cause of action in law or equity against the Company.
- c. This Scheme is purely at the discretion of the Company.

#### **XX. Arbitration**

All disputes and claims in relation to this Scheme shall be referred to arbitration in accordance with the Arbitration & Conciliation Act, 1996, which shall be conducted at Mumbai, in accordance with the Arbitration & Conciliation Act, 1996.

#### **XXI. Interpretation:**

Any dispute, discrepancy or disagreement which shall arise under, or as a result of, or pursuant to, or in connection with this Scheme shall be referred to the Compensation Committee and shall be determined by the Compensation Committee and any such determination / decision / interpretation by the Compensation Committee shall be final and binding on all persons affected thereby.

For **Shrenuj & Company Limited**  
*Chairman*  
Mumbai

24<sup>th</sup> November, 2006

It shall be deemed to have come into force on 6<sup>th</sup> February, 2007.