



Goldiam International Ltd

MANUFACTURERS & EXPORTERS OF DIAMONDS & JEWELLERY

CIN:L36912MH1986PLC041203

Goldiam International Limited
Policy on Related Party Transactions
(Effective from October 1, 2014)

Registered Office

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1. Introduction

The Securities and Exchange Board of India has amended clause 49 of the Listing Agreement vide its circular bearing no. CIR/CFD/Policy Cell/2/2014 dated April 17, 2014 and also vide circular bearing no. CIR/CFD/Policy Cell/7/2014 dated September 15, 2014. These amendments *inter alia* require each company to formulate a policy on materiality of Related Party Transactions and also on dealing with Related Party Transactions.

In addition, set of policies and procedures dealing with Related Party Transactions do require to comply with the relevant provisions of the Companies Act, 2013 (“the Act”).

Accordingly, the Board of Directors (the Board) of Goldiam International Limited (“the Company”) has adopted the following policy and procedures with regard to Related Party Transactions. This policy will be applicable to all the transactions that the Company may propose to enter into on or after October 1, 2014 with its Related Parties.

All material related party contracts or arrangements entered into prior to October 1, 2014 and likely to continue beyond March 31, 2015 would be placed for approval of the shareholders in the first General Meeting subsequent to October 01, 2014. This Policy does not deal with such material related party contracts or arrangements. However, such existing contracts or arrangements would be considered as material if the contracts or arrangements to be entered into individually or taken together with previous contracts or arrangements during a financial year exceed ten percent of the annual consolidated turnover of the Company as per the audited financial statements of the Company for the financial year 2013-2014.

2. Objective

The Company is mainly engaged in the business of Manufactures & Exports of Diamonds & Jewellery. As a part of the business activity, the Company deals with entities which are related parties. This policy is to regulate transactions between the Company and its Related Parties based on the applicable laws and regulations. The purpose of this policy is to lay down the guiding principles, mechanism and approvals of different bodies and reporting framework. Such transactions are appropriate only if they are in the best interest of the Company and its shareholders.

3. Definitions

- 3.1 **The Act** means the Companies Act, 2013 and rules made thereunder including any amendments made thereto.
- 3.2 **Audit Committee** means Committee of Board of Directors of the Company constituted under provisions of Listing agreement and the Act.
- 3.3 **Arm’s Length Transaction** means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- 3.4 **Board of Director or Board** means the Board of Directors of the Company, as constituted from time to time.
- 3.5 **Material Related Party Transaction** means a transaction with a Related Party if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year exceed ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

- 3.6 **Policy** means Policy on Related Party Transactions.
- 3.7 **Related Party** means related party as defined in Clause 49 of the Listing Agreement which is as follows:
An entity shall be considered as related to the company if:
(i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or
(ii) Such entity is a related party under the applicable accounting standards.
- 3.8 **Related Party Transaction** means any transaction, whether single or group of transactions in a contract, directly or indirectly, involving any Related Party which is a transfer of resources, services or obligations between a Company and a Related Party, regardless of whether a price is charged.
- 3.9 **Relative** means relative as defined under section 2 (77) of the Act or rules made there under.
- 3.10 **Specified Related Party Transaction** means contract or arrangement with a related party with respect to:
a. sale, purchase or supply of any goods or materials;
b. selling or otherwise disposing of, or buying, property of any kind;
c. leasing of property of any kind;
d. availing or rendering of any services;
e. appointment of any agent for purchase or sale of goods, materials, services or property;
f. such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
g. underwriting the subscription of any securities or derivatives thereof, of the Company
- 3.11 Words and expressions used and not defined in this Policy but defined in the Listing Agreement with Stock Exchanges, the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the Act or the Accounting Standards issued under section 133 of the Act shall have the meanings respectively assigned to them in those Acts / Accounting Standards. In the event, such words or expressions are defined at more than one place, and then the meaning stricter of all should be assigned to them.

4. Policy

4.1 Review and approval of Related Party Transactions

- 4.1.1. All Related Party Transactions shall be reported to the Audit Committee for its approval in accordance with this Policy. However, the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company in terms of principle laid down in this Policy and on satisfaction of following conditions:
- Related Party Transactions are repetitive in nature.
 - Such omnibus approval is in the interest of the Company.
 - The name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, (ii) the indicative base price / current

contracted price and the formula for variation in the price if any and (iii) such other conditions as the Audit Committee may deem fit shall be specified;

Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding ₹1 crore per transaction.

- d) The details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given by the Audit Committee shall be submitted to Audit Committee at least on a quarterly basis for their review.
- e) The validity of such approval shall not exceed a period in excess of one year and shall require fresh approvals after the expiry of one year.
- f) Nothing in this sub-clause 4.1.1 as above, shall apply to the transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.

4.1.2. In addition, if the Related Party Transaction proposed to be entered into by the Company is Specified Related Party Transaction and is not in ordinary course of business of the Company or is not an Arm's Length Transaction, then such transaction shall not be entered into except with the consent of the Board of Directors given by a resolution at a meeting of the Board.

4.1.3. In addition, in the event, the Specified Related Party Transaction referred to in Para 4.1.2 of the Policy falls within the criteria laid down in Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014, as may be amended from time to time, then such transactions shall not be entered into except with the prior approval of the shareholders by a special resolution.

The criteria laid down in Sub-rule (3) of Rule 15 is as under:

- (a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188, with criteria as mentioned below :
 - (i) sale, purchase or supply of any goods or materials, directly or through appointment of agent, exceeding ten per cent. of the turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;
 - (ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, exceeding ten per cent. of net worth of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;
 - (iii) leasing of property of any kind exceeding ten per cent. of the net worth of the company or ten percent. of turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188;
 - (iv) availing or rendering of any services, directly or through appointment of agent, exceeding ten per cent. of the turnover of the company or rupees fifty crore, whichever is lower, as mentioned in clause (d) and clause(e) respectively of sub-section (1) of section 188:

Explanation.—It is hereby clarified that the limits specified in sub-clauses (i) to (iv) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

- (b) is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and half lakh rupees as mentioned in clause (f) of subsection(1) of section 188; or
- (c) is for remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding one percent (1%) of the net worth as mentioned in clause (g) of sub-section (1) of section 188.

Explanation.- (1) The Turnover or Net Worth referred in the above sub-rules shall be computed on the basis of the Audited Financial Statement of the preceding Financial year.

4.1.4. Without prejudice to what is stated in para 4.1.2 and 4.1.3 of the Policy, if Related Party Transaction is a Material Related Party Transaction then such transactions shall not be entered into except with the approval of the shareholders by a special resolution. Accordingly, such Material Related Party Transactions would also require approval of the Board of the Company before the same are presented at the shareholders' meeting. However, the Material Related Party Transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval shall not require approval from shareholders.

4.1.5. Chief Financial Officer and / or such other person as may be directed by the Audit Committee shall provide the details of Related Party Transactions that would require approval of the Audit Committee with their recommendations and shall confirm to the Audit Committee that such details are exhaustive and it does not exclude any contract or arrangement required to be reported. Such details inter alia shall also provide the following:

- a. Name of the Related Parties and nature of relationship
- b. List of Specified Related Party Transactions
- c. List of Material Related Party Transactions
- d. List of Related Party Transactions which are in the ordinary course of business of the Company
- e. List of Related Party Transactions which are at Arm's Length Transaction
- f. Justification for entering which shall *inter alia* include terms of the transaction, business purpose of the transaction, benefits to the Company and to the Related Party, and any other relevant matters which shall include but would not be restricted to:
 - the nature, duration of the contract and particulars of the contract or arrangement;
 - the material terms of the contract or arrangement including the value, if any;
 - any advance paid or received for the contract or arrangement, if any;
 - the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
 - whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors;
 - the persons / authority approving the transaction; and

- any other information relevant or important for the Audit Committee to take a decision on the proposed transaction.

g. Justification that the Related Party Transactions is in ordinary course of business and is Arm's Length Transaction – wherever applicable.

4.1.6. In determining whether to approve a Related Party Transaction, the Audit Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

a. Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;

However, there is no guidance provided in the Act or the revised clause 49 to determine arm's length price. Pricing may not be the only determinant of a transaction being at arm's length though it is an important factor. Therefore, the Company would apply judgment to conclude whether a transaction can be considered to be on an arm's length basis. The following has been considered to be helpful in concluding whether a transaction is on an arm's length basis:

- The transaction is as per the prevailing price list / pricing policy / market price / at the same price (or margin) at which entered into with independent third parties
- The transaction is in line with third party quotations / bids from independent third parties
- Taking assistance of an expert – valuation specialist
- Principles under the transfer pricing guidelines (considering whether the pricing would be in line with what would have been charged to an unrelated party, without any conflict of interest)
- Transactions are on terms that are not unfavourable to the entity

Some of the cases covered in the examples in Standard on Auditing 550 on Related Parties (SA550) also cover pricing and therefore, will be considered relevant for arm's length pricing as well.

b. Whether there are any undue compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;

c. Whether the Related Party Transaction would affect the independence of the directors / Key Managerial Personnel;

d. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;

e. Where the ratification of the Related Party Transaction is allowed by law and is sought from the Audit Committee, the reason for not obtaining the prior approval of the Audit Committee and the relevance of business urgency and whether subsequent ratification would be detrimental to the Company;

f. Whether the Related Party transaction would present an improper conflict of interest for any director or Key Managerial Personnel of the Company, taking into account the size of

the transaction, the overall financial position of the director, executive officer or other Related Party, the direct or indirect nature of the director's, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board / Committee deems relevant.

- g. Whether the Related Party Transaction is in the ordinary course of business.

The term ordinary course of business is not defined under the Act or the Rules there under. Therefore, it would depend on facts and circumstances of each case. The Company would therefore, exercise judgment to conclude whether a transaction can be considered to be in the ordinary course of business. The following factors to be relevant in deciding "ordinary course of business".

- (1) The objects of the Company permit the activities undertaken;
- (2) There is a historical practice to conduct such activities;
- (3) There is a pattern of frequency to conduct such activities over a period of time and such activities are in the regular course of business; and
- (4) These transactions are common industrial practice.

Examples of transactions that the Company would consider to be in the ordinary course of business would include those that form part of the Revenue from Operations, the costs of goods sold and the normal expenses incurred for operating the business (considering the business rationale and without any complicated terms and conditions *as compared to* transactions with independent third parties).

A transaction proposed to be disclosed as part of other income or other expenses, exceptional or extraordinary will generally be assessed on a case to case basis as to whether it could be considered to be in the ordinary course of business.

Sharing of goods or services by an entity with other group companies based on 'cost sharing' is in the ordinary course of business if the goods / services so shared are not the entity's traded goods/services.

The Application and Other Explanatory Material of SA 550 on Related Parties issued by the ICAI provides examples of transactions that can be considered to be outside the entity's normal course of business (akin to ordinary course of business). Although these are not conclusive, they will be considered as guidance to be used, based on facts and circumstances, to conclude as to whether a transaction can be considered to be in the ordinary course of business.

The examples provided in SA 550 that may be considered to be outside the entity's normal course of business include:

- Complex equity transactions, such as corporate restructurings or acquisitions.
- Transactions with offshore entities in jurisdictions with weak corporate laws.
- The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
- Sales transactions with unusually large discounts or returns.

- Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- Transactions under contracts whose terms are changed before expiry.

4.1.7. If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for the Board to approve the Related Party Transaction (e.g. cases stated in 4.1.2 and 4.1.4 above), then the Board shall consider and approve the Related Party Transaction at a meeting and the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of Audit Committee or shareholders:

- a. Any transaction that involves the providing of compensation to a director or Key Managerial Personnel in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- b. Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.

4.2 Identification of potential Related Party Transactions

4.2.1 Each director of the Company and Key Managerial Personnel shall be responsible for providing notice to the Chief Financial Officer & Company Secretary of any potential Related Party Transaction involving him/ her or his / her Relative or of transaction involving the Company and other Related Parties. They shall also be responsible for providing additional information about the transaction that the Board/Audit Committee may request, for being placed before the Audit Committee / the Board / General Meeting, as the case may be.

4.2.2 The Board shall record the disclosure of interest and the Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

4.2.3 The Company strongly prefers to receive such notice of any potential Related Party Transaction well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.

4.2.4 To facilitate the implementation of this Policy, the Company shall maintain a register showing names of the Related Parties and the nature of relationship. The Managing Director, the Chief Financial Officer and the Company Secretary shall be jointly responsible for identifying the related parties and updating the register. For this purposes, they shall consider the declarations given by the directors in Form MBP 1 under section 184(1) of the Act and declarations given by the directors at the meeting of the Board in terms of section 184(2) of the Act. In addition, they shall examine and make necessary inquiry to identify other related parties based on investment made by the company in other entities as well as investment made in the Company by other entities / individuals.

4.3 Prohibitions related to Related Party Transactions

- 4.3.1 All Related Party Transactions shall be prohibited if the same are not in compliance of this Policy.
- 4.3.2 All the entities falling under the definition of Related Party shall abstain from voting on such resolutions at General Meeting irrespective of whether the entity is a party to particular transaction or not..
- 4.3.3 In case of Board Meeting, such related director shall abstain from attending such meeting under Rule 15(2) of the Companies (Meetings of Board and Its Power) Rule, 2014.

4.4 Decision regarding transaction in the ordinary course of business and on arm's length basis

The Audit Committee or the Board shall, in respect of the Related Party Transactions referred to them for approval, after considering the materials placed before them, shall judge if the transaction is in the ordinary course of business of the Company or is Arm's Length Transaction. In case the Audit Committee is not able to arrive at such a decision, the same shall be referred to the Board, which shall decide if the transaction is the ordinary course of business or at arm's length basis. In case the Board is not able to arrive at such a decision, the same shall be decided by the Independent Directors, whose decision shall be final.

5. Related Party Transactions not approved under this policy

In the event the Company becomes aware of a transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee under this Policy and failure of the internal control systems, and shall take any such action it deems appropriate.

In any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the Related Party etc. In connection with any review of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy, provided such modification or waiver is permissible under applicable law or regulations.

6. Audit Committee approval mechanism

Revised Clause 49 of the Listing Agreement requires that for a listed Company, all RPT's are to be pre-approved by the Audit Committee. Hence, before entering into a RPT, the Head of Accounting of each Division of the Company will collate all the relevant information about the contract/arrangement/ transaction viz., name of the related party and nature of relationship, nature of transaction etc.

Along with the above information, the CFO will prepare a management note with justification for entering into the contract/arrangement/transaction which will also include whether the transaction is in the ordinary course of business and at arm's length.

The following will require approval of the Audit Committee:

- a. One time approval of all existing related party contracts or arrangements that are subsisting as on April 1, 2014.
- b. All RPT's will be submitted to the Audit Committee for prior approval irrespective whether such transactions are in the ordinary course of business or at arm's length or not. Such prior approval will be required for every entity and every transaction.
- c. Where the Company has entered into a master agreement with a related party, which stipulates details of every transaction like nature of the transaction, basis of pricing, credit terms etc., the prior approval once given by the Audit Committee would suffice and Audit Committee would only note the transactions that are entered into pursuant to such master agreement and will not require any additional approval of the Audit Committee.
- d. Section 177 of the Act also requires that any modification to existing RPTs, are approved by the Audit Committee.

7. Board 's approval mechanism

The following Related Party Transactions will require approval of the Board of Directors:

- a. Specified Related Party Transaction which is not in the ordinary course of business but at arm's length.
- b. Specified Related Party Transaction which is in the ordinary course of business but not at arm's length
- c. Specified Related Party Transaction which is not in the ordinary course of business and not at arm's length basis.
- d. Material Related Party Transactions.

8. Shareholders' approval mechanism

The following Related Party Transactions will require approval of the Shareholders:

- a. Specified Related Party Transaction which is not in the ordinary course of business but at arm's length and it falls within the criteria laid down in Sub-rule 3 of Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014.
- b. Specified Related Party Transaction which is in the ordinary course of business but not at arm's length and it falls within the criteria laid down in aforesaid sub-rule.
- c. Specified Related Party Transaction which is not in the ordinary course of business and not at arm's length basis and it falls within the criteria laid down in aforesaid sub-rule.
- d. Material Related Party Transactions.

9. Disclosure

- a. The Company will disclose to the Stock Exchange along with the compliance report on corporate governance on a quarterly basis details of all material transactions with related parties.
- b. The Company will disclose the Policy on dealing with RPT's on its website www.goldiam.com and a weblink thereto in the Annual Report.

- c. Director's report will contain details of contracts or arrangements or transactions not at arm's length basis and material contracts or arrangement or transactions at arm's length basis.