

Celebrity Fashions Limited



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17th

ANNUAL REPORT 2005-06

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BOARD OF DIRECTORS

Mr. V. Rajagopal,	<i>Chairman and Managing Director</i>
Mrs. Rama Rajagopal,	<i>Executive Director</i>
Mr. S. Surya Narayanan,	<i>Executive Director</i>
Mr. P.S. Raman	
Mr. N.K. Ranganath	
Mrs. Nidhi Reddy	

MANAGEMENT TEAM

Executive Vice-President

Mr. Suresh Rajagopal	<i>Strategic Sourcing & Marketing</i>
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Chief Executive Officers

Mr. Rajeev Krishnan	<i>Exports – Tops Division</i>
Mr. Charath Narsimhan	<i>Domestic – Indian Terrain</i>
Mr. Sandeep Walia	<i>Exports – Bottoms Division</i>

Vice-Presidents

Mr. J.V.J. Franklin	<i>Operations</i>
Mr. Amitabh Suri	<i>Marketing & Product Development</i>
Mr. V.K. Vijayaraghavan	<i>Finance & Commercial</i>
Mr. V.S. Ganesh	<i>Operations</i>

Chief Operating Officer (Group)

Mr. Henry Mc Ivor	<i>Operations</i>
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Chief Operating Officer (Tops Division)

Mr. SriVenkatesa	<i>Marketing</i>
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General Managers

Mr. V. Sridharan	<i>Finance</i>
Mr. S. Shyam Sundar	<i>Human Resources</i>
Mr. Jairam S. Narayanan	<i>Administration</i>
Mr. John Dulip Kumar	<i>Merchandising</i>
Mr. Suresh S. Menon	<i>Administration</i>
Mr. N. Ramakrishnan	<i>Sourcing</i>
Mr. S. Saravanan	<i>Projects</i>
Mr. Kevin Plenty	<i>Operations</i>
Ms. Sonya Arora	<i>Merchandising</i>
Mr. Mukesh Sethi	<i>Marketing & Merchandising</i>



Celebrity Fashions Limited

COMPANY SECRETARY

Mr. V.V. Naresh

REGISTERED OFFICE

No. 107A, GST Road, Chrompet,
Chennai-600 044

CORPORATE OFFICE – INDIAN TERRAIN

No. 107A, GST Road, Chrompet,
Chennai-600 044

CORPORATE OFFICE – EXPORTS

SDF-IV, 3rd Main Road, MEPZ-SEZ,
Tambaram, Chennai-600 045

MEDIA SOLUTIONS PARTNER

Bennett Coleman & Co Ltd
(Times of India Group)
Nandanam, Chennai – 600 035.

STATUTORY AUDITORS

M/s. Anil Nair & Associates,
Egmore, Chennai-600 008
M/s. CNGSN & Associates,
T. Nagar, Chennai-600 017

INTERNAL AUDITORS

M/s. R. Venkatakrishnan & Associates,
R.A. Puram, Chennai-600 028

BANKERS

State Bank of India, Chennai-600 001
Citi Bank N.A., Chennai-600 002
Standard Chartered Bank, Chennai-600 001
HDFC Bank Limited, Chennai-600 002

LEGAL ADVISORS

Dua Associates
T. Nagar, Chennai-600 017

Manufacturing Facilities

No. 107A, GST Road,
Chrompet,
Chennai-600 044.

No. 85, Velachery Tambaram Road,
Pallikaranai,
Chennai-600 032.

No. 70/2 & 3A, Selaiyur Agaram Road,
Thiruvanchery,
Chennai-600 073.

No. 208, Velachery Tambaram Road,
Narayanapuram,
Pallikaranai,
Chennai-601 302

Plot Nos. K-56, K-57 & K-59
SIPCOT Industrial Park,
Irungattukottai,
Sriperumbudur

Central Stores

208, Velachery Tambaram Road,
Narayanapuram,
Pallikaranai,
Chennai-601 302

No. 17/21A, P.V. Complex,
Arcot Road, Porur,
Chennai-600 116

No. 72/1, Senneerkuppam Village,
Poonamallee Bypass Road, Poonamallee,
Chennai – 600 054

No. 362/1C-1A, 100 Feet By-pass Road,
Velachery,
Chennai-600 042

Plot C2, Survey Nos. 24, 25 & 54,
Phase-II, MEPZ-SEZ, Tambaram,
Chennai-600 045

Washing Plant

No. 70/2 & 3A, Selaiyur Agaram Road,
Thiruvanchery,
Chennai-600 073

Plot C2, Survey Nos. 24, 25 & 54,
Phase-II, MEPZ-SEZ,
Tambaram, Chennai-600 045



NOTICE CONVENING THE ANNUAL GENERAL MEETING

NOTICE is hereby given that the Seventeenth Annual General Meeting of Celebrity Fashions Limited will be held on Thursday, the 14th September 2006 at 10.30 a.m. at The Music Academy, New No. 168, Old No. 306, TTK Road, Chennai-600 014, Tamilnadu to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Profit and loss account for the year ended 31st March 2006 and the Balance sheet as at that date together with the Report of the Board of Directors and the Auditors thereon.
2. To declare 10% dividend on Equity shares.
3. To appoint M/s. Anil Nair & Associates, Chartered Accountants, Chennai and M/s. CNGSN & Associates, Chartered Accountants, Chennai as joint auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS:

4. **Appointment of Mr. P.S. Raman as a Director of the Company**

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

"RESOLVED THAT Mr. P.S. Raman who was appointed by the Board of Directors as an Additional Director of the Company with effect from 6th September 2005 holds office upto the date of ensuing Annual General Meeting of the Company pursuant to the provisions of Section 260 of the Companies Act, 1956 and in respect of whom the company has received a notice in writing from a member under Section 257 of the Act proposing his candidature for the office of Director of the Company, be and is hereby appointed as a Director of the Company."

5. **Appointment of Mr. N.K. Ranganath as a Director of the Company**

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

"RESOLVED THAT Mr. N.K. Ranganath who was appointed by the Board of Directors as an Additional Director of the Company with effect from 6th September 2005 holds office upto the date of ensuing Annual General Meeting of the Company pursuant to the provisions of Section 260 of the

Companies Act, 1956 and in respect of whom the company has received a notice in writing from a member under Section 257 of the Act proposing his candidature for the office of Director of the Company, be and is hereby appointed as a Director of the Company."

6. **Appointment of Mrs. Nidhi Reddy as a Director of the Company**

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

"RESOLVED THAT Mrs. Nidhi Reddy who was appointed by the Board of Directors as an Additional Director of the Company with effect from 6th September 2005 holds office upto the date of ensuing Annual General Meeting of the Company pursuant to the provisions of Section 260 of the Companies Act, 1956 and in respect of whom the company has received a notice in writing from a member under Section 257 of the Act proposing her candidature for the office of Director of the Company, be and is hereby appointed as a Director of the Company."

7. **Ratification of the Employees Stock Option Scheme 2005**

To consider and if thought fit, with or without modification(s) the following resolution as a Special Resolution

"RESOLVED THAT pursuant to the provisions of Guideline 22.2A of SEBI (Employee Stock Options Scheme and Employees Stock Purchase Scheme) Guidelines 1999 and subject to any amendments or modifications thereof, the approval of the Company be and is hereby accorded to ratify that the pre IPO scheme was in accordance with the aforesaid guidelines."

"RESOLVED FURTHER THAT the approval of the company be and is hereby accorded to ratify the 1,70,000 Stock options granted to the employees under Employees Stock Options Scheme 2005 prior to the initial public offer."

For and on behalf of the Board.

V.V. Naresh

GM – Finance and Company Secretary

Place : Chennai

Date : July 28, 2006



NOTES:

1. The relevant Explanatory Statements, pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under Item Nos. 4 to 7 above are annexed hereto. The relevant details of persons seeking appointment as Directors under Item Nos. 4 to 6 above, as required by Clause 49 of the Listing Agreements entered into with the Stock Exchanges are also annexed.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE MEMBER OF THE COMPANY.** Proxies, in order to be effective must be received at the Company's Registered Office not less than 48 hours before the meeting. Proxies submitted on behalf of Companies, Societies, Partnership firms, etc. must be supported by appropriated resolution/authority as applicable, issued on behalf of the nominating organization.
3. The Register of Members and transfer books of the Company will be closed from Friday, the 1st day of September 2006 to Thursday, the 14th day of September 2006 (both days inclusive). If the dividend recommended by the Board of Directors of the Company is approved at the Meeting, payment of the same will be made on 13th October 2006 whose names are on the Company's Register of members on 14th September 2006. In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of shares as at the end of business hours on 31st August 2006 as per details furnished by the Depositories for this purpose.
4. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the company for payment of dividend. The Company or its Registrar cannot act on any request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants of the shareholders.
5. Shareholders holding shares in physical form are requested to advise any change of address immediately to the Company's Registrar and share transfer agents. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository Participants and not to the Company.



ANNEXURE TO THE NOTICE EXPLANATORY STATEMENT

Pursuant to Section 173(2) of the Companies Act, 1956

The following Explanatory statement set out all material facts relating to the business mentioned under Item nos. 4 to 7 of the notice:

Item No. 4

Mr.P.S.Raman was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on 6th September 2005. As per the provisions of Section 260 of the Companies Act, 1956 he holds office till the conclusion of the ensuing Annual General Meeting.

The Company had received a notice from a member under Section 257 of the Companies Act, 1956 alongwith the deposit of Rs.500/- proposing his appointment as a director.

Mr.P.S.Raman is a senior advocate of the Madras High Court with a standing practice for more than two decades. Details regarding his appointment and brief resume is furnished as Annexure to the notice. Considering his experience and expertise, the Board of Directors recommends his appointment as a Director of the Company.

None of the Directors are in any way interested or concerned in this resolution except Mr.P.S.Raman as the same relates to his appointment.

Item No. 5

Mr.N.K.Ranganath was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on 6th September 2005. As per the provisions of Section 260 of the Companies Act, 1956 he holds office till the conclusion of the ensuing Annual General Meeting.

The Company had received a notice from a member under Section 257 of the Companies Act, 1956 alongwith the deposit of Rs.500/- proposing his appointment as a director.

Mr.N.K.Ranganath is a mechanical engineer and a post graduate degree holder in business Management from XLRI. He is the Chief Executive Officer of Grundfos Pumps India Private Limited. Details regarding his appointment and brief resume are furnished as Annexure to the notice. Considering his experience and expertise in varied fields, the Board of Directors recommends his appointment as a Director of the Company.

None of the Directors are in any way interested or concerned in this resolution except Mr.N.K.Ranganath as the same relates to his appointment.

Item No. 6

Mrs.Nidhi Reddy was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on 6th September 2005. As per the provisions of Section 260 of the Companies Act, 1956 she holds office till the conclusion of the ensuing Annual General Meeting.

The Company had received a notice from a member under Section 257 of the Companies Act, 1956 alongwith the deposit of Rs.500/- proposing her appointment as a director.

Mrs.Nidhi Reddy holds post graduate degree in Economics and in business Administration from XLRI. She had been awarded NIPM gold Medal in Personnel Management and she is a Vice President – Human resources for Mpower Software Services. Details regarding her appointment and brief resume are furnished as Annexure to the notice. Considering her wide experience, the Board of Directors recommends her appointment as a Director of the Company.

None of the Directors are in any way interested or concerned in this resolution except Mrs.Nidhi Reddy as the same relates to her appointment.

Item No. 7

The Company has granted 1,70,000 Stock Options under Employees Stock Options Scheme 2005 to the Directors and the key managerial employees after obtaining the approval of the shareholders in the Annual General Meeting held on 19th August 2005.

As per the provisions of SEBI (Employees Stock Options Scheme and Employees Stock Purchase Scheme), the approval of the shareholders ratifying the pre IPO scheme and the options granted under the aforesaid scheme becomes necessary for making any fresh grant of stock options under the Employees stock options plan framed prior to Initial public offering. Accordingly, the special resolution set out under Item No. 7 of the notice is submitted for the approval of the shareholders.

Interest of Directors

None of the Directors are in any way interested or concerned in this resolution except Mr.S.Surya Narayanan to the extent of stock options granted to him.

For and on behalf of the Board.

V.V. Naresh

GM – Finance and Company Secretary

Place : Chennai

Date : July 28, 2006



ANNEXURE TO THE NOTICE CONVENING THE ANNUAL GENERAL MEETING

DETAILS OF DIRECTORS SEEKING APPOINTMENT AT THE ANNUAL GENERAL MEETING

Particulars	Mr. P.S. Raman	Mr. N.K. Ranganath	Mrs. Nidhi Reddy
Date of Birth	7 th November 1960	13 th March 1956	13 th April 1956
Date of Appointment	6 th September 2005	6 th September 2005	6 th September 2005
Qualifications	Bachelor in Commerce and Bachelor in Law	Mechanical Engineer and Post Graduate in Business Management from XLRI	Post graduate in Economics from Delhi School of Economics and Master in Business Management from XLRI
Expertise in Specific Functional area	Wide experience in the field of Law	Wide experience in various fields including sales, marketing, finance, production and human resource.	Wide Experience in the field of Human resource Management
Directorship held in other Companies	Sundaram Brake Linings Limited	Grundfos Pumps India Private Limited	Nil
Memberships/ Chairmanships of Committees in Public Companies	Nil	Nil	Nil
Shareholding in the Company	Nil	Nil	Nil



DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the 17th Annual Report along with the Audited Financial Statements of the Company for the year ended 31st March 2006.

Industry Scenario

Rising domestic demand along with the dismantling of quotas have led to the growth for Ready-made garments manufacturers.

Research reports indicate that by 2009-10, domestic sales of ready-made garments will touch Rs. 1030 billion, primarily on account of increasing income levels of the people supported by increasing working class and impulsive buying on account of growth in shopping malls and increasing penetration of credit cards.

Exports area also expected to grow at CAGR of around 18-20 percent to Rs. 650 - 700 billion over the next five years driven by abolition of quotas and imposition of restrictions on imports from China by US and the EU.

In the liberalized economic environment, the Company faces challenges from domestic and international competitors in the market place. The competition among the ready-made garment manufacturers is strongly correlated to factors of export realizations, choice of distribution channels and the behavior of other economic factors including the exchange rate.

However, the Board with the improved business strategies is confident of successfully guiding the company to exploit the opportunities presented and to overcome the Challenges of the fastest growing industries of India.

Overview – Financial Year 2005-06

The market is extremely competitive and tough. Notwithstanding this, the Company is doing its utmost to maintain margins.

During the year under review, several steps were taken by the management with a view to sharpening competitiveness, consolidation and to exploit every opportunity that has been presented.

The financial year 2005-06 was filled with landmarks and

achievements in the Company's long journey of 18 years.

The Company became a Public Limited Company under Section 44 of the Companies Act, 1956 on September 12, 2005.

New Vernon Bharat Limited and Bennett, Coleman & Company Limited were allotted further shares in lieu of the agreement entered during September and October 2005.

Reliance Capital picked up a 5.25% stake of the post issue of the Company in October 2005.

The Company has made substantial expansion to its existing plants and had also commenced the construction of Apparel Park Plant at SIPCOT industrial park for setting up of 920 machines factory with wrinkle free processing unit. The plant has started its Trial production in July 2006.

A big deal was struck by entering into a Business Transfer Agreement with Ambattur Clothing Limited for the acquisition of its MEPZ-SEZ Bottoms plant with effect from 1st April 2006. The plant was successfully taken over on the said date and it is expected to add significantly to the Company's topline in the Financial Year 2006-07.

Indian Terrain, the Company's National Brand is in the process of expanding its reach and display. The Company has signed up for new retail outlets at Ahmedabad, Pune, Lucknow, Delhi and Gurgaon. Mr. Kunal Kapoor, a fast rising young actor, has been signed as the Brand Ambassador to endorse the brand for a two year period.

Financial Performance 2005-06

The Company has turned in a satisfactory performance in the year 2005-06 with a net turnover at Rs.156.94 crs reflecting an 18 percent rise vis-à-vis Rs.132.75 crs recorded in the earlier year.

Continuous focus on both product and process quality along with cost cutting exercises has enabled the company to maintain the operating margins and successfully compete in the market.



Celebrity Fashions Limited

Volumes

(In Pieces)

	FY 2006	FY 2005	Variation (%)
Production Quantity			
Exports	38,24,422	31,21,339	22.53%
Domestic	4,80,055	3,17,216	51.33%
Total	43,04,477	34,38,555	25.18%
Sales Quantity			
Exports	37,89,137	30,92,197	22.54%
Domestic	4,34,380	2,74,883	58.02%
Total	42,23,517	33,67,080	25.43%

Turnover

(Rs. In lakhs)

	FY 2006	FY 2005	Variation (%)
Exports	12,149.65	10,635.98	14.23%
Domestic	3,544.23	2,141.51	65.50%
Total	15,693.88	12,777.49	22.82%

Financial Results

(Rs. In lakhs)

	FY 2006	FY 2005
Profit before Interest, Depreciation and Tax	2,372.48	1,726.03
Profit before Depreciation and Tax	1,758.58	1,274.55
Depreciation	383.39	325.48
Profit before Tax	1,375.19	949.07
Provision for Tax	404.51	368.93
Net Profit	970.68	580.14

Depreciation

Considering the huge Capital expenditure plan, the Company has changed the method of depreciation from Written Down Value to Straight Line Method for the Fixed Assets acquired from 1st April 2005.

Dividend

The Board of Directors has recommended dividend @ 10% (Ten percent) on the paid up equity share capital of the Company for the year ended 31st March 2006. The Dividend will be paid when declared by the shareholders in accordance with law. The Dividend will be free of tax in the hands of the shareholders. However, the Company will have to pay dividend distribution tax @ 12.50% plus applicable surcharge and education cess, amounting in total to 14.025% on the dividend.

Initial Public Offer of Shares

Pursuant to a prospectus dated December 26, 2005, the

Company made a Initial Public Offer (IPO) of 45,50,000 Equity Shares of Rs. 10/- each for cash at a price of Rs. 180/- per Equity Share aggregating to Rs. 8,190 lakhs. The IPO was oversubscribed by around 23 times.

Subsequent to the IPO, the Company's Paid-up Share Capital increased to Rs. 1,779.62 lakhs and its Securities Premium account increased to Rs. 11,478.33 lakhs (after deduction of share issue expenses).

The Equity Shares of the Company were listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited on January 12, 2006.

Changes in Share Capital

- (i) The Authorised Share Capital of the Company was increased from Rs. 500 lakhs to Rs. 2,000 lakhs consisting of 2,00,00,000 Equity Shares of Rs. 10/- each.
- (ii) 33,67,563 Equity Shares aggregating to Rs. 5,958 lakhs (including Share Premium) were allotted on private placement basis mainly to institutional investors.
- (iii) 56,64,245 equity shares of Rs. 10/- each were issued as fully paid bonus shares (in the ratio of one new equity share for one existing equity share held) to the holders of the then existing 56,64,245 equity shares of Rs. 10/- each.
- (iv) Pursuant to the Company's IPO, allotment of fresh issue of 45,50,003 equity shares was made on January 5, 2006 increasing the paid up equity capital of the Company by Rs. 455 lakhs.

Finance

The Company has secured Rs.4,983 lakhs through Term Loans and has re-paid term loans to an extent of Rs. 389 lakhs.

The Company has a comfortable financial position with a Debt (long term debt) Equity Ratio of 0.36 : 1.

Your Company has not accepted any deposit within the meaning of Section 58A of the Companies Act, 1956.

Personnel

The Company promotes information sharing and team building. Employees also provide regular feedback through various communication channels.

The Board wishes to place on record its appreciation to all the employees in the Company for their sustained efforts and contribution for the operations of the Company.