

Celebrity Fashions Limited



18th
ANNUAL REPORT 2006 - 2007

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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. Charath Narasimhan	<i>Domestic - Indian Terrain</i>
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Mr. Sandeep Walia	<i>Exports Division</i>
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Senior Vice – Presidents

Mr. J.V.J. Franklin	<i>Operations</i>
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Mr. Rajeev Das Kalathil	<i>Operations</i>
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Vice-Presidents

Mr. Amitabh Suri	<i>Marketing & Product Development</i>
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Mr. V.K. Vijayaraghavan	<i>Finance & Commercial</i>
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Ms. Mandy Pidgeon	<i>Technical</i>
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Ms. Poonam Bharadwaj	<i>Marketing</i>
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General Managers

Mr. V. Sridharan	<i>Finance</i>
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Mr. S. Shyam Sundar	<i>Human Resources</i>
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Mr. Jairam S. Narayanan	<i>Administration</i>
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Mr. John Dulip Kumar	<i>Merchandising</i>
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Mr. N. Ramakrishnan	<i>Sourcing</i>
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Mr. S.Saravanan	<i>Projects</i>
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Ms. Sonya Arora	<i>Merchandising</i>
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Mr. A.M. Gobinath	<i>Commercial</i>
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Mr. Supratim Choudhury	<i>Design & Development</i>
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Mr. Amit Rai	<i>Operations</i>
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Celebrity Fashions Limited

COMPANY SECRETARY

Mr. V.V. Naresh

REGISTERED OFFICE & 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

LEGAL ADVISORS

Dua Associates, Chennai – 600 017

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

MEDIA SOLUTIONS PARTNER

Bennett Coleman & Co Ltd (Times of India Group)
“Times House”, 126/127,
Chamiers Road,
Nandanam, Chennai – 600 035.

MANUFACTURING FACILITIES

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

No.85, Velachery Tambaram Road,
Pallikaranai,
Chennai – 601 302.

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

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

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, Sennekuppam Village,
Poonamallee Bypass Road, Poonamallee,
Chennai – 600 054

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

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

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 Eighteenth Annual General Meeting of Celebrity Fashions Limited will be held on Thursday, the 23rd day of August 2007 at 10.30 a.m. at Corporate Office situated at SDF – IV, 3rd Main Road, MEPZ – SEZ, Tambaram, Chennai – 600 045 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 2007 and the Balance Sheet as on that date together with the report of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr.N.K.Ranganath, who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Mrs.Nidhi Reddy, who retires by rotation and being eligible offers herself for reappointment.
4. To appoint M/s.Anil Nair & Associates, Chartered Accountants, Chennai and M/s.CNGSN & Associates, Chartered Accountants, Chennai as Joint Auditors of the Company.

For and on behalf of the Board.

V.V. NARESH
Company Secretary

Date : 25th June 2007

Place : Chennai

NOTES

1. **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 and Partnership firms etc must be supported by appropriate resolution/authority as applicable issued on behalf of the nominating organization.
2. The Register of members and transfer books of the Company will be closed from Thursday, the 16th day of August 2007 to Thursday, the 23rd day of August 2007 (both days inclusive).
3. In terms of Clause 49 of the Listing Agreement entered with Stock Exchanges, a brief resume of the directors proposed to be reappointed in this meeting, nature of

expertise in specific functional areas, their other directorship, committee membership and their Shareholdings in the Company are annexed to this notice.

4. Members wishing to claim dividends, which remain unclaimed are requested to correspond with Mr.V.V.Naresh, Company Secretary at the Company's corporate Office. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's unpaid dividend account, will as per Section 205A of the Companies Act, 1956 be transferred to the Investors Education and Protection Fund.

ANNEXURE TO THE NOTICE CONVENING THE ANNUAL GENERAL MEETING

Additional information on directors seeking re- election at the Annual General Meeting.

Mr. N.K. Ranganath

Profile and expertise in specific functional areas

Born on 13th March 1956, Mr.N.K.Ranganath is a mechanical engineer and holds a post graduate degree in Business Management from XLRI.

Mr.N.K.Ranganath is Chief Operating Officer and alternate Director of M/s.Grundfos Pumps India Private Limited. He had acquired valuable knowledge, experience and expertise in sales, marketing, finance, production and human resources disciplines. He is also a Managing Director of M/s.Grundfos Engineering India Private Limited.

He was inducted as a director by the Board on 6th September 2005. He does not hold any share in the Company.

Mrs. Nidhi Reddy

Profile and expertise in specific functional areas

Born on 13th April 1956, Mrs.Nidhi Reddy holds a Master degree in Economics from Delhi School of Economics and a Post graduate diploma in Personnel Management and Industrial relations from XLRI.

Mrs.Nidhi Reddy is the sole proprietor of Nidhi Reddy Consultants. She specializes in the field of human resource management, Behavioral Training and recruitment.

She was co-opted as a director by the Board on 6th September 2005. She is not a director of any other company and does not hold any share in the Company.



DIRECTORS' REPORT

Dear Shareholders,

Your Directors hereby present the 18th Annual Report along with the Audited Financial Statements of the Company for the year ended 31st March 2007

Activities during the year

The Company has gone in for a huge expansion of capacities during the year. The MEPZ-S&Z division, Chennai specialized in trousers manufacturing was successfully taken over with effect from 1st April 2006. The integration of the largest specialized trouser plant was achieved in a record time of four and half months.

Jwala, the new plant at SIPCOT Apparel Park, Irungattukottai, was inaugurated in June 2006 and the plant has commenced commercial operations since January 10, 2007.

The Company's branded segment, Indian Terrain was on absolute track and the brand has added 9 exclusive branded outlets to its profile last year

Financial Snapshot

The Company's Income from Operations was at Rs.332.90 crores, as compared to the previous year's figure of Rs.160.43 crores.

Loss before tax and prior period adjustments stood at Rs.6.39 crores as against the profits of Rs.13.75 crores in the previous year

Net loss after provision for taxes but before prior period items is Rs.4.85 crores as against profit of Rs.9.71 crores last year.

Financial Performance (Rs. in lakhs)

	2006-2007	2005-2006
Income From operations	33,289.82	16,042.71
Gross Profit / (Loss) Before Interest & Depreciation	1,869.52	2,371.58
Interest	1,566.30	613.00
Profit / (Loss) Before Depreciation & Tax	303.22	1,758.58
Depreciation	942.38	383.39
Profit/ (Loss) Before Tax	(639.16)	1,375.19
Provision for Taxation	(153.96)	404.51
Profit / (Loss) After Tax	(485.20)	970.68
Provision with respect to Earlier Year	64.96	-
Net Profit / (Loss) after Tax	(550.16)	970.68
Balance brought forward from last year	2,204.55	2,003.21
Total amount available for Appropriation	1,654.39	2,973.88
Appropriations	-	202.92
Balance carried to Balance Sheet	1,654.39	2,770.96

Performance of the Company – An Overview

The year 2006-07 has been a difficult one for Celebrity Fashions. The performance of the Company has to be viewed from the context of the back drop of the business conditions that it was compelled to operate during the year.

With the successful integration of the trouser plant, the Company had to face one of the biggest challenges in its history during Quarter two of the financial year. Two principal customers of trouser business had demanded a re-qualification process for the change in management of the division. As a result, the trouser plant was underutilized for a greater part of the second quarter of the year. The average utilization for the big plant was as low as 50%. The Company was forced to fill in capacities with the low margin orders.

The Company recognizing the potential opportunities in bottoms business, made a strategic decision in mid September 2006 of converting the new plant at Apparel Park, Jwala, into a bottoms specialized plant and also converting an existing shirts manufacturing plant into a bottoms plant.

Jwala has started the commercial operations from January 10, 2007. The trial run expenditure incurred till January 10, 2007 has been capitalized and charged to fixed assets.

Indian Terrain has performed well on targeted lines and has reached the net turnover mark of Rs.50 crores. The Company has laid foundation for its tie-up with Reliance Retail for the launch of brand "SPIRIT"

Increased interest rates and rupee appreciation also have been matters to contend with.

Rupee has substantially appreciated against the dollar in the recent past. The Company's revenues are predominantly linked to dollars. The Company is protected to an extent, with the advantage of a natural hedge by way of import for raw materials and foreign currency loan repayments.

Finance and Accounts

The Company has incurred business loss for the year and hence there is no provision for income tax. The Company has recognized deferred tax asset and has restricted the same to the extent of deferred tax liability.

The Company had issued 5,00,000 8.75% Secured Redeemable and Non-Convertible Debentures of Rs.100 each and redeemable at par in April 2006 on private placement basis and has redeemed the same in February 2007.

The Company has secured Rs.14.16 crores as term loan reimbursements and has repaid loans to an extent of Rs.8.32 crores. The Company has also received a TUF interest subsidy to an extent of Rs.33 lakhs.

The Company has not accepted any deposits within the meaning of Section 58A and 58AA of the Companies Act, 1956.

Share Capital

During the year, the Company pursuant to ESOP 2005 Scheme has allotted 13,600 equity shares on conversion of options exercised by the employees. Consequently, the Share Capital has increased by Rs.1.36 lakhs.



Celebrity Fashions Limited

The Company has received exercise money from employees for conversion of 9,000 options, allotment for which was made on 2nd April 2007 and the Share Capital has increased by Rs.0.90 lakhs accordingly.

Reserves & Surplus

The Company has written off Goodwill of Rs. 5.75 crores on acquisition of the trouser plant at MEPZ-SEZ against the Capital Reserve.

Dividend

In view of the business loss for the year, no dividend is being recommended

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.

Directors

The whole time Directors have been accorded approval for payment of minimum remuneration under Section 198(4) read with Section II of Part II of Schedule XIII of the Companies Act, 1956, consequent to which the terms of appointment has been fixed for 3 years effective 1st April 2006.

Mr. P.S. Raman, Mr. N.K. Ranganath and Mrs. Nidhi Reddy were appointed as directors in the 17th Annual General Meeting held on 14th September 2006.

Pursuant to Section 255 of the Companies Act, 1956, Mr. N.K. Ranganath and Mrs. Nidhi Reddy, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Auditors

M/s Anil Nair & Associates, Chartered Accountants, Chennai and M/s CNGSN & Associates, Chartered Accountants, Chennai, the Joint Auditors of the Company, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Corporate Governance Report and Management Discussion and Analysis Statement

A report on Corporate Governance is attached to this Report as also a Management Discussion and Analysis statement.

Particulars as per Section 217 of the Companies

Act, 1956

A) Pursuant to the requirement of Section 217 (2AA) of the Companies Act, 1956 and based on the representations received, your Directors hereby confirm that:

- i. In the preparation of the Annual Accounts for the year ended 31st March 2007, the applicable Accounting Standards have been followed and there are no material departures;

- ii. The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

- iii. The Directors have taken proper and sufficient care for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

- iv. The Directors have prepared the Annual Accounts on a going concern basis.

B) The Particulars of employees, as required under Section 217 (2A) of the Companies Act, 1956 are given in a separate statement attached to this Report and forms part of it.

C) The information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given below:

i. Conservation of Energy:

The operations of the Company are not energy-intensive. However, wherever possible, the Company strives to curtail the consumption of energy on a continuing basis.

ii. Technology absorption:

Not applicable.

iii. Foreign Exchange Earning and Outgo:

Total Foreign exchange earned (FOB Value)	Rs.26,736.18 lakhs
Total Foreign exchange outgo	Rs.11,563.53 lakhs

Employee Stock Option Plan

The particulars of ESOP Scheme 2005, which are provided as per the SEBI ESOP Guidelines and forms part of this report.

Appreciation

Your Directors are sincerely thankful to you – the esteemed shareholders, customers, business partners, financial / investment institutions and commercial banks for the faith reposed and valuable support provided by them in your Company and its Management.

For and on Behalf of the Board

V. Rajagopal
Chairman & Managing Director

Chennai, 25 June 2007



ANNEXURE TO THE DIRECTORS' REPORT

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2007.

Name	Designation	Qualification	Age	Date of Joining	Experience in years	Gross Remuneration Rs. in lakhs	Previous Employment
V. Rajagopal	Chairman and Managing Director	M.A., I.P.S	50	28.04.1988	29	42.00	Indian Police Service
Rama Rajagopal	Executive Director	M.A.	49	04.01.1994	12	42.00	-
S. Surya Narayanan	Executive Director	B.Com, FCA	42	01.07.1996	19	42.00	Manager – Finance, Harita Finance Limited
Suresh Rajagopal	Executive Vice President– Strategic Sourcing & Marketing	B.A. Economics	56	01.04.2000	33	27.00	Marketing, Czech Republic
Charath Narasimhan	Chief Executive Officer – Domestic Division	B. Tech, MBA	34	07.11.2005	11	35.00	General Manager – Sales & Marketing, Raymond Apparel Ltd.
J.V.J. Franklin	Senior Vice President– Operations	B.Com	39	11.04.2002	15	25.80	Sales Executive, Kanasu Computers
Sandeep Walia	Chief Executive Officer – Exports Division	B.A. Economics	36	13.03.2006	14	35.00	Production Merchandiser, Impulse
Henry Mc Ivor	Chief Operating Officer	Industrial Engineering	47	01.04.2006	30	100.51	Chief Operating Officer, Ambattur Clothing Ltd.

Employed for part of the year with an average salary of Rs. 2 Lakh and above per month

Name	Designation	Qualification	Age	Date of Joining	Experience in years	Gross Remuneration Rs. in lakhs	Previous Employment
Rajeev Krishnan	Chief Executive Officer – Tops division	B.A.	35	19.01.2001	15	21.42	Senior Merchandiser, Ambattur Clothing Limited
V.S. Ganesh	Vice President – Operations	B.Com, CS	39	17.04.2006	16	18.60	GM- Operations, Intimate Fashions (India) Pvt. Ltd.
Mandy Pidgeon	Vice President – Technical	Graduation in Clothing	47	01.06.2006	31	64.09	Vice President – Quality
Poonam Bharadwaj	Vice President – Marketing	M.A. – English	37	02.10.2006	15	11.35	Manager, Adnet Advertising Agency Inc., New York.
Kevin Plenty	GM – Operations	Diploma in work study & Production Management	43	02.05.2006	26	47.65	Group Production Director, Tri-Star Apparels Exports Private Limited, Srilanka
Rajiv Das Kalathil	Senior Vice President – Operations	MSC. MBA	47	05.02.2007	25	4.46	GM – Operations, Leela Scottish Lace, Bangalore.

- Notes:**
1. Remuneration comprises basic salary, allowances, retirement benefits and taxable value of perquisites.
 2. Nature of employment – The above employees are wholtime employees of the company except Mr.V Rajagopal, Mrs.Rama Rajagopal, Mr.S.Surya Narayanan, Ms.Mandy Pidgeon, Mr.Kevin Plenty, Mrs.Poonam Bharadwaj, Mr.Henry Mc Ivor, whose employment are contractual in nature
 3. Mr.V.Rajagopal, Chairman and Managing Director and Mrs.Rama Rajagopal, Executive Director are related to each other.
 4. Mr.Suresh Rajagopal, Executive Vice President is related to Mr.V.Rajagopal, Director of the Company
 5. None of the employees own more than 2% of the shares of the Company as on March 31, 2007 except the promoter directors.
 6. Ms.Mandy Pidgeon, Mr.Henry Mc Ivor, Mr.Kevin Plenty and Ms.Poonam Bharadwaj draw remuneration in excess of the Managing Director and Whole Time Directors.
 7. The remuneration payable to Ms.Mandy Pidgeon, Mr.Henry Mc Ivor, Mr.Kevin Plenty includes the TDS, which is grossed up and borne by the Company.



ANNEXURE TO DIRECTORS' REPORT

Disclosure under SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

Employees Stock Option Plan 2005

In 2005, the Company has introduced Employee Stock option plan 2005 in order to motivate and retain the employees and details of which are appended below:

Particulars	ESOP 2005	ESOP (2) 2005
Options granted	1,50,000 options	20000 Options
The Pricing formula	30% of the Fair Market Value	16.67% of the fair market value
Options Vested	30,000 Options	Nil
Options Exercised	22,600 Options	Nil
Total number of shares arising as a result of exercise of options	1,50,000 Equity Shares	20,000 Equity Shares
Options Lapsed	36,000 Options	Nil
Variation of terms of options	Nil	Nil
Money realised by exercise of options	Rs.6,78,000/-	Nil
Total number of options in force	91,400 Stock Options	20,000
Employee wise details of options granted to		
a) Senior Managerial Personnel	52,000 options, (details provided below)	20000 options to Charath Narsimhan CEO –Domestic Division
b) Employees receiving 5 % or more of the total number of options granted during the year	86,000 options (details provided below)	
c) Identified employees who were granted option during any one year equal to or exceeding 1% of the issued capital of the company at the time of grant	Nil	Nil
Diluted EPS pursuant to issue of shares on exercise of options calculated in accordance with AS 20	The Options are antidilutive as the EPS is in negative	The Options are antidilutive as the EPS is in negative



Celebrity Fashions Limited

Senior Management (under ESOP 2005)

S. Surya Narayanan, Executive Director & CFO	25,000
Suresh Rajagopal, Executive Vice-President	21,000
V.V. Naresh, GM – Finance & Company Secretary	6,000

Employees receiving in excess of 5% (under ESOP 2005)

S. Surya Narayanan	25,000	16.67%
Suresh Rajagopal	21,000	14.00%
Josiah Franklin	20,000	13.33%
Amitabh Suri	20,000	13.33%

For and on Behalf of the Board

Chennai, June 25, 2007

V. Rajagopal
Chairman and Managing Director

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