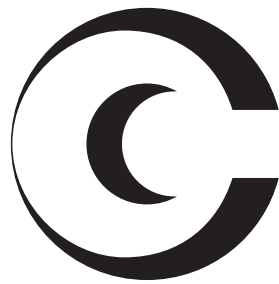


Celebrity Fashions Limited



21st
ANNUAL REPORT 2009-2010

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Board of Directors

Mr. V. Rajagopal

Mrs. Rama Rajagopal

Mr. S. Surya Narayanan

Mr. P.S. Raman

Mr. N.K. Ranganath

Mrs. Nidhi Reddy

Chairman and Managing Director

Executive Director

Executive Director

Company Secretary

Mr. G. Balaji

Management Team

Executive Vice-President

Mr. Suresh Rajagopal

Strategic Sourcing & Marketing

Chief Executive Officer

Mr. Charath Narasimhan

Domestic - Indian Terrain

Senior Vice - Presidents

Mr. John Dulip Kumar

Merchandising

Mr. J.V.J. Franklin

Operations

Mr. Amitabh Suri

Marketing & Product Design & Development

General Managers

Mr. V. Sridharan

Finance

Mr. Selin Reubalin C.C

Operations

Mr. A.M. Gopinath

Commercial



REGISTERED OFFICE & CORPORATE OFFICE

SDF - IV & C2, 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.

MANUFACTURING FACILITIES

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

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

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

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

BANKERS

State Bank of India,
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

Warehouse

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

114/2, Anna Salai Extension,
Nagalkeni, Chrompet,
Chennai 600 044.

Washing Plant

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

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



NOTICE CONVENING THE ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty First Annual General Meeting of Celebrity Fashions Limited will be held on Friday the 24th September, 2010 at 10.30 A.M. at the Registered Office of the Company, situated at SDF-IV & C2, 3rd Main Road, MEPZ-SEZ, Tambaram, Chennai 600 045 to transact the following businesses:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss account for the year ended 31st March, 2010 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 and to fix their remuneration.

SPECIAL BUSINESS

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

RESOLVED THAT pursuant to the provisions of sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act 1956 (including any statutory modification(s) or re-enactment thereof, for the time being in force) read with Schedule XIII of the said Act, the company hereby accords its approval to the reappointment of Mr.V.Rajagopal as the Managing Director of the Company for a period of five years effective from 1st October, 2010 to 30th September, 2015 (both days inclusive).

RESOLVED FURTHER THAT the consent of the members be and is hereby accorded for the payment of remuneration as set out in the explanatory statement annexed hereto and forming part of this Notice, to Mr.V.Rajagopal, Managing Director of the company for the period from 1st October, 2010 to 30th September, 2015 (both days inclusive).

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to fix and vary remuneration and perquisites including monetary value thereof to the extent the Board of Directors may

consider appropriate and as may be considered and permitted or authorized in accordance with the provisions of the Companies Act, 1956 for the time being in force and any statutory modifications or reenactment thereof, and/or any rules or regulations framed thereunder.

Date : 13-08-2010
Place: Chennai

For and On behalf of the Board

G.BALAJI
Company Secretary

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 A 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 Monday, the 20th September, 2010 to Friday the 24th September, 2010 (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.

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 Managing 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 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 proprietrix 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.

ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to section 173(2) of the Companies Act 1956

Item No.5

The Board of Directors of the Company at their meeting held on 13th August, 2010 have reappointed Mr.V.Rajagopal as Managing Director of the Company for a period of five years effective from 1st October, 2010 to 30th September, 2015. The remuneration committee of the Board of Directors had approved in its meeting held on 13th August, 2010 by its resolution the terms of the remuneration payable to Mr.V.Rajagopal and the same was in accordance with and within the ceiling of maximum remuneration permitted under Section II (1) (A) of Part II of Schedule XIII to the Act. The terms of appointment and disclosures pursuant to clause 49 of the listing agreement are given below:

i) Tenure

For a period of 5 years with effect from 1st October, 2010 to 30th September, 2015

ii) Salary

Basic salary Rs.2,00,000/- per month.

iii) Medical Benefits

Suitable Mediclaim Policy for hospitalisation for himself and family. Reimbursement of all actual medical expenses for himself and family to the extent not reimbursed under Mediclaim Policy

iv) Telephone

Telephone, Telefax and other communication facilities at residence at Company's cost.

v) Automobile

He shall be entitled to a fully maintained Company car for company's business.

vi) Reimbursement of expenses

He shall be entitled to the reimbursement of all actual expenses or charges, including travel, entertainment and other out of pocket expenses incurred by him for and on behalf of the Company, in furtherance of its business and objects.

vii) Sitting Fees

He will not be entitled to any sitting fees for attending the meetings of the Board or of any committee thereof.

Disclosure as per Clause 49 of the Listing Agreement

(a) Profile of Mr. V. Rajagopal

Mr. V.Rajagopal aged 53 is a B.A. Honors in Economics from Sri Ram College of Commerce, New Delhi and a Post Graduate in Master of Arts from Bangalore University. He joined the Indian Police Service during the year 1979 and he served the nation for a decade. During the year 1988, Mr. V.Rajagopal quit the Indian Police Service and entered into the business of garment exports. He is an avid reader and a sports person. Was a member of a Social Organisation called Round Table for 8 years till 1998. Was associated in organizing the International conference of Round Tablers in 1996, in Chennai in the capacity as Vice-Chairman of the conference.

He is currently a member of the young Presidents Organization, Madras Chapter.

(b) Expertise in specific functional areas

Managerial, Financial, Marketing and Administration.

(c) Directorships of other Companies and the membership of Committees of the Board

Mr. V.Rajagopal is the director of the following companies:

Celebrity Clothing Limited : Director
Indian Terrain Fashions Limited : Managing Director

Membership of the Committees of the Board

Shareholders Grievance Committee : Member

Mr.V.Rajagopal holds 41,07,318 equity shares in the company.

None of the Directors except Mr.V.Rajagopal and Mrs. Rama Rajagopal are interested or concerned in the proposed resolution.

Date : 13th Aug, 2010 For and on behalf of the Board
Place : Chennai

G.BALAJI
Company Secretary



Section 302 Notice

To
All Members

Sub: Memorandum under Section 302 of the Companies Act, 1956

I. Reappointment of Mr.V.Rajagopal as Managing Director

The Board of Directors of the Company at its meeting held on 13th August, 2010 reappointed Mr.V.Rajagopal as Managing Director of the Company for a period of five years from 1st October, 2010 to 30th September, 2015 subject to the approval of the shareholders at the ensuing 21st Annual General Meeting.

Mr. V. Rajagopal aged 53 is a B.A. Honors in Economics from Sri Ram College of Commerce, New Delhi and a Post Graduate in Master of Arts from Bangalore University. He joined the Indian Police Service during the year 1979 and he served the nation for a decade. During the year 1988, Mr. V.Rajagopal quit the Indian Police Service and entered into the business of garment exports. He is an avid reader and a sports person. Was a member of a Social Organisation called Round Table for 8 years till 1998. Was associated in organizing the International

conference of Round Tablers in 1996, in Chennai in the capacity as Vice-Chairman of the conference.

Mr.V.Rajagopal shall have the overall responsibility of managing the affairs of the Company, in particular the commercial and marketing activities of the Company subject to the supervision and control of the Board of Directors.

The proposed re-appointment of Mr.V.Rajagopal as Managing Director is subject to the approval of the shareholders by way of ordinary resolution at the ensuing 21st Annual General Meeting of the Company.

Mrs. Rama Rajagopal being the spouse of Mr.V.Rajagopal is concerned or interested in the aforesaid re-appointment as Managing Director.

Pursuant to Section 302 of the Companies Act 1956, the abstract of the terms of reappointment and remuneration of Mr.V.Rajagopal is furnished herewith.

For Celebrity Fashions Limited

G.Balaji
Company Secretary

Place: Chennai
Date: 13-08-2010

Abstract of the terms of reappointment and remuneration of Mr.V.Rajagopal as Managing Director (Pursuant to section 302 of the Companies Act, 1956)

| | | |
|---|---------------------------|---|
| 1 | Tenure | 1st October, 2010 to 30th September, 2015 |
| 2 | Salary | Rs.2,00,000/- per month |
| 3 | Medical benefits | Reimbursement of all actual medical expenses for himself and family to the extent not reimbursed under Mediclaim Policy |
| 4 | Telephone | Telephone, telefax and other communication facilities at residence at Company's cost. |
| 5 | Automobile | He shall be entitled to a fully maintained company car for company's cost. |
| 6 | Reimbursement of expenses | He shall be entitled to the reimbursement of all actual expenses or charges, including travel, entertainment and other out of pocket expenses incurred by him for and on behalf of the Company, in furtherance of its business and objects. |
| 7 | Sitting fees | He will not be entitled to any sitting fees for attending the meetings of the Board or of any Committee thereof. |
| 8 | Power to vary | The Board shall have power to vary or enhance the remuneration from time to time at its discretion on the recommendation of the Remuneration Committee within the limits specified in Schedule XIII to the Companies Act, 1956. |

For Celebrity Fashions imited

Place : Chennai
Date: 13-08-2010

G.Balaji
Company Secretary

Directors' Report

Dear Shareholders,

Your Directors hereby present the 21st Annual Report along with the Audited Statement of the Company for the year ended 31st March 2010.

Industry Outlook

The global policy stimulus has gone a long way in finding an exit to the Great Recession. The economic recovery is underway.

The Country's GDP growth in the third quarter of 2009-10 stood at 6.0% as against the growth of 6.2% registered in the same quarter of the previous year. The GDP growth for the whole fiscal 2009-10 was estimated to be 7.2%. India's trade is observed to recover from depression, which existed up to the later half of 2009. In the end of 2009 the exporters again reported to get orders in good numbers. As per FICCI, the data from November 2009 was also seen to substantiate the same. In February 2010, exports rose by 34.0% as against the rise of 23.0% in February, previous year.

Buoyed by a robust 8.6 % expansion in the fourth quarter, the Indian economy witnessed a healthier growth of 7.4% in 2009-10 as compared to the 7.2% estimated by the Central Statistical Organization (CSO) earlier, primarily owing to a stimulus – aided rebound in manufacturing coupled with better than anticipated performance by the farm sector. With this India has maintained its position as the second fastest growing economy after China which posted an 11.9% growth in the same quarter.

Exports jumped by 36.2% to \$16.88 billion in April, showing clear signs that the export sector was making a strong comeback. After continuous decline for 13 months from October 2008, exports turned positive in November 2009 and since then shipments have followed the growth path. Indian Rupee in February – March 2010 traded Rs.45 levels vis-a-vis the level in May 2009 at Rs.49-50. The sharp appreciation in Indian Rupee is an obvious cause of concern for the Indian exporters.

Indian textile industry is on revival path with production of fibre, yarn and cloth showing positive growth during April to November 2009. The production of cloth increased by 10.8 percent, man-made fibre and yarn production grew by 21.3% & 11.8%, respectively, and the total spun yarn production increased by 5.1% during the period.

The second quarter of the current fiscal saw a strong revival in sales growth and weaving companies posted a sales growth of 19.7%, spinning industry 8.9%, man-made Fibre industry 15.7% and readymade garments industry 14.2%. The Sector witnessed a favorable investment climate since last quarter of last fiscal. For the government, however the litmus test now would be whether the economic recovery continues to hold even after partial roll back of stimulus measures.

Garment exports formed 45 percent of total textile exports from the country. While in other industries, the third generation entrepreneurs expanded the horizon further, the same was not the case with garment industry in India. Fragmentation and absence of vertical integration affected the industry most. Establishment of clusters, common facility centres and development of brands held the key to success. If sustained efforts are made by the industry, the country can capture additional US\$ 1.5 billion textile and clothing export in US market, which will also help to generate additional employment opportunities.

The domestic apparel market in India has shown a significant growth in the past by registering a Compounded Annual Growth Rate (CAGR) of 13%.

Despite the recent demand slump, the domestic market is expected to grow at around 9-10% in the next 5 years. Market is moving away from the traditional segmentation to a much deeper and wider segmentation based on consumer needs.

Indian domestic apparel market is currently pegged at between Rs 120-150 billion, with several high potential demographics still untapped such as teens, extra large sizes and children, among others.

As per the CSO data, the country's per capita income stood at Rs.44,345 in 2009-10. It was higher by 10.5 % over Rs.40,141 a year ago. This means the potential buying capacity will go up in the domestic market.

Financial Highlights – Rs. In Crs

| | FY 2009-10 | FY 2008-09 |
|--|------------|------------|
| Income From operations | 294.09 | 230.04 |
| Gross Profit / (Loss) before interest and depreciation | 8.37 | (89.27) |
| Interest | 18.98 | 21.04 |
| Profit / (Loss) before depreciation and tax | (10.61) | (110.31) |
| Depreciation | 9.94 | 8.74 |
| Profit / (Loss) before Extra-Ordinary Income | (20.56) | (119.05) |
| Extra-Ordinary Income | 8.33 | - |
| Profit / (Loss) before tax | (12.23) | (119.05) |
| Provision for Taxation | | 0.29 |
| Profit / (Loss) after tax | (12.23) | (119.34) |
| Balance brought forward from previous year | (122.40) | (3.06) |
| Balance carried to Balance Sheet | (134.63) | (122.40) |



Operational Highlights

The Income from operations has gone up by Rs.64.05 crs as compared to the previous year, an increase of 27.8% than the previous year. EBIDTA for the year is at Rs.8.37 crs (+ve) as against Rs. 89.27 crs (-ve) in the previous year. The loss for the year stood at Rs.12.23 crs after accounting for extraordinary item of Rs.8.33 crs of income as against the loss of the Rs.119.34 crs recorded in the previous year. The Company has ended the fourth quarter of the year on a high note with a Profit after Tax of Rs.1.64 crs.

The Company's both the divisions, Exports and Domestic, have performed reasonably well this year with Exports recording over 37% growth over the previous year and domestic division, Indian Terrain with 8% increase in turnover. Revenues from Exports stood at over Rs.214 crs and Indian Terrain at Rs.80 crs.

Exports Division has recorded significant improvements in terms of productivity in operations. The fall in Rupee against the USD until the third quarter of the financial year has helped the Exports Market to swing back. But with the European Crisis, the Indian currency started its recovery in the last quarter and has signaled cautious attitude for the Exporters. The Company with an Expert Management Team in place is exploring the various risk mitigation strategies and has also initiated a Productivity Improvement Program which will serve as a catalyst in achieving the set goals.

Indian Terrain has been performing extra-ordinarily and has currently 53 Exclusive Branded Outlets. Indian Terrain has recorded its fabulous presence in over 700 outlets across the nation. The brand is just bullish in its expansion and has chosen the franchisee route as its expansion strategy for administrative and economic reasons. With the rise in per capita income, Indian Terrain is staged well for its wide-spread expansion both geographically and product wise.

The Company has let out its property at Chrompet to one of the Hospitals from 1st April 2010 at a rental income of Rs.1.50 crs per annum. The rental income is being utilized to repay the bank borrowings. Further the Company is also proposing to sell / lease-out another property at Pallikaranai.

The Company has implemented various initiatives to improve on the efficiencies and control the losses. The Company has recorded positive EBITDA and there are strong signs of revival.

As at the year end, the accumulated losses have resulted in substantial erosion of the networth of the Company. However,

in view of the various strategic initiatives that the Company is exploring, the Company is confident of being able to continue and operate the business on a "going concern" basis and accordingly the financial statements have been prepared on the same lines.

The Company has not provided for the service tax liability of Rs.103.36 lakhs, which has been qualified by the auditors in their report. The Company is confident of getting stay order against the levy as advised by the legal counsel.

Financial Re-structuring

The Company in view of the losses incurred has approached its Bankers during September 2008 for re-structuring its corporate debts. State Bank of India (SBI), the Company's primary banker has sanctioned the financial re-structuring scheme on 23rd December 2008 with retrospective effect from 1st October 2008. HDFC Bank has sanctioned the re-structuring scheme during June 2009 with retrospective effect from 1st April 2009.

The Re-structuring Scheme includes interalia carving out Clean Term Loan from Working Capital Facilities, reduction of Interest Rates on loans, re-scheduling of all Term Loan Repayments with repayments starting from October 2011, deferment of interest repayments through Funded Interest Termloan of 2 years from October 2008 / April 2009 (for SBI and HDFC).

The Company has to comply with conditions laid by the Scheme which includes fresh infusion of additional equity by the Promoters to the extent of Rs.5 crores, deployment of funds in investments into Business, pledge of Equity Shares of Promoters and Personal Guarantee of the Promoters viz. Mr. V. Rajagopal, Chairman and Managing Director and Mrs. Rama Rajagopal, Executive Director.

The Company has complied with the various conditions stipulated by the Banks.

The other bankers have opted to enter into a One-Time Settlement with the Company. Accordingly, the Company has settled its other Bankers by paying 35% of the Outstanding dues. The balance 65%, viz. 8.33 crs, of the total dues has been written back as gain on One-Time Settlement and the same has been classified as Extra-Ordinary Income in the Profit and Loss Statement.

Business Re-structuring Proposal

The Company is broadly segmented into Exports and Domestic Divisions. Exports Division is further sub-divided into Tops and Bottoms Division. The Domestic Division (brand Indian Terrain) and Bottoms Division cater to different markets / products. The



company sensing the need to manage them as independent entities for enhancement of their capabilities and to have greater focus on their operations, has decided to hive-off the divisions. Further, the hive-off would provide greater flexibility to the entities, to meet the needs for carrying out its operations. The hived-off divisions will realize true values when separated and also will maximize their returns and efficiency.

The Company has filed a scheme of arrangement with the Hon'ble High Court of Madras for the demerger of Indian Terrain Division into Indian Terrain Fashions Limited (ITFL) and transfer of Bottoms Division on a going concern basis to Celebrity Clothing Limited (CCL), a 100% subsidiary, through slump sale.

Further, the Company intends to fair value the assets of the company and write off the accumulated losses against the existing reserves. The Scheme of Arrangement is under Section 391 to 394 read with Section 78 and Section 100 to 103 of the Companies Act.

Upon demerger, ITFL would be a listed entity, with its shares listed in National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE). Every shareholder of the Company would be issued 2 shares of ITFL for every 7 shares held in the company. CCL will remain unlisted.

The Company has got the in-principal approval for the Scheme from NSE and BSE. The Scheme was filed with the High Court of Madras on 15th April 2010.

The Hon'ble High Court of Madras vide its order dated 26th April 2010 has ordered for a meeting of the Equity Share holders of the Company on 9th June 2010. The entire Scheme is subject to the approval of the Shareholders and Creditors of the Company.

This scheme facilitates the entities involved, to explore new avenues and would enhance the future growth prospects for the people and organizations connected with them. The restructuring activities under the scheme would unlock shareholders value and create long term value for all the stakeholders.

Finance and Accounts

The company has incurred Loss for the year and hence there is no provision for Income Tax.

The company has not availed any credit facility from any institutions during the year. The company has not accepted any deposits within the meaning of Section 58A and 58AA of the Companies Act 1956.

Share Capital

State Bank of India, in its Sanction letter dated 23rd December 2008 has stipulated that the Promoters will have to bring in Rs.5 crs in phases as contribution towards equity. Accordingly, the promoters have brought in Rs.50 lakhs during March 2009.

The Company has gone for a preferential allotment of 2,94,118 equity shares at Rs.17.03 per share to one of the promoters, Mr. V. Rajagopal during August 2009. The allotment was approved by the Shareholders in the Annual General Meeting held in July 2009.

Further, pursuant to ESOP Scheme, the Company has allotted 7,500 equity shares on conversion of options exercised by employees.

Consequent to the above, the Share Capital of the Company has increased by Rs.30.16 lakhs.

The promoters have brought in next tranche of their contribution towards equity to an extent of Rs.25 lakhs and the same is classified under Share Application Money as on 31st March 2010. The promoters / directors have further brought in Rs.2.83 crs during April 2010 towards equity of the Company.

Dividend

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

Personnel

The Board wishes to place on record its appreciation to all the employees in the Company for their sustained efforts and contributions in the current Challenging Scenario.

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 from 1st April 2006. Due to inadequacy of profits, the Board of Directors at its Meeting held on 13th December 2007 approved on recommendation of the Remuneration and Compensation Committee and as approved by the Members in the Annual General Meeting held on 28th August 2008, modified the remuneration of the whole time Directors of the Company with effect from 01st January 2008 as Rs.24.00 lakhs per annum for each of the whole time