

HOUSE OF PEARL

HOUSE OF PEARL FASHIONS LIMITED



Board of Directors

Mr. Deepak Seth	-	Chairman
Mr. Pallak Seth	-	Vice-Chairman
Mr. Pulkit Seth	-	Managing Director
Mr. Sanjay Pershad	-	Non-executive Director
Mr. Tom Tar Singh	-	Non-executive Independent Director
Dr. Ashutosh P Bhupatkar	-	Non-executive Independent Director
Mr. S. B. Mohapatra	-	Non-executive Independent Director
Mr. Chittranjan Dua	-	Non-executive Independent Director
Mr. Rajendra Kumar Aneja	-	Non-executive Independent Director

General Manager and Company Secretary

Mr. Jyant Sood

Audit Committee

Dr. A. P. Bhupatkar	-	Chairman
Mr. Sanjay Pershad	-	Member Director
Mr. S. B. Mohapatra	-	Member Director

Remuneration Committee

Mr. S. B. Mohapatra	-	Chairman
Mr. Sanjay Pershad	-	Member Director
Dr. A. P. Bhupatkar	-	Member Director

Shareholders Grievance & Transfer Committee

Dr. A. P. Bhupatkar	-	Chairman
Mr. Pulkit Seth	-	Member Director
Mr. S. B. Mohapatra	-	Member Director

Auditors

M/s. S. R. Dinodia & Co.
Chartered Accountants
K-39, Canaught Place
New Delhi-110 001

Bankers

UTI Bank Ltd.
Citibank
The Hongkong and Shanghai Banking Corporation Ltd.

Registered Office

“Pearl House”
A-3, Community Centre,
Naraina Industrial Area, Phase II,
New Delhi-110 028.

Investors complaint email id : investorshopfl@pearlglobal.com

Corporate Office

446, Udyog Vihar, Phase V,
Gurgaon-122 016 (Haryana).

We are Multinational, Multioperation, ready to wear apparel company.
We are truly Global.

Financial Highlights

Financial Highlights for the year 2006-07 Vs 2005-06

- Consolidated Revenues at Rs. 952.48 crores, EBITDA at Rs. 99.38 crores and consolidated Net Profit at Rs. 52.65 crores.
- Basic and diluted EPS at Rs. 27/-, and on weighted average basis Rs. 32.23.

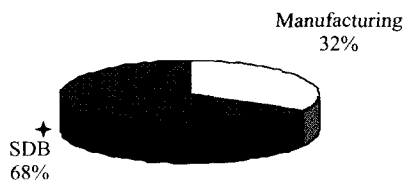
(Due to group restructuring, previous year's figures are not comparable).

- Consolidated Revenues at Rs. 1025.23 crores, up 32.56% from Rs. 773.38 crores.
- Consolidated EBITDA at Rs. 103.89 crores, up by 80.68% from Rs. 57.50 crores.
- Consolidated Net Profit at Rs. 55.88 crores, up by 122.63% from Rs. 25.07 crores.

Revenue Segmentation

Revenue from Business Divisions

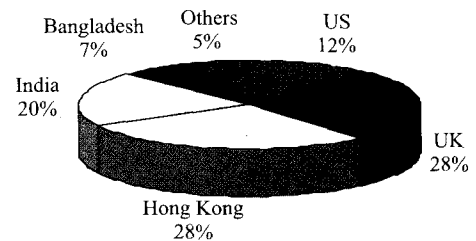
Revenue Segmentation: Consolidated Fy07



✦ Selling & Distribution Business

Revenue from Geographical locations

Location wise revenue segmentation: FY07



Performance Overview

International Operations

- Own manufacturing facilities in Bangladesh and Indonesia with a total capacity of 8 million pieces per annum.
- Own retailing brands 'DCC' and 'Kool Hearts' in US.
- Marketing and Distribution offices in US, UK, Hong Kong, Spain and Canada. Merchandising and Design teams in constant touch with them.
- Own warehousing and processing facilities in US and UK which can offer goods on FOB and LDP basis.
- Sourcing teams in China and Bangladesh (apart from India) accessing 150 third party, compliant manufacturing units which offer a capacity of approximately 120 million pieces per annum.
- 80% of the company's revenues are from overseas operations.

Domestic Operations

- Domestic operations carried out by Pearl Global Limited.
- House of Pearl Fashions Limited owns 60.49% stake in Pearl Global and has six factories in Gurgaon with a combined capacity of 9 million pieces per annum.
- Pearl Global Limited has also set up a new state-of-the-art bottom manufacturing facility in MEPZ Chennai and acquired an existing knits & woven facility in Gurgaon with a capacity of 3 million pieces each per annum.
- House of Pearl Fashions Limited also has plans to enter the retail sector in India and also launch its own brand.

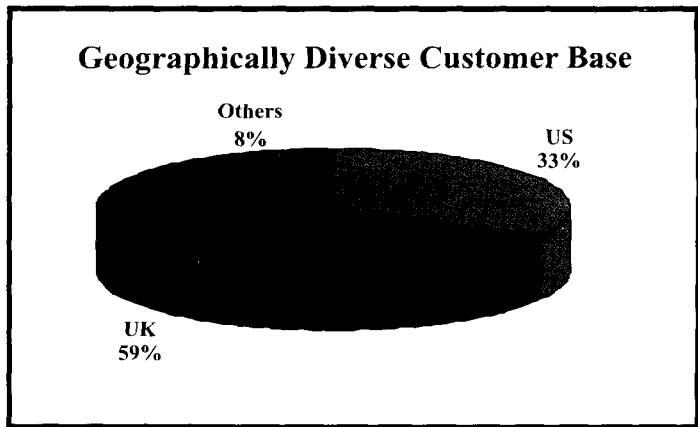
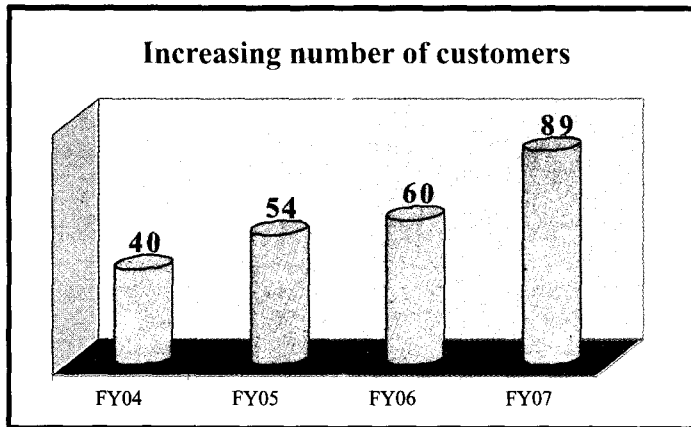
Leading Customers

- Currently servicing 89 retailers across the globe with a healthy spread between USA, Latin America & Europe.
- Some leading customers include GAP, Banana Republic, ASDA-Wal-Mart, Kohl's, Esprit, Next, etc.
- House of Pearl Fashions Limited has added 29 new clients in FY07, some significant among these are TESCO, K Mart, Hudson, H&M, Value City, Auchan, etc.
- House of Pearl Fashions Limited is a strategic vendor for retailers like ASDA Walmart and JC Penney.



Performance Overview

Leading Customers



Highlights of the year

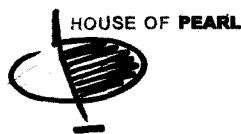
- House of Pearl Fashions Limited has doubled its production capacity to 20 million pieces per annum from 10 million pieces per annum.
- Started operations at a new facility in Chennai for bottoms manufacturing with a capacity of 3 million pieces per year.
- Acquired a knits manufacturing facility with a capacity of 3 million pieces in Gurgaon.
- Acquired a new warehouse in Milton Keynes, UK. Capacity increased to handle 2 million pieces per annum.
- Added 29 new clients during the year.
- Bought a new office space in Norwest, Hong Kong.
- Mr. Tom Singh one of the UK's leading entrepreneur-investor and founder of New Look Plc joined the board of House of Pearl Fashions Limited as an Independent Director.

Parameter	FY07	FY06
Factories	10	9
Production Capacity (million pieces)	20	10
Customers	89	60
Employees	10,133	9,250

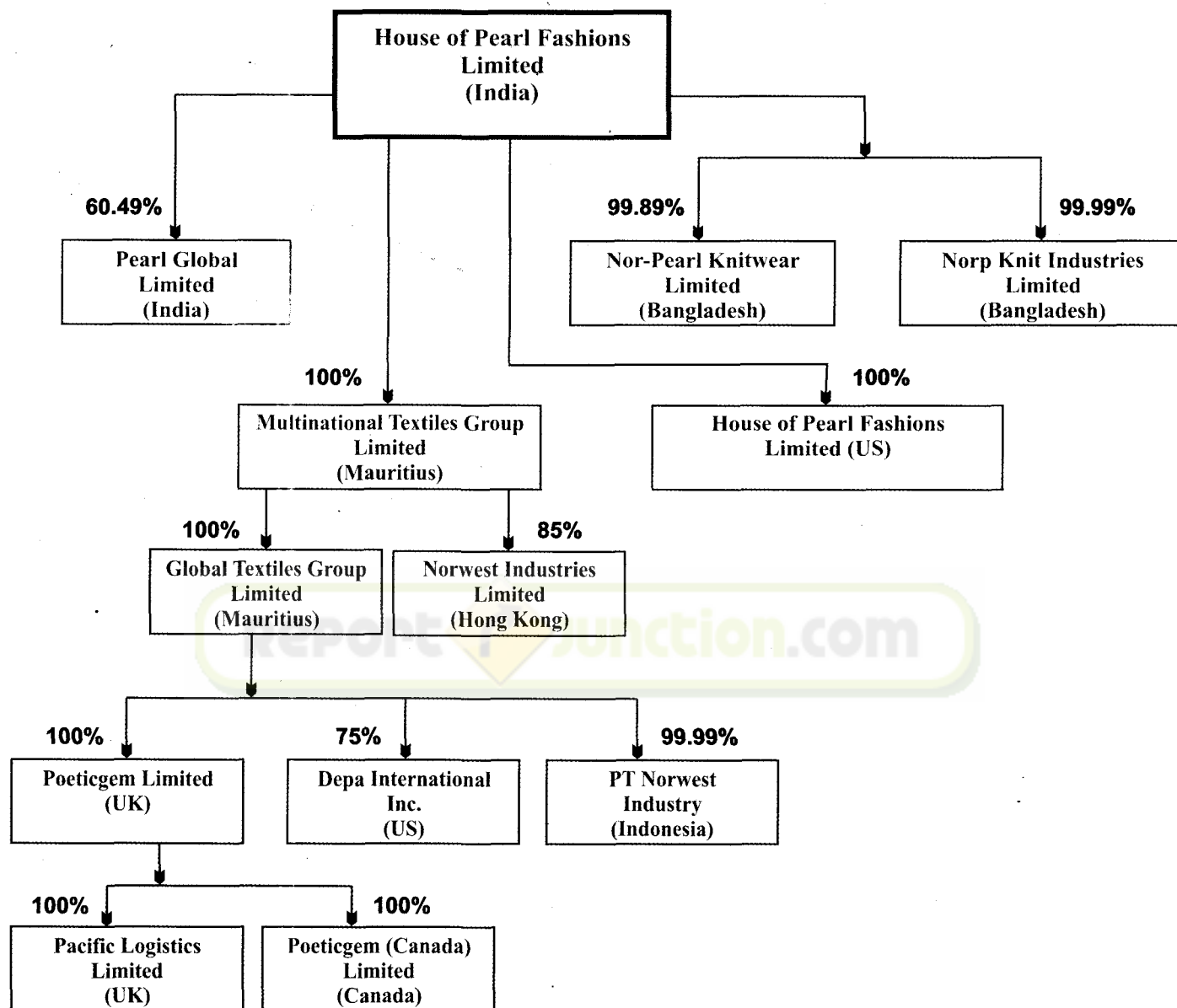
Forward Looking Statement

Certain statements in this document with words or phrases such as "will", "should", etc., and similar expressions or variation of these expressions or those concerning our future prospects are forward looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to a number of risks or uncertainties associated with the expectations. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy and changes in government policies. The company may, from time to time, make additional written and oral forward looking statements, including statements contained in the company's filings with the stock exchanges and our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company.





Integrating Businesses under House of Pearl Fashions Limited



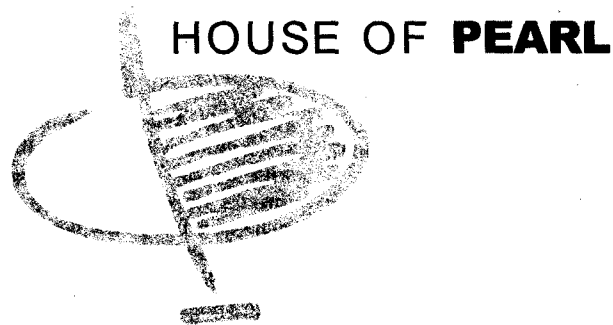


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DIRECTOR'S REPORT

To the Shareholders,

The Directors of your Company have pleasure in presenting the 18th Annual Report and Audited Accounts for the year ended 31st March 2007, together with the Auditors' Report thereon.

CONSOLIDATED WORKING RESULTS OF THE COMPANY UNDER INDIAN GAAP

During the year under review, the consolidated Income of your Company are Rs. 95,247 lacs. Your Company has achieved a Net Profit after Tax of Rs. 5,264.90 lacs.

(Rs. in Lacs)		
Particulars	2006-2007	2005-2006
Income	95,247.86	16,961.12
Profit before Tax	7,364.96	1,301.24
Provision for Current Tax	2,100.06	741.43
Profit After Tax	5,264.90	559.81
Profit brought forward	1111.59	799.95
Profit Available for Appropriations	5,883.90	1288.48

Due to recent Group restructuring previous year figures are not comparable.

WORKING RESULTS OF THE COMPANY (Standalone basis)

(Rs. in Lacs)		
Particulars	2006-2007	2005-2006
Income	1,100.45	106.17
Profit before Tax	430.78	67.48
Provision for Current Tax	5.67	(1.10)
Profit After Tax	436.45	66.37
Profit brought forward	424.13	357.75
Profit Available for Appropriations	860.58	424.13

OPERATIONS

The global economy expanded vigorously in 2006, growing by 5.4%. In the United States, the expansion slowed in the face of headwinds from a sharp downturn in the housing market, but oil prices decline since August 2006 helped the US economy as it helped to sustain consumer spending. In the Euro area, growth accelerated to its fastest pace in 6 years as domestic demand strengthened. Among emerging market and developing countries, rapid growth was led by China and India, while momentum was sustained across other regions as Countries benefited from high commodity prices and supportive financial conditions. Against the background of strong growth and reduced concerns about inflation, global financial market conditions have generally been buoyant. In foreign exchange markets, the US dollar has weakened, mainly against the Euro, Pound Sterling and Rupee. Emerging markets like China, India saw tightened monetary policy and consequent increase in interest rates.

Overall the economic environment has been stable and in the right direction with continued thrust on inclusive growth.

In 2005, trade quotas were abolished, thus ending decades of control and incentives for inefficiencies. This was the beginning of the flattening of textile world. Although the overall growth rate of textile production was secular, there were significant developments on the trade frontiers. Vietnam got entry into the WTO group of countries in 2006. Giants like India and China which ramped up their exports in 2005, witnessed the steep growth tapering away in 2006. While China's exuberance was limited by barriers of USA and EU beginning 2006, India on the hand, along with China, was losing to fresh wave of competition from smaller players like Bangladesh, Vietnam, Cambodia and Indonesia in USA's apparel market.

India, Indonesia and Pakistan were major trade gainers in 2005, of course with China on the top. These countries saw their rank in world trade move up the ladder. However, 2006 saw emergence of small players in global textile trade.

In, 2007, the readymade garments industry would continue to expand

further in Asian region in terms of investments and supplies. Trade competition will hot up further as smaller countries will be catching up with low cost production levels of India and China. Middle East will be thriving on supplies of raw material to textile industry in Asia. There could be a likely slow down in USA economy in 2007, which will impose bigger challenges to its exporters. China will have to wait for 2007 to end to reap the benefits of open and frictionless trade. India will be preparing to go up the value chain to capture niche markets worldwide.

In spite of all evens and odds in the Global and Indian economy and strong competition from small players, for the year under review, your Company witnessed an improved performance on all accounts as company's current year financials show improvement as compared to the previous year.

Your Company recorded consolidated income of Rs. 95,247.86 lacs, while consolidated net profits at Rs. 5264.90 Lacs. The key contributors to this improved performance were careful and focused restructuring of the group to workout synergies in operations and this resulting in control over costs. The Company has started the policy of procurement / utilization of services at worldwide level which helps the Company in negotiating best prices for goods to be produced / services to be utilized world over. Your Company continued to consolidate its position with improvement in the market share.

Your Company is stable and healthy, with strong fundamentals, is focused on long term sustainable growth. This stability and health lies in our business model and relationship of trust and confidence build over the years with our customers. The Company remains steadfast in following the four strategic pillars of sustainable growth – low cost, highly efficient operations, design and development, and customers / buyers satisfaction. It also follows the economic model that comprises the value drivers that synergies sales, growth, profit margins and capital efficiency.

The highlights of the year include :(Consolidated Figures)

1. Operating profit (PBDIT) stood at Rs.9,938.29 Lacs in 2006-07.
2. Earnings per Share (EPS) for the financial year ended 2006-07 are Rs.32.23.

The Company added twenty nine new customers and existing buyers have increased their business volumes resulting in higher turnover.

DIVIDEND

Your Directors feel in order to conserve resources to face future challenges and further expansion plans, do not recommend any Dividend for the year under Report.

CHANGE IN DIRECTORSHIP

The Board of Directors in their meeting held on 15th July, 2006 appointed Mr. Pulkit Seth, Director as Managing Director of the Company for a period of 3 years, commencing from 15th July, 2006 without any remuneration. The members accorded their consent for the appointment in the meeting held on 25th August 2006. Mr. Pulkit Seth, have substantial powers to manage the day-to-day affairs and operations of your Company, under the superintendence and control of the Board of Directors of your Company.

The Board of Directors in their meeting held on 3rd October 2006, has appointed Mr. Rajendra Kumar Aneja and Mr. Chittranjan Dua as additional directors of your Company w.e.f. 12th September 2006. The Board in their meeting held on 3rd October 2006, has also appointed Mr. Tom Tar Singh as an additional director of your Company w.e.f. 26th September 2006.

Keeping in view the vast experience and knowledge of Mr. Rajendra Kumar Aneja, Mr. Chittranjan Dua and Mr. Tom Tar Singh, it will be in the interest of your Company to appoint them as Directors of your Company. Accordingly, Resolutions for their appointments are being proposed in the ensuing Annual General Meeting.

SUBSIDIARY COMPANIES

In line with the requirements of Accounting Standards AS-21 issued by the Institute of Chartered Accountants of India, consolidated financial statements presented by the Company include the financial information of its Subsidiaries. As required under Section 212 of the Companies Act, 1956, the statement in respect of the Subsidiary Company(s) is annexed herewith and forms an integral part of this Annual Report.

AUDITORS

The Auditor M/s S. R. Dinodia & Co., Chartered Accountants, New Delhi, retire at the conclusion of the ensuing Annual General Meeting and is eligible for re-appointment.

FIXED DEPOSITS

Your Company has not accepted any Fixed Deposits from Public or Shareholders.

DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, it is hereby confirmed:

- i) That in the preparation of the accounts for the financial year ended 31st March 2007, the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed. There are no material departures from prescribed accounting standards in the adoption of the accounting standards.
- ii) That the Directors have adopted such accounting policies and applied them consistently and made judgments and estimates that were 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 the year under review.
- iii) That the Directors have taken proper and sufficient care for the 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) That the Directors have prepared the accounts for the financial year ended 31st March 2007 as a 'going concern' and on accrual basis.

INITIAL PUBLIC OFFERING

During the year, your Company came out with its public issue of 59,84,994 equity shares of Rs. 10/- each for cash at a price of Rs. 550/- per equity share comprising a fresh issue of 47,59,794 equity shares of Rs. 10/- each by the Company and an offer for sale of 12,25,200 equity shares of Rs.10/- each through its Prospectus dated 29th January 2007 under 100% Book Building Process. The Company allotted equity shares (on pari-passu basis) pursuant to Prospectus dated 29th January 2007 as summarised below:

6th February 2007 : 47,59,794

23rd March 2007* : 4,29,906

(* under Green Shoe option)

LISTING

The shares of your Company are listed at Bombay Stock Exchange Limited, Mumbai and National Stock Exchange of India Limited, Mumbai. The listing fees to the Stock Exchanges for the year 2007-08 have been paid.

REGISTRAR AND SHARE TRANSFER AGENT

Intime Spectrum Registry Limited has been appointed as Registrars and Share Transfer Agent (RTA) as common agency both for physical and demat shares, as required under Securities Contract (Regulation) Act, 1956. The detail of RTA forms part of the Corporate Governance Report.

CORPORATE GOVERNANCE

Report on Corporate Governance along with the certificate of the Auditors, confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement, forms part of the Annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

A detailed review of operations, performance and future outlook of the Company is given separately under the head "Management Discussion and Analysis".

NOTES TO ACCOUNTS

The observations of the Auditors, if any, have been adequately explained in Notes to Accounts and need no further clarification.

PARTICULARS OF EMPLOYEES

The information required in terms of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is not required to be given, as there is no employee drawing remuneration exceeding the prescribed limits.

STATUTORY DISCLOSURES**Details of Conservation of Energy and Technology Absorption**

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosures of Particulars in the Report of the Board of Directors) Rules, 1988 relating to 'Energy Conservation' and 'Technology Absorption' are not applicable as the Company does not have any manufacturing activity.

Foreign Exchange Earnings and Outgo

(Amount in Rs.)

Particulars	Current Year	Previous Year
Earnings:		
Export of Goods – FOB basis	5,49,21,207.16	-
Total	5,49,21,207.16	-
Outgo:		
Foreign Traveling	19,65,478.06	-
Public Issue Expenses	70,81,334.00	-
Total	90,46,812.06	-

ACKNOWLEDGEMENT

The Directors of your Company are thankful to Bankers, Business Associates, Customers, Members, Government Bodies & Regulators for the continuous support received from them and place on record their appreciation for the sincere services rendered by the employees at all level.

On Behalf of the Board

Place: Gurgaon
Date : 31st July, 2007

Sd/-
(Deepak Seth)
Chairman

CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY

Your Company has an unwavering commitment to upholding sound corporate governance standards and highest business conduct. Being a value driven organization, House of Pearl Fashions has always worked towards building trust with shareholders, employees, customers, suppliers and other stakeholders based on the principles of corporate governance – integrity, equity, transparency, fairness, disclosure, accountability and commitment to values.

House of Pearl Fashions strives to foster a corporate culture in which high standards of ethical behavior, Individual accountability and transparent disclosure are ingrained in all its business dealings and shared by its board of directors, management and employees. The Company has established systems to ensure that the board of directors of the Company are well – informed and well equipped to fulfill its overall responsibilities and to provide the management strategic directions it needs to create long- term shareholders value.

Your Company is committed to best Corporate Governance and has fully complied with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges. The Company in its endeavour towards the best Corporate Governance and to provide transparency initiated various measures.

This Chapter along with the chapter on Management Discussion and Analysis, reports your Company's, compliance with Clause 49 of the Listing Agreement.

2. BOARD OF DIRECTORS

As on 31st March 2007, the company's board of directors consists of 9 (Nine) members. The Chairman of the Board is non-executive director. The Board comprises of one executive director and Eight non executive directors, of whom five are Independent Directors. The composition of the Board is in conformity with the requirements of Clause 49 of the listing agreement, which stipulates that fifty percent of the board should comprise of non executive directors if the Chairman is executive director and one - third of the board should be independent, if the Chairman is non-executive director. All non-executive independent directors are persons of eminence and bring a wide range of expertise and experience to the board.

Director's attendance record and directorship held for the year 2006-2007 is given as per table hereunder:

S. No.	Name of Director	Category	Number of Meetings attended (Total meeting held 23)	Whether attended last AGM	No. of outside directorships	No. of Committee	
						Member	Chairman
1	Mr. Deepak Seth	Chairman	15	Yes	1	-	-
2	Mr. Pallak Seth	Vice-Chairman	1	No	1	-	-
3	Mr. Pulkit Seth	Managing Director	19	Yes	1	1	-
4	Mr. Sanjay Pershad	Non-Executive Director	23	No	2	1	-
5	Mrs. Payel Seth *	Non-Executive Director	5	Yes	-	-	-
6	Mr. Sunil Seth *	Non-Executive Director	4	Yes	-	-	-
7	Mr. Tom Tar Singh	Non-Executive, Independent Director	-	No	-	-	-
8	Dr. Ashutosh P. Bhupatkar	Non-Executive, Independent Director	11	No	-	-	2
9	Mr. Samar Ballav Mohapatra	Non-Executive, Independent Director	11	No	-	2	-
10	Mr. Chittrnanjan Dua	Non-Executive, Independent Director	-	No	6	-	-
11	Mr. Rajendra Aneja	Non-Executive, Independent Director	-	No	-	-	-

Notes:

- The committees considered for the purpose are Audit Committee and Shareholder Grievance & Transfer Committee.
- Foreign Companies, bodies corporate, private companies and companies under section 25 of the Companies are excluded for the above purpose. The Board of Directors in their meeting held on 15th July, 2006 appointed Mr. Pulkit Seth as Managing Director of the Company for a period of three years.

The Board of Directors in their meeting held on 1st August, 2006 have appointed Dr. A. P. Bhupatkar and Mr. S. B. Mohapatra as Directors, liable to retire by rotation.

Mr. Chittrnanjan Dua and Mr. Rajendra Aneja were appointed as additional director w.e.f. 12th September 2006 by the Board of Directors in their meeting held on 3rd October 2006, liable to retire by rotation.

Mr. Tom Tar Singh, was appointed as additional director w.e.f. 26th September 2006 by the Board of Directors in their meeting held on 3rd October 2006, liable to retire by rotation.

As stipulated by Clause 49, none of the directors is a member of more than 10 committees, or Chairman of more than 5 committees across all companies in which he is a director.

There are no Nominee Directors or Institutional Directors on the Board of the Company.

* Mrs. Payel Seth and Mr. Sunil Seth resigned from the directorship of the company with effect from 8th July 2006.

Number of Board Meetings held and the dates on which held

23 (Twenty Three) Board Meetings were held during the year. The dates on which the meetings were held are as follows:

10th April 2006, 20th April 2006, 6th May 2006, 9th May 2006, 17th May 2006, 29th May 2006, 17th June 2006, 20th June 2006, 30th June 2006, 7th July 2006, 15th July 2006, 17th July 2006, 1st August 2006, 3rd October 2006, 9th October 2006, 10th October 2006, 16th December 2006, 26th December 2006, 3rd January 2007, 24th January 2007, 29th January 2007, 6th February 2007 and 19th February 2007.

Information supplied to the Board

The board has complete access to all information with the company. *Inter alia*, the following information is provided to the board.

- Annual Operating plans and budgets, Capital budgets, updates;
- Quarterly results for the company and its operating divisions or business segments;