

HOUSE OF PEARL FASHIONS LIMITED



ANNUAL REPORT 2008-2009

Making figures count



LERROS

GERMANY.1979



SELECT CITYWALK, SAKET - NEW DELHI



100 FT ROAD - BANGALORE



THE GREAT INDIA PLACE - NOIDA

Board of Directors

Mr. Deepak Seth	-	Chairman
Mr. Pallak Seth	-	Vice-Chairman
Mr. Pulkit Seth	-	Managing Director
Mr. Sanjay Pershad	-	Non-executive 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 K. Aneja	-	Non-executive Independent Director

Company Secretary

Mr. Sandeep Sabharwal

Audit Committee

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

Remuneration Committee

Mr. S. B. Mohapatra	-	Chairman
Mr. Rajendra K. Aneja	-	Member Director
Dr. Ashutosh P. Bhupatkar	-	Member Director

Shareholders Grievance & Transfer Committee

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

Finance Committee

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

Auditors

M/s S. R. Dinodia & Co.
Chartered Accountants
K-39, Cannaught Place
New Delhi -110001

Registered Office:

"Pearl House"
A-3, Community Centre,
Naraina Industrial Area, Phase-II,
New Delhi -110028

Bankers:

AXIS Bank Limited
The Hongkong and Shanghai
Banking Corporation Ltd.
Punjab National Bank
Standard Chartered Bank
Royal Bank of Scotland
UCO Bank
China Trust Commercial Bank

Corporate Office:

446, Udyog Vihar, Phase- V,
Gurgaon-122016 (Haryana)



LERROS FASHIONS INDIA PVT. LTD.

- The Company has launched Retail Chain of High Fashion Apparels under LERROS Brand of Germany. This domestic retail chain is carried by the Joint Venture Company LERROS Fashions India Pvt. Limited, in collaboration with LERROS GmbH, Germany. Main highlights of this domestic retail chain business are:
- Won the award for the best new brand launch for 2008 at the Images Fashions Awards 2009, recognized by the International Council of Shopping Centre (ICSC).
- Opened 8 LERROS exclusive stores across the country. Also have 11 shop in shop across the country.
- Have already formed partnerships with Shoppers Stop, Central, among the large retailers. Further, also tied up with other regional retailers.
- Whole sale business has also been started with Mumbai and Gujarat covered on Spring Summer 2009.
- Have already achieved 50% contribution from women's wear which augurs well for the brand growth. In the women's wear segment there is a distinct gap in the market in the western casual wear segment which we are tapping.
- Our product price puts us in the mid premium segment of the market along with Benetton, Tommy Hillfinger, S. Oliver, etc.





NEW INITIATIVES

Enter New Product Segment / products

- Baby-wear, division of Poeticgem for exclusive supply to ASDA from UK, setup in January 2009
- New division of Poeticgem for marketing Licensed products in UK, setup in September, 2008
- Zamira and its subsidiary established to target Mid and Upper Fashion market. Zamira set-up in June 2007 and subsidiary setup in January 2009
- JV with GES Corp to source Home Décor products, operating from Hong Kong, setup in June 2008
- New company Poetic Knitwear to target Sweater market in UK
- Acquired "Pample Mouse" brand and initiated business to cater to Jersey wear market in UK

Enter New Geographical areas

- JV with GES Corp to market apparel to South American customers, set up in June 2008. JV operating from Hong Kong, China and Chile

Strategic expansion of Manufacturing

- Expansion of Woven facility in P T Norwest, Indonesia, capacity enhancement of 2 ml. pcs.
- Expansion of Knits facility in Norp Knit, Bangladesh
- Acquired 30% stake in a manufacture unit in Vietnam in January 2009

Establish strategic vendor relationship

- Identified as strategic vendor for top retailers
- Ranked as biggest garment vendor to ASDA/ MATALAN, UK / JC Penney, USA and number fifth largest garment vendor to Tesco, UK. Also among top five vendors out of India to GAP Inc, Kohls, USA
- Working with other retailers closely to be classified as strategic vendor.

Brand & Retailing

- Launched leading international brand LERROS from Germany in India with 40% foreign equity participation by LERROS GmbH.
- Acquired Licences from Geoffrey Beene, LLC to market men's casual slacks, casual shorts and dress slacks under the Geoffrey Beene mark in USA

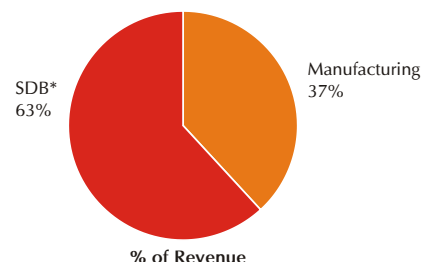
Design Centre & Corporate Office

- To show case our designing capabilities, a design centre cum corporate office is being built at Sector 32, Gurgaon

REVENUE SEGMENTATION

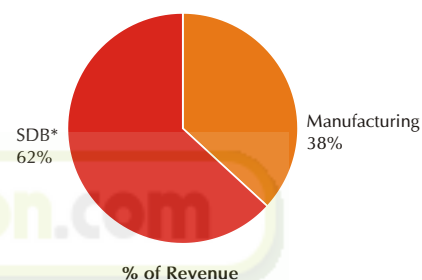
REVENUE FROM BUSINESS DIVISIONS

Revenue Segmentation: Consolidated FY 09



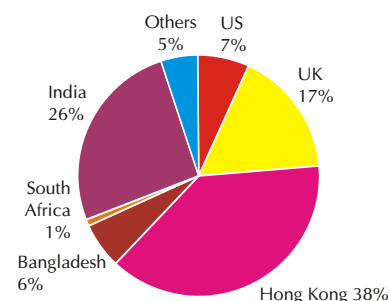
* Selling & Distribution Business

Revenue Segmentation: Consolidated FY 08

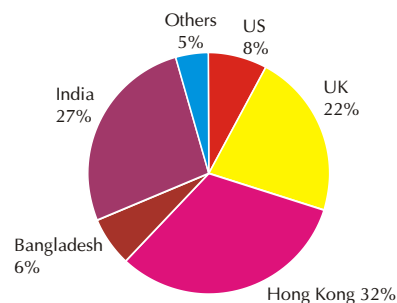


REVENUE FROM GEOGRAPHICAL LOCATIONS

Location wise Revenue Segmentation: FY 09

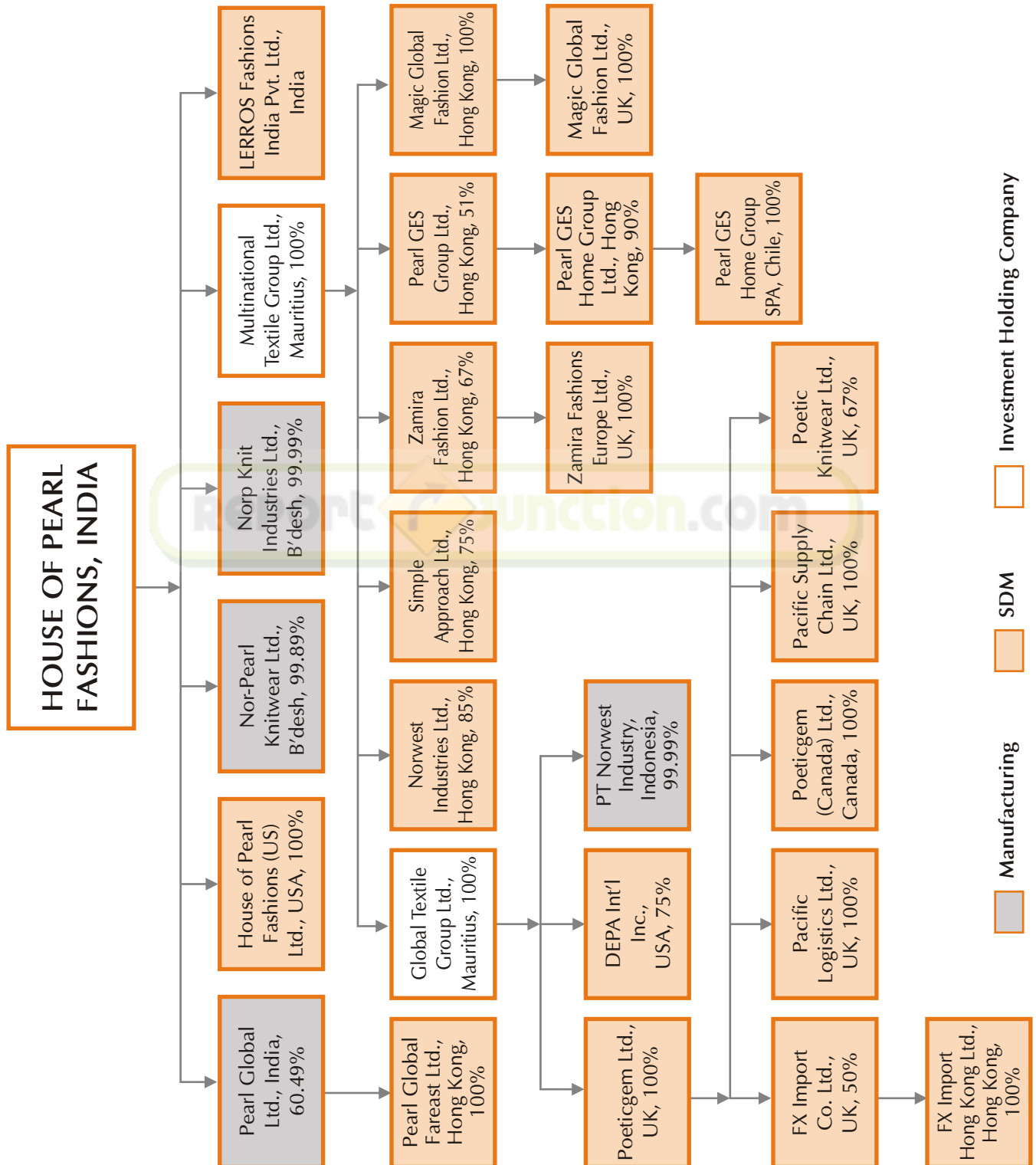


Location wise Revenue Segmentation: FY 08





INTEGRATING BUSINESSES UNDER HOUSE OF PEARL FASHIONS LIMITED





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HOUSE OF PEARL FASHIONS LIMITED

DIRECTORS' REPORT

To the Shareholders,

The Directors of your Company have pleasure in presenting the 20th Annual Report and Audited Accounts for the year ended 31st March 2009, together with the Auditors' Report thereon.

CONSOLIDATED WORKING RESULTS

	(Rs. in Lacs)	
	2008-2009	2007-2008
Income	144790.93	108,002.57
Other Income	3482.68	3707.09
Profit before Tax & Adjustments	179.43	7539.80
Provision for Tax	41.43	1214.67
Provision for Forward contract loss	-	1280.27
Provision for Bad debt	(5.79)	(26.97)
Profit After Tax	132.21	5019.32
Profit brought forward	9900.85	5348.63
Profit Available for Appropriations	10438.62	10349.66
EPS (in Rs.)	2.76	25.65

WORKING RESULTS OF THE COMPANY

	(Rs. in Lacs)	
	2008-2009	2007-2008
Income	2283.25	1512.88
Other Income	2025.46	1498.95
Profit before Tax	1188.73	1171.28
Provision for Tax	272.08	105.29
Profit After Tax	916.66	1065.98
Profit brought forward (incl. AS 15 adjustment)	1068.58	451.41
Profit Available for Appropriations	1985.24	1517.40

BUSINESS AND OPERATIONS

The international trade has shrunk due to the recession. The low consumer demand in the western world has forced the retailers to re-strategise their businesses. The overall buying by these retailers have gone down by at least 25% as they are focusing on clearing up their inventories. The mid market retailers have been badly affected as consumers are flocking to value retailer for bargains. The retail industry in US and EU is going through the consolidation phase and large numbers of retailers especially in mid market have closed down. Despite of such gloomy market scenario, your company has managed to post impressive top -line growth in excess of 34% on year-on-year basis.

Your company enjoys strategic partnerships with some of the top retailers of the world due to its global foot prints and strong value offerings. The retailers have resorted to vendor consolidation to counter the drop in demand and are currently canalizing their buying through limited strategic vendors only. Your company has remained as a strategic vendor with them due to its unique business model and highly motivated team.

Your company has managed to not only retain its market share but has driven growth by entering new product categories like knitwear, bottom wear and baby wear. The strategic acquisitions that your company has made over last year are helping it add customers and enter new geography.

The margins however remained under pressure as retailers are asking for sharper prices. The new strategic acquisitions have also taken a toll on margin in existing businesses, as they are in the first year of operations. As a result the profit after tax has dropped to Rs.132 lacs this year from Rs.5019 lacs in last year.

ACQUISITIONS & NEW SUBSIDIARIES

The Company, through its wholly owned subsidiary Multinational Textile Group Ltd., has acquired 30% stake in the Premier Pearl Garment Joint Stock Company, Vietnam. Vietnam offers high labour efficiency and high quality of stitch work.

Multinational Textile Group Ltd. formed a Joint Venture Company "Pearl GES Group Limited" with GES Corp to source Home Decor products from South American Market. Further, Pearl GES Group Limited formed a subsidiary "Pearl GES Home Group Limited" in Hong Kong. Pearl GES Home Group Limited, further incorporated a wholly owned subsidiary company in Chile in the name of "Pearl GES Home Group SPA".

The Company through Multinational Textile Group Ltd. formed Simple Approach Limited in Hong Kong. Multinational Textile Group Ltd. formed a wholly owned subsidiary "Magic Global Fashions Ltd" in Hong Kong to target Denim and young fashion in France, Holland and Germany.

The company has set up one sub-subsidiary in UK in the name of Poetic Knitwear Limited, subsidiary of Poeticgem Limited for trading activities.

Zamira Fashions Limited, Hong Kong, a sub-subsidiary of the company formed a new company in United Kingdom in the name of "Zamira Fashions Europe Limited".

Pearl Global Ltd, a subsidiary Company has also incorporated a new Company "Pearl Global Fareast Ltd" in Hongkong for sourcing and trading of garments from Fareast Countries.

The Company has already entered into retail chain business in India through its Joint Venture Lerros Fashions India Pvt. Ltd, with German brand "LERROS" after receipt of regulatory approval of Government. This Company has already opened 8 stores in Metro Cities and 11 shop in shop in India. Lerros Fashions India Pvt. Ltd. became subsidiary of the Company w.e.f. 31st March 2009.

CORPORATE SOCIAL RESPONSIBILITY

The company has been taking up and fulfilling its fundamental responsibility towards society. Little Pearl Educational Society, set up by the group has been imparting employment oriented higher education through Pearl Academy of Fashion (PAF), Management Studies through Pearl School of Business (PSB) and retail sector education through Indian Retail School (IRS). PAF, a pioneering institute of fashion technology has been imparting quality education in fashion for more than a decade. PSB is conducting BBA and MBA courses, imparting entrepreneurial talent to students. IRS has taken initiative to impart career oriented training in retail sector. ARPAN is helping underprivileged children, studying in 1st to 5th level financially and also supporting the school system.

AWARDS AND RECOGNITION

Based on our fulfilling corporate social duties and responsibilities, J C Penny has awarded the Company with "Best Corporate Social Responsibility" award. The company has been selected for this award out of entire vendors of J C Penny in Asia Pacific region.

DIVIDEND

The Directors do not recommend any dividend for the year under review, and would like to conserve cash for future growth.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of your Company, Mr. Deepak Seth, Mr. Pulkit Seth, Mr. Rajendra K Aneja and Mr. Chittranjan Dua, would retire by Rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Necessary resolutions for their appointment are included in the notice convening Annual General Meeting.

DIRECTORS IDENTIFICATION NUMBER (DIN)

The following are the Directors Identification Number (DIN) of your Directors:

Mr. Deepak Seth	-	00003021	Dr. Ashutosh Prabhudas Bhupatkar	-	00479727
Mr. Pallak Seth	-	00003040	Mr. Chittranjan Dua	-	00036080
Mr. Pulkit Seth	-	00003044	Mr. Samar Ballav Mohapatra	-	00327410
Mr. Sanjay Pershad	-	00003054	Mr. Rajendra Kumar Aneja	-	00731956

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 companies is annexed herewith and forms an integral part of this Annual Report.

AUDITORS

The Auditors, M/s S. R. Dinodia & Co., Chartered Accountants, New Delhi, retire at the conclusion of the ensuing Annual General Meeting and are 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:

- That in the preparation of the accounts for the financial year ended 31st March 2009, 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 2009 as a 'going concern' and on accrual basis.

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 2009-10 have been paid.

REGISTRAR AND SHARE TRANSFER AGENT

Link Intime India Pvt. Ltd (formerly known as 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".

AUDITORS' REPORT

In respect of Auditors' observation in Auditors' Report on the Consolidated Financial Statements, on one subsidiary, Pearl Global Fareast Ltd., the Financial Statements whereof have been certified by management, we submit that this subsidiary incorporated on 16th March 2009, had not commenced any business till 31st March 2009. Other observations of the Auditors, if any, have been adequately explained in Notes to Accounts and need no further clarification.

PARTICULARS OF EMPLOYEES

A statement showing particulars of employees required under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is annexed hereto as Annexure I and forms an integral part of the Report.

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. Information pertaining to activities relating to exports, initiative taken to increase exports, development of new export markets and exports plans are as follows:

The Company through subsidiaries is into export of garments to various countries and has taken various initiatives for increasing exports like strengthening design & development, outsourcing garments from cost effective locations. The Company has through subsidiaries, explored new markets in South America. The Company has valued buyers across the globe and plans to cater to new markets and also to cater to 'A' category of International buyers especially through Chennai unit of its subsidiary.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The company is not carrying on export apart from through subsidiaries.

Total Foreign Exchange used and earned (in RS.):

	2008-2009	2007-2008
Foreign Exchange Earnings		
Export of Goods- FOB basis	215,827,507	3,880,275
	<u>215,827,507</u>	<u>3,880,275</u>
Foreign Exchange Outgo		
Foreign Traveling	4,474,073	3,963,355
Commission	2,151,273	
	<u>6,625,346</u>	<u>3,963,355</u>

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.

For and on behalf of the Board
for House of Pearl Fashions Limited

(Samar Ballav Mohapatra)

Director

DIN: 00327410

(Dr. Ashutosh P Bhupatkar)

Director

DIN: 00479727

Place : Gurgaon
Date : 31.07.2009

Annexure-I to the Directors' Report

Name of the Employee	Age (Years)	Designation	Remuneration (Rs.)	Qualification	Experience (in years)	Date of Employment	Nature of Duties	Previous Employment & Post held
Pulkit Seth	29	Managing Director	50,07,800/-	Graduate in Management, Studies from, Leonard N. Stern School of Business, New York, University	8 Years	01.04.2005	Managing the Company	Norwest Industries Ltd., Hong Kong, as Joint Managing Director and became Managing Director in the year 2003.
Rishi Raj Vig	39	Chief Finance Officer	28,31,360/-	B.Com, ICWA, CPA (US)	19 Years	27.02.2006	Finance & Accounts	Sr. GM (F&A) Pearl Global Limited GM Finance, Shahi Exports Private Limited March 2005 – February 2006
Col. Ramesh Wahi	59	Group Chief Information Officer (IT)	27,65,000/-	M.Tech	37 Years	17.08.2006	Information Technology	Vice President NIIT-GIS Ltd., August 2000 – July 2006

Notes:

- Employments of aforesaid officials are on contractual basis. Other terms and conditions are as per Company's Rule.
- Remuneration calculated under Section 198 of the Companies Act, 1956 and includes Salary, Medical Expenses, Company's contribution to Provident Fund and House Rent Allowance or any Expenditure incurred in providing Rent Free Residential Accommodation and Allowances.
- None of the above mentioned employee except Managing Director hold the prescribed Percentage of equity shares in the company within the meaning of 217(2A)(a)(iii) of the Company's Act, 1956.

CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY

Corporate Governance is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values. Good governance practices stem from culture and mindset of the organization.

The Company has an unwavering commitment to uphold sound corporate governance standards and highest business conduct. Being a value driven organization, House of Pearl Fashions Limited has always worked towards building trust with stakeholders based on the principles of corporate governance.

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. Over the years, governance process and systems have been strengthened at House of Pearl Fashions. In addition to complying with the statutory requirements, effective governance system and practices towards improving transparency, disclosures, internal controls and promotion of ethics at work-place. 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 endeavor towards the best Corporate Governance and to provide transparency initiated various measures.

This Report, along with the chapters on Management Discussion and Analysis and additional Shareholder's information, reports Company's compliance with Clause 49 of the Listing Agreement.

2. BOARD OF DIRECTORS

As on 31st March 2009, the company's Board of Directors consists of 8 (Eight) members. The Chairman of the Board is non-executive Promoter director. The Board comprises of one executive director and seven non-executive directors, of whom four are Independent Directors. The composition of the Board is in conformity with the requirements of Clause 49 of the listing agreement. All non-executive independent directors are persons of eminence and bring a wide range of expertise and experience to the Board.

6 (Six) Board Meetings were held during the year. The dates on which the meetings were held are as follows:

2nd April 2008, 13th May 2008, 20th June 2008, 30th July 2008, 31st October 2008 and 31st January 2009.

Composition and Category of the Board as on 31.03.2009 and their attendance in the Board and Annual General Meetings are as hereunder:

S. No.	Name of Director	Category	No. of outside directorships	No. of Committee		Attendance	
				Member	Chairman	Board Meetings	Annual General Meetings
1.	Mr. Deepak Seth	Non-Executive Chairman	1	—	—	4	Yes
2..	Mr. Pallak Seth	Non Executive Vice-Chairman	1	—	—	—	No
3.	Mr. Pulkit Seth	Managing Director	1	2	—	4	Yes
4.	Mr. Sanjay Pershad	Non-Executive Director	1	1	—	3	No
5.	Dr. Ashutosh P. Bhupatkar	Independent Director	1	2	2	4	Yes
6.	Mr. Samar Ballav Mohapatra	Independent Director	5	2	2	6	Yes
7.	Mr. Chittranjan Dua	Independent Director	5	—	—	3	No
8.	Mr. Rajendra Aneja	Independent Director	—	—	—	2	No
9.	Mr. Tom Tar Singh*	Independent Director	—	—	—	—	No

* Mr. Tom Tar Singh resigned from the Board with effect from 22nd December 2008.

Mr. Deepak Seth, Chairman, being father, is related to Mr. Pulkit Seth, Managing Director and Mr. Pallak Seth, Vice Chairman.

Notes:

- The committees considered for the purpose are those prescribed under clause 49 (IV) (B) of the Listing Agreement.
- Foreign Companies, Bodies corporate, Private companies and Companies under section 25 of the Companies are excluded for the above purpose.

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

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

Information supplied to the Board

The board has complete access to all information with the company. Inter alia, the following information are provided to the board and the agenda papers for the meetings are circulated in advance of each meeting or are tabled.

- Annual Operating plans and budgets, Capital budgets, updates;
- Quarterly results for the company and its operating divisions or business segments;
- Minutes of meetings of Audit Committee and other committees of the board;
- Information on recruitment and remuneration of senior officers just below the board level including appointment or removal of Chief Financial Officer and Company Secretary;
- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents or dangerous occurrences;
- Any materially significant effluent or pollution problems;
- Any materially relevant default in financial obligations to and by the Company, or substantial non-payment for goods sold by the Company;
- Any issue, which involves possible public or product liability claims of a substantial nature;
- Details of any joint venture or collaboration agreement;
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property;
- Significant labour problems and their proposed solutions;
- Any significant development in the human resources and industrial relations fronts;
- Sale of material nature, of investments, subsidiaries, assets, which is not in the normal course of business;
- Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement, and
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholder services such as non-payment of dividend and/or delay in share transfer.

Compliance with the Code of Conduct

The Company has adopted a "Code of Conduct for the Directors and Senior Management". The Code is available on the official website of the Company www.houseofpearl.com.

It is hereby affirmed that the Directors and Senior Management have given an annual affirmation of compliance with the code of conduct.