

GEM SPINNERS INDIA LIMITED

THIRTEENTH ANNUAL REPORT

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2002-2003



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BOARD OF DIRECTORS

Mr. R. VEERAMANI
Chairman & Managing Director

Mr. S. R. ASAITHAMBI
Wholetime Director

Directors

Mr. S. R. KUMAR

Mr. P. P. DODDANAVAR

Mr. S. T. GANAPATHY MUDALIAR

Nominee Directors

Mrs. JAYASHREE MAHESH - ICICI

Mr. J. KIRUBAHARAN BASKAR - IDBI

Mr. K. M. LAL - BIFR

Executive Director

Mr. A. M. DURAIRAJ

Company Secretary

Mr. S. VASUDEVAN

AUDITORS

M/s. VIJAI SARATHY & CO.
Chartered Accountants
18-A, Rajamannar Street, Chennai - 600 017.

COST AUDITORS

M/s. R. KRISHNAN & CO.
Kovaipudur, Coimbatore.

BANKERS

INDIAN OVERSEAS BANK
STATE BANK OF INDIA

REGISTERED OFFICE & MILLS

14, Mangalam Village, Madhuranthagam Taluk
Kancheepuram District, Tamil Nadu - 603 107.

CORPORATE OFFICE

78, Cathedral Road, Chennai - 600 086.

REGISTRARS & TRANSFER AGENTS

GAMEO CORPORATE SERVICES LTD.
"Subramanian Building",
1, Club House Road, Chennai - 600 002.



NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Thirteenth Annual General Meeting of the shareholders of GEM SPINNERS INDIA LTD., Chennai will be held on Wednesday, the 27th August, 2003 at 11.00 a.m. at 14 Mangalam Village, Maduranthagam Taluk, Kancheepuram District, Tamil Nadu to transact the following business.

Ordinary Business

1. To consider and adopt the Balance Sheet as at 31st March, 2003, the Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in the place of Sri. S. R. Kumar, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Sri. P. P. Doddanavar who retires by rotation and being eligible, offers himself for re-appointment.
4. To consider and if thought fit, to pass, with or without modification, the following resolution as a special resolution.

"Resolved that M/s. Vijai Sarathy & Co., Chartered Accountants, Chennai, be and are hereby appointed as Auditors of the Company who will hold office from the conclusion of this Annual General Meeting until the

conclusion of the next Annual General Meeting and the Board of Director shall fix their remuneration."

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY FORMS, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE ANNUAL GENERAL MEETING. A PROXY SO APPOINTED SHALL NOT HAVE ANY RIGHT TO SPEAK AT THIS MEETING. THE PROXY FORM IS ENCLOSED.
2. Members are requested to bring their copies of the Annual Report to the meeting.
3. Members are requested to notify immediately any change in their address to the Company's Registered Office.
4. The Register of Members of the Company shall remain closed from 16.08.2003 to 27.08.2003 (both days inclusive).

By Order of the Board
For GEM SPINNERS INDIA LTD.

Place : Chennai
Date : 19.06.2003

S.VASUDEVAN
Company Secretary

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DIRECTORS' REPORT FOR THE YEAR 2002-2003

Our Directors have pleasure in presenting the 13th Annual Report on the performance of our Company along with the Audited Balance Sheet and Profit and Loss Account for the year ended 31.3.2003.

Financial Results	2002-03	2001-02
	(Rs.in lakhs)	(Rs.in lakhs)
Sales - Export	2989.06	3180.43
- Domestic	1386.68	580.61
- Waste	286.73	248.93
Total	4662.47	4009.97
Operating Profit	769.78	705.51
Less: Financial Charges	470.63	480.86
Gross Profit	299.15	224.65
Less: Depreciation	366.75	345.94
Net Loss for the year	(67.60)	(121.29)

Business Operations

With the implementation of the scheme of revival package, the production has improved as high as 29% with an increase in turnover of 16.27% as compared to the previous year. The export market continued but was slightly less than last year to the extent of 6.4%. However, due to static prices and lower Dollar value realisation, we had to take into account all the options to improve the viability and honour the scheme commitments. Hence, while maintaining the export quantum, though marginally less than in the previous year, we improved the domestic marketing as can be seen above. However, within the parameters of the E.O.U. scheme, we maintained the export share as well as the domestic sale entitlement upon payment of the extra excise duty, etc.

Further, during the later part of the year, there was a high increase in cotton prices to the extent of 47%. This was an unfortunate situation and surprisingly, there was no proportionate increase in yarn prices.

It is to be mentioned that the power cost got escalated and we had to take all measures to economise the power consumption and serious efforts were made to reduce the power cost front. It may be noted that the power and fuel cost for 2002-03 was of the order of Rs.809.05 Lakhs as against Rs.728.66 Lakhs during the previous year. There is an escalation of Rs.80.39 Lakhs during the year under report and had the power cost been at the same level of the previous year, the reported loss would have been totally avoided.

Further, it may also be noted that during the early part of the year 2002-03, the exchange rate of the Dollar in Rupees was at the level of Rs.48.50 and ended up at Rs.47.60 at the close of the year. This has also affected our export realisation.

Review of Operations

Our Company has achieved a turnover of Rs.4662.47 lakhs (trading Rs.133.72 lakhs) during the year under review as against Rs.4009.97 lakhs (trading Rs.54.35 lakhs) in the previous year. In an effect, the turnover has increased by 16.27% as compared to the previous year's performance. The operating profit has touched the level of Rs.769.78 lakhs as compared to the previous year mark of Rs.705.51 lakhs. The overall performance for the year under review was encouraging.

However, the financial performance had ended up with a relatively reduced negative figure of Rs.67.60 lakhs (Rs.121.29 lakhs) for the year 2002-2003 after charging Financial Charges to the tune of Rs.470.63 lakhs (Rs.480.86 lakhs) and Depreciation of Rs.366.75 lakhs (Rs.345.94 lakhs).

Status of the Industry

We, being an Export Community, are worried on account of continuing economic slackness across the world and added to that, the weakening of the US Dollar and consequent reduced Rupee realisation has also contributed the marginal loss. Despite the effort of Reserve Bank of India to reduce CRR to facilitate soft interest rate for the export community, prevailing pre and post shipment credit rate of 8 to 8.5% is not matching the stance of RBI. The Reserve Bank of India may try to help the exporting units by permitting them to borrow for both pre and post shipment at closer to LIBOR which will definitely help the industry to compete with other countries.

Looking at the current trend in the global market, it is interesting to note that our pessimism on the competitiveness of our Indian industry, particularly textile sector in the world market on the exit of quota regime and entry of free trade mechanism under WTO is slightly turning around and it looks to favour us. The economic instability due to political imbalance between the United States and allied countries brings better hope for our industry. Foreseeing the non-competitiveness during the exit of quota regime, the European Union Member countries have started establishing their units in their neighbouring countries where cheaper labour is available. The Indian market is closely monitoring the situation and is trying to have tie ups with the new countries. The recent SARS threat in China was also one of the reasons for the diversion of orders to the Indian market and the market feedback is such that the Indian weaving and



garment units have valuable orders on hand. This has brought encouragement for the domestic market players. As indicated in the last year's report, Government of India should take advantage of the situation and evolve clear policies for the Indian market to play in the changing global scenario.

However, the cost of funding for textile sector need to be reviewed by the Government of India so as to strengthen this sector ultimately to compete in the free market regime. Similarly, the power cost also needs to be reviewed for the textile sector as the cost is quite abnormal compared to many countries who are exporting yarn and textile products. Similarly, the handling cost at the port per container also need to be totally re-examined and refixed pragmatically to compete in the global market. Lastly, the container freight from India to overseas countries is relatively very high as mother ships are not calling on Indian ports and Indian consignments have to go by feeder vessel and reach the major port hubs like Singapore, Colombo, Dubai, etc. which create cost escalation as well as time delay whereas even smaller countries have developed the port infrastructure to handle and facilitate the calling of mother vessels. This infrastructural improvements have to be first directed for global competitiveness for India in general for the export community.

Statutory Statements

As per the requirements of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 the information regarding conservation of energy, technology absorption and foreign exchange earnings and outgo is given in Annexure I to this report.

Particulars of Employees Pursuant to the Provisions of Section 217(2A) of the Companies Act, 1956

The particulars required pursuant to Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 are not applicable to the Company as none of the employees was in receipt of remuneration in excess of Rs.2,00,000 p.m.

As required under Section 217(2AA) of the Companies Act, 1956, the Directors' Responsibility Statement is enclosed in Annexure II to this Report.

Directors

Under Article 110 of the Articles of Association of the Company, Sri. S. R. Kumar is due to retire during this Annual General

Meeting and being eligible, offers himself for reappointment. Sri. P. P. Doddanavar is due to retire during this Annual General Meeting and being eligible, offers himself for reappointment.

Deposits

Our Company has not accepted any deposit from the public during the year under review.

Implementation of the Scheme

You are aware that pursuant to the BIFR Order dated 24.4.2002, 50% of the reduction in share capital was effected by reducing the face value of Equity Shares to Rs.5/- and the respective advice has been sent individually to all the members by way of sticker together with a detailed letter. As a result of the above, the accumulated losses have reduced to that extent.

A detailed note is given under Schedule I for your reference.

Auditors

M/s. Vijai Sarathy & Co., Auditors of the Company retire at this Annual General Meeting and being eligible, offer themselves for reappointment.

Acknowledgement

The Directors wish to place on record their appreciation for the assistance received from IDBI, ICICI, SBI, IOB, MEPZ and State and Central Government Authorities. The Directors also wish to acknowledge the active co-operation extended by workers and staff at all levels.

On behalf of the Board
For GEM SPINNERS INDIA LTD.

Place : Chennai
Date : 19.06.2003

R. VEERAMANI
Chairman & Managing Director

ADDENDUM TO DIRECTORS' REPORT

Regarding non-provision of prior years' simple interest due of Rs.95.34 lakhs to IDBI, after reconciliation of accounts, the Company has accepted the simple interest due of Rs.95.34 lakhs to IDBI and requested IDBI to accept and settle in tune with the BIFR formula.

On behalf of the Board
For GEM SPINNERS INDIA LTD.

Place : Chennai
Date : 19.06.2003

R. VEERAMANI
Chairman & Managing Director



ANNEXURE TO THE DIRECTORS' REPORT

Additional information as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

1. A. Conservation of Energy

- a. Energy conservation measures taken:

The measures taken by the Company include the following:

- i) Using electronic timers for street lights.
 - ii) Arranging lighting of different lux levels in various departments.
 - iii) Providing energy saving devices in lighting circuits.
 - iv) Fan motors for various machinery are being operated at intervals instead of continuous running.
- b. Additional investments and proposals, if any, being implemented for reduction of consumption of energy: NIL.

- c. Impact of measures at A and B for reduction of energy consumption and consequent impact on cost of production of goods:

The measures taken go to reduce the power consumption

- d. Total energy consumption and consumption per unit of production in the prescribed Form 'A' - Annexed.

B. Technology Absorption

- a. Efforts made in technology absorption:

Details furnished in Form 'B' - Annexed.

2. Foreign Exchange Earnings and Outgo

- i) Activity relating to exports:

Cotton Yarn and Knitted Fabric exports.

- ii) Initiative taken to increase exports:

- * Being in constant touch with the foreign buyers and their agents.
- * Arranging for the visits of the buyers to the mills to convince them about the most modern machines installed.

3. Development of New Export Markets for Products and Services

- i) The Company is corresponding with Indian embassies and trade bodies abroad to get the addressees of prospective buyers.
- ii) Visits by Directors and executives abroad to build up new contacts

4. Total Foreign Exchange Used and Earned

	2002-03	2001-02
	(Rs.in lakhs)	
i) CIF value of imports (Raw Materials, Spares & Capital Goods)	441.31	881.20
ii) Expenditure in foreign currency (Travel and Commission)	76.76	56.98
iii) Foreign exchange earned	2701.82	3023.93

On behalf of the Board

Place : Chennai

R. VEERAMANI

Date : 19.06.2003

Chairman & Managing Director

DIRECTORS' RESPONSIBILITY STATEMENT (Pursuant to Section 217(2AA) of the Companies Act, 1956)

Your Directors report that:

- ✧ In the preparation of the annual accounts, the applicable accounting standards had been followed and that there were no material departures.
- ✧ The accounting policies selected by them have been applied consistently, judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2003 and of the profit or loss of the Company for the year ended 31st March, 2003.
- ✧ They 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.
- ✧ The annual accounts have been prepared on a going concern basis.

On behalf of the Board

Place : Chennai

R. VEERAMANI

Date : 19.06.2003

Chairman & Managing Director

**FORM A**

Form for Disclosure of Particulars with Respect to Conservation of Energy

A. Power & Fuel 2002-2003 2001-2002
Consumption

1. Electricity**a. Purchased**

Units	19227362.00	17419560.00
Total amount (Rs.)	78218438.00	70326351.00
Rate/Unit (Rs.)	4.07	4.04

b. Own Generation**(i) Through Diesel Generator**

Units	624390.00	708400.00
Units per litre of diesel oil	3.29	3.39
Cost per Unit (Rs.)	4.30	3.35

ii) Through Steam**Turbine/Generator**

Units	—	—
Units per litre of fuel oil/gas	—	—
Cost per Unit (Rs.)	—	—

2. Coal

Quantity (tonnes)	—	—
Total Cost	—	—
Average Rate	—	—

3. Furnace Oil/L.S.H.S.

Quantity (KI)	—	—
Total Cost	—	—
Average Rate	—	—

4. Others/Internal Generation

Quantity (tonnes)	—	—
Total Cost	—	—
Average Rate	—	—

B. Consumption per Unit of Production

1. Electricity (KWH)	7.86	8.57
[Yarn & Knitted Fabric (per Kg.)]		
2. Furnace Oil/L.S.H.S.		
Yarn (per Kg)	—	—
3. Coal (M.T.)		
Yarn (per Kg)	—	—
4. Others per Kg	—	—

On behalf of the Board

Place : Chennai
Date : 19.06.2003

R. VEERAMANI
Chairman & Managing Director

FORM B

Form for Disclosure of Particulars with Respect to Technology Absorption

Research & Development (R & D)**1. Specific areas in which R & D carried out by the Company**

Fibre and Yarn.

2. Benefits derived as a result of the above R&D

Optimum utilisation of fibre and its parameters.

3. Future Plan of Action

Extension of R & D activities till knitted fabrics to ensure saving of raw materials, machinery usage and energy.

4. Expenditure on R&D

Separate account has not been maintained.

Technology Absorption, Adoption and Innovation**1. Efforts in brief made towards Technology Absorption and Innovation**

Technology, which was obtained from world leaders on machinery design, has been fully absorbed.

2. Benefits derived as a result of the above

1. Optimum use of raw materials;

2. Ability to spin yarn of international standard;

3. Safety for the workers and better environment with reference to noise and pollution.

3. Details about import of technology during the last five years

Not applicable

On behalf of the Board

Place : Chennai
Date : 19.06.2003

R. VEERAMANI
Chairman & Managing Director



CORPORATE GOVERNANCE

1. A Brief Statement on the Company's Philosophy on Code of Governance

Corporate governance refers to a combination of laws, regulations, procedures, implicit rules and voluntary practices that enable companies to perform efficiently and thereby maximise long term value for shareholders, while respecting the aspect of multiple stakeholders. Our Company has been practicing the principle of good corporate governance since inception, not on account of regulatory requirements but on account of sound management practices for enhancing customer satisfaction and value for shareholders.

The Company's philosophy on corporate governance enshrines the goal of achieving the highest levels of transparency, accountability and equity in all spheres of its operations and in all its dealings with the shareholders, employees, the Government and other parties.

2. Board of Directors

Composition of the Board

Name of the Director	Category	No. of Other Directorships and Committee Memberships (including this Company) in domestic public companies		
		Other Directorship		Committee Membership
		As Chairman	As Chairman	As Member
Mr. R. Veeramani	Chairman & Managing Director	3	NI	1
Mr. S. R. Asaithambi	Whole time Director	NI	NI	1
Mr. S. R. Kumar	Non-Executive Director	NI	1	2
Mr. P. P. Doddanavar	Independent Director	NI	2	NI
Mr. S. T. Ganapathy Mudaliar	Independent Director	NI	NI	2
Mrs. Jayashree Mahesh	Nominee Director	NI	NI	NI
Mr. J. Kirubakaran Baskar	Nominee Director	NI	NI	1
Mr. K. M. Lal (from 11.9.2002)	Special Director-BIFR	NI	NI	NI

Attendance Record of the Directors

Director	No. of Meetings		Attended last AGM on 30.9.2002
	Held	Attended	
Mr. R. Veeramani	4	4	Yes
Mr. S. R. Asaithambi	4	3	Yes
Mr. S. R. Kumar	4	4	Yes
Mr. P. P. Doddanavar	4	3	Yes
Mr. S. T. Ganapathy Mudaliar	4	4	No
Mrs. Jayashree Mahesh	4	2	No
Mr. J. Kirubakaran Baskar	4	4	No
Mr. K. M. Lal	4	1	No

Nature of Directorship in Other Companies' Boards / Committees

Director	Relation with other Director	Business Relationship with the Co. if any	Remuneration paid during April 2002 - March 2003 in Rupees			
			Sitting Fees	Salary & Perks (*) Commn.	Commn. Paid	Total
Mr. R. Veeramani	Brothers	Promoter	Nil	1350000	Nil	1350000
Mr. S. R. Asaithambi		Promoter	Nil	900000	Nil	900000
Mr. S. R. Kumar		Promoter	Nil	Nil	Nil	Nil
Mr. P. P. Doddanavar	Nil	Independent	1500	Nil	Nil	1500
Mr. S. T. Ganapathy Mudaliar	Nil	Independent	2000	Nil	Nil	2000
Mrs. Jayashree Mahesh	Nil	Nominee	1000	Nil	Nil	1000
Mr. J. Kirubakaran Baskar	Nil	Nominee	2000	Nil	Nil	2000
Mr. K. M. Lal	Nil	Special Director	Nil	Nil	Nil	Nil

(*) Includes previous year's salary paid during the year

Number of Board Meetings held, dates on which held

Date of Board Meeting	Place / City	No. of Directors present
29.04.2002	Chennai	7
12.08.2002	Chennai	6
28.11.2002	Chennai	6
28.02.2003	Chennai	6