

GEM SPINNERS INDIA LIMITED

SIXTEENTH ANNUAL REPORT

2005-2006



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BOARD OF DIRECTORS

Mr. R. VEERAMANI
Chairman & Managing Director

Mr. S. R. ASAITHAMBI
Whole-time Director

Directors

Mr. S. R. KUMAR

Mr. P. P. DODDANAVAR

Mr. K.M. LAL

Nominee Directors

Mr. R. KANNAN - ICICI

Mr. R. ANABALAGAN - IDBI

Mr. SUJIT BHATTACHARYA - 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.

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

CAMEO CORPORATE SERVICES LTD.

"Subramanian Building", 1, Club House Road,
Chennai - 600 002.



NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Sixteenth Annual General Meeting of the shareholders of GEM SPINNERS INDIA LTD., Chennai will be held on Monday, the 7th August, 2006 at 11.00 a.m. at No.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, 2006, 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 Mr. S.R. Kumar, who retires by rotation and being eligible, offers himself for re-appointment.
3. 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 for the Company who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Board of Directors."

4. SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT in accordance with the provisions of Sec.198,269,309,310,314 read with schedule XIII and all other applicable provisions of the Companies Act, 1956, Mr. R. Veeramani be and is hereby reappointed as the Chairman & Managing Director of the Company subject to the approval of the Financial Institutions for a period of five years with effect from 1.10.2006 with remuneration as per the terms and conditions laid down in the Explanatory Statement annexed hereto.

Further Resolved that the authority be and is hereby granted to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or agreement including authority from time to time, to determine the amount of salary and commission as also the type and amount of perquisites and other benefits payable to Mr. R. Veeramani Chairman & Managing Director, on such term and manner as may be agreed to between the Board of Directors and Mr. R. Veeramani provided, however, that the remuneration payable to him shall not exceed the limits prescribed under Schedule XIII of the Companies Act 1956, including any amendment, modification, variation or reappointment thereof.

Resolved Further that the Board be and is hereby authorized to do all such acts, deeds and things and execute all such

acts, deeds and things and execute all such documents, instruments and writings as may be required and to delegate all or any of its powers herein conferred to any committee of directors or director(s) to give effect to the aforesaid resolutions.

By Order of the Board
For GEM SPINNERS INDIA LTD.

Place : Chennai - 86
Date : 15.06.2006

S. VASUDEVAN
Company Secretary

NOTES

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON HIS BEHALF** and such proxy need not be a member of the Company. A proxy in order to be effective must be deposited at the registered office of the company not less than 48 hours before the commencement of the meeting.
2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, setting out all the material facts in respect of Item No.4 of the Notice is annexed to and forms part of the Notice.
3. The Register of Members of the Company shall remain closed from 25.07.2006 to 07.08.2006 (Both days inclusive)
4. Details of Directors seeking appointment / re-appointment is enclosed.
5. The shares of the Company have been admitted for dematerialization with Central Depository Services (India) Limited with effect from 12th February 2003. Members of the Company desirous of getting their shares dematerialized can approach a depository participant registered with Central Depository Services (India) Limited. The ISIN No. is INE165F01020.
6. Members are requested to notify any change in their address to the Registrar and Share Transfer agents of the Company M/s. Cameo Corporate Services Limited, Subramanian Building, No.1, Club House Road, Chennai 600 002.
7. Members are requested to bring their copies of the Annual Report to the meeting.
8. The Members/Proxy holders are requested to bring the attendance slip sent herewith duly filled for attending the meeting. Members/Proxy holders in respect of dematerialized shares are requested to bring their DP id and Client id for recording their attendance.

By Order of the Board
For GEM SPINNERS INDIA LTD.

Place : Chennai - 86
Date : 15.06.2006

S. VASUDEVAN
Company Secretary



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

Item No.4

The tenure of Mr. R. Veeramani, Chairman & Managing Director expires on 30th September 2006. The resolution is to seek the approval of members for his reappointment for a period of five years with effect from 1.10.2006. The terms of re-appointment is as under:

- a) Salary: Rs.1, 25,000 p.m
- b) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- c) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service and
- d) Encashment of leave at the end of the tenure.

Further the above terms of appointment have been approved by the Remuneration Committee at their meeting held on 14th June 2006.

The particulars given above may be treated as an abstract under section 302 of The Companies Act, 1956.

Except Mr.R. Veeramani himself and Mr.S.R. Asaithambi and Mr. S.R. Kumar, none of the Directors are interested in the above resolution.

By Order of the Board
For **GEM SPINNERS INDIA LTD.**

Place : Chennai - 86

Date : 15.06.2006

S. VASUDEVAN
Company Secretary


Details of reappointment/appointment of Directors as per clause 49 of the Listing Agreement

1. Mr. R. Veeramani, Chairman & Managing Director, whose tenure expires on 30th September 2006, is being considered for reappointment.

2. Mr. S.R. Kumar is retiring by rotation and being eligible offers himself for reappointment.

The information / details to be provided in respect of the above said Directors under Corporate Governance code are as under:

Name	Qualification	Brief Resume and Area of Expertise	Other Directorship	Company Name
1. Mr. R. Veerannani	B.Sc., B.L.	Lawyer turned technocrat entered into the stone industry in 1971. He is in the business of Textiles, Sugar, Hotel and IT industry	15	Gem Holiday Resorts Limited Stone Wonders (India) Limited Gem Global Trade Limited Gem Software Solutions Limited Numeric Power Systems Limited Shiva New Terrain Agro Limited Gem Agro Industries Limited Koenigstein Softech Limited Gem Energy Industries (P) Limited Imperial Granites (P) Limited Gem Granites (P) Limited Gem Stone Beach Resorts (P) Limited Celia Leathers (P) Limited Gem Graphites (P) Limited Goan Granites (P) Limited
2. Mr.S.R. Kumar	Matric	He has got wide experience in the granites industry. He has also got high pragmatic exposure on present trends in textile industry	8	Gem Holiday Resorts Limited Stone Wonders (India) Limited Gem Global Trade Limited Gem Energy Industries (P) Limited Imperial Granites (P) Limited Gem Granites (P) Limited Gem Stone Beach Resorts (P) Limited Celia Leathers (P) Limited



DIRECTORS' REPORT FOR THE YEAR 2005-2006

Your Directors have pleasure in presenting the 16th Annual Report on the performance of our Company along with the Audited Balance Sheet and Profit and Loss Account for the year ended 31.3.2006.

Financial Results	2005-06	2004-05
	(Rs.in lakhs)	(Rs.in lakhs)
Sales - Export	4340.95	3641.46
- Domestic	1352.17	1785.68
- Waste	389.65	467.39
Total	6082.78	5894.53
Operating Profit	833.48	740.15
Less: Financial Charges	399.72	465.98
Gross Profit	433.76	274.17
Less: Depreciation	373.06	370.08
Fringe Benefit Tax	3.10	-
Net Profit/(Loss) for the year	57.60	(95.91)

Review of Operations

Your Company has achieved a Turnover of Rs.6082.78 Lacs (Trading Rs.659.21 Lacs) during the year under review as against Rs.5894.53 Lacs (Trading Rs.941.18 Lacs) in the previous year. The turnover has increased by 3.19% as compared to the previous year. The Operating profit has touched the level of Rs.833.48 Lacs as compared to the previous year mark of Rs.740.15 Lacs.

Your Directors have the pleasure in reporting a Net Profit of Rs.57.60 lakhs for the year under report as against a net loss of Rs.95.91 lakhs during the previous year. You will appreciate from the figures that the Company has scrupulously implemented the Revival Scheme of BIFR which has reflected in reduction in Financial charges of Rs.399.72 lakhs as against Rs.465.98 lakhs during the previous year.

The Directors have taken a decision to exit from EOU Scheme considering the disadvantages of the EOU Scheme so that the company could compete in the domestic market with the saving of excise duty, duty draw back for exports and cenvat credit towards input.

Members may please note the fact that the Hon' Bench of BIFR has considered the positive net worth of the Company and we are confident that the Company will be out of the purview of BIFR within a couple of months.

Dividend

In view of the insufficiency of the profits earned by the Company during the year, your directors have not recommended any dividend on the equity shares.

Management Discussion and Analysis

The Government of India is quite supportive to the exports in general. Various schemes like EPCG, Advance Licensing, EOU, SEZ Schemes and Policies were introduced and they are further fine tuned to facilitate smooth and hassle free exports.

While all the Schemes remain in force only for EOU Scheme there needs to be further encouragement. But EOU Scheme has given substantial modernization in the Country's manufacturing sectors attracting large foreign investment and joint ventures. The policy framework of the Govt. of India for the SEZ schemes are strengthened and revamped in compatibility with the WTO guidelines.

Similarly, EOU Schemes need to have compatibility with WTO guidelines and further restructured to attract huge investments both from the domestic as well as overseas front. This Scheme has given freedom to choose the location, weighing the advantage of the raw material sources, Ancillary industries, Service sectors, Skilled labour availability, logistic facilities and infrastructure and social requirements. This has provided large employment generation and high net foreign exchange earnings. Despite its proven success track record, there has been no facilitation for further growth.

Surprisingly, the Scheme does not have any attraction in the future due to the phasing out of the Income Tax exemption.

SEZ Scheme though initially will be successful, will again force centralization instead of de-centralisation creating bottlenecks in necessary social facilities like Housing, Schooling, Transporting, Hospitals etc for the work force. In this aspect, there will be serious issues that would require high priority attention needing remedial measures. Whereas due to decentralization, in the EOU scheme all these were smoothly managed. In fact, due to the city orientation and Urban concentration, the facilities to be provided for the work force will become a major task and in fact the labour may become more costly and scarce and they may have more wants expecting higher salaries which may cause the non-competitive price situation in production / manufacturing front.

In general, the textile market looks positive, growing and stabilizing in India. The global market in the textile front is mainly serviced by China, India, Indonesia, Bangladesh,



Pakistan, Vietnam and other Asian countries as well as developing countries in Africa and South America. But the formidable level of manufacturing capability of Chinese Companies to the global standard is a phenomenal development. China never had a labour problem and the suppliability is assured and consistent. There are many things that India should follow China though India is a longer existing textile country than China. China is more known as silk Country, but today China has emerged as # 1 textile source for the entire globe.

But still India has certain advantages and disadvantages - like the varieties of suitable cotton and its traditional knowledge and the trained work force are all definite advantages - but lack of reforms in the labour policy and severe hike in power tariff and fuel prices have the negative impact on the textile front which has a very high labour content from farming to manufacturing the designer wear for exports. EOU Scheme which facilitated huge investment in textile sector has an uncertain future and Government has not considered the merits and advantages of its contribution in harmony with the developments of the whole country as against pro-supportive SEZ policies, which cannot take over EOU Sectors which will face a vacuum; while certain industries' specific manufacturing and production sectors and foreign investment oriented sectors can do well in SEZ while area specific, skilled specific, logistic specific schemes cannot function unlike EOU in the SEZ Schemes.

The Directors feel that the Govt. may review and restructure the EOU Scheme to target more investment which can give an outstanding growth in the textile and many other sectors in the larger interest of the national and economic growth.

Statutory Statements

As per the requirements of Sec. 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 are 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 were 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.

Listing Status of Our Shares

The Members will be glad to note that Mumbai Stock Exchange has taken on record the reduction of share capital and has permitted our stocks for trading and listing of preferential allotment of 12771990 shares to Financial Institutions as per the Scheme.

Directors

Under Article 110 of the Articles of Association of the Company, Mr. S.R. Kumar is due to retire at this Annual General Meeting and being eligible, offer himself for reappointment.

During the year under report, IDBI has nominated Mr. R. Anbalagan to our Board in the place of Mr. J. Kirubhakaran Baskar. The Board wishes to place on record the excellent services rendered by Mr. J. Kirubhakaran Baskar during his tenure.

During the year under report, BIFR has nominated Mr. Sujit Bhattacharya to our Board.

Deposits

Your Company has not accepted any deposit from the Public during the year under review.

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, 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 - 86
Date : 15.06.2006

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

By Implementing energy conservation measured actual UKG was reduced from 7.44 in 2004-2005 to 6.78 units in 2005-2006, resulting in reduction of 8.87% in overall power consumption.

- Overhead Cleaners blower fan impellers were replaced by lighter weight and smaller dia impeller in 16 machines on 13.08.2005. Savings achieved is 4000 units.
- Ring Frame suction fan impellers replaced with lightweight and small dia impellers in 16 Ring frames on November 2005. Savings achieved is 54000 units.
- In Plant - II switched off air fan 15 KW during winter season. Savings achieved is 8000 units.
- In Plant - III 22 KW water pump was replaced with 15 KW pump, which is operated during summer season. Savings achieved is 4000 units.

B. Technology Absorption, Adoption and Innovation

- Efforts made towards Technology Absorption and Innovation:**
Technology, which was obtained from world leaders on Machinery design, has been fully absorbed.
- Benefits derived as a result of the above:**
 - Optimum use of Raw Material
 - Ability to spin yarn of international standard
 - Safety for the workers and better environment with references to noise and pollution.
- Details about import of technology during the last five years**
Not Applicable

2. Foreign Exchange Earnings and Outgo

- Activity relating to exports:
Cotton Yarn and Knitted Fabric exports.
- 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

- The Company is corresponding with Indian Embassies and Trade Bodies abroad to get the addressees of prospective buyers.
- Visits by Directors and executives abroad to build up new contacts

4. Total Foreign Exchange Used and Earned

	2005-06	2004-05
	(Rs.in lakhs)	
i) CIF value of imports (Raw Materials, Spares & Capital Goods)	231.36	168.84
ii) Expenditure in foreign currency (Travel and Commission)	37.16	25.10
iii) Foreign exchange earned	4111.35	3401.18

On behalf of the Board

Place : Chennai - 86

R. VEERAMANI

Date : 15.06.2006

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.
- ✧ They have selected such accounting policies in consultation with the statutory auditors and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the financial year.
- ✧ 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 - 86

R. VEERAMANI

Date : 15.06.2006

Chairman & Managing Director

**FORM A**

Form for Disclosure of particulars with respect to Conservation of Energy

A. Power & Fuel 2005-2006 2004-2005
Consumption

1. Electricity**a. Purchased**

Units	20464710.00	19975710.00
Total amount (Rs.)	85767958.00	83666669.00
Rate/Unit (Rs.)	4.19	4.19

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

Units	196089.00	208210.00
Units per litre of diesel oil	3.04	3.02
Cost per Unit (Rs.)	7.77	6.50

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 (Kl)	—	—
Total Cost	—	—
Average Rate	—	—

4. Others/Internal Generation

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

B. Consumption per Unit of Production

1. Electricity (KWH)	6.78	7.44
[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 - 86
Date : 15.06.2006

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 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 - 86
Date : 15.06.2006

R. VEERAMANI
Chairman & Managing Director