

GEM SPINNERS INDIA LIMITED

SEVENTEENTH ANNUAL REPORT

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2006-2007



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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. ANBALAGAN-IDBI

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 Seventeenth Annual General Meeting of the shareholders of GEM SPINNERS INDIA LIMITED, Chennai will be held on Thursday the 23rd August 2007 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 2007, 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. Asaithambi, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr. K.M. Lal, who retires by rotation and being eligible, offers himself for re-appointment.

4. SPECIAL BUSINESS

To appoint "Joint Auditors" and to fix their remuneration and to consider and, if though fit, to pass with or without modification, the following resolution of which a 'special notice' as required under section 225 of the Companies Act, has been received from a member and which will be proposed as Special Resolution under Section 224A of the Companies Act.

RESOLVED that M/s.CNGSN & ASSOCIATES, the Chartered Accountants, Chennai be and are hereby appointed as the Joint Statutory Auditors of the company to work with the existing statutory Auditors M/s.Vijai Sarathy & Co., Chartered Accountants, Chennai from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting at such remuneration as may mutually be agreed upon between M/s.CNGSN & ASSOCIATES, M/s.Vijai Sarathy & Co, Chennai and the Board of Directors of the Company.

By Order of the Board
For Gem Spinners India Ltd

S. VASUDEVAN
Company Secretary

Place : Chennai - 86
Date : 14.06.2007

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 17.08.2007 to 23.08.2007 (Both days inclusive)
4. Details of Directors seeking 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 Number 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

S. VASUDEVAN
Company Secretary

Place : Chennai - 86
Date : 14.06.2007



**Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956
appointing Joint Statutory Auditors.**

Item No.4

The Company has received a notice from a member under section 225 of the Companies Act 1956, proposing the name of M/s.CNGSN & ASSOCIATES, the Chartered Accountants, to be appointed as the joint Auditors of the company along with the existing Auditors M/s.Vijai Sarathy & Co, the Chartered Accountants, from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting .

The Special notice given by the member to the management of the company is in line with the modern management technique and for increasing the efficiency of the operation of the company through stricter surveillance.

M/s.Vijai Sarathy & Co.the Chartered Accountants, the retiring auditors of the company have been duly informed with a copy of the aforesaid notice and the company has so far not received any representation to the contrary to the proposed resolution.

Accordingly the Resolution proposed is put forth as Item No.4 of the Notice for your approval.

None of the Directors are interested in the above resolution.

By Order of the Board
For Gem Spinners India Ltd

Place : Chennai - 86
Date : 14.06.2007

S. VASUDEVAN
Company Secretary

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Details of re-appointment / appointment of Directors as per Clause 49 of the Listing Agreement.

Mr. S.R. Asaithambi and Mr.K.M. Lal are retiring by rotation and being eligible offers themselves 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
Mr.S.R.Asaithambi	Metric	He has got wide experience in the granite industry. He has also got high pragmatic exposure on present trends in textile industry.	19	Gem-Holiday Resorts Limited Gem Sugars Limited Stone Wonders (India) Limited Gem Global Trade Limited Gem Software Solutions Ltd Gem Energy Industries Limited Shiva New Terrain Agro Limited Gem Agro Industries Limited Koenigstein Softech Limited Imperial Granites (P) Limited Gem Granites (P) Limited Gem Stone Beach Resorts (P) Ltd Celia Leathers (P) Limited Gem Graphites (P) Limited Gem Herbs International Limited Balaji Bonded Brake Linings (P) Ltd Gem Herbal Health Care Pvt.Ltd Imperial Tiles Private Limited Green Herbs International Limited
Shri K.M. Lal	IAS (Rtd)	He has got wide knowledge and experience inEconomic, Administrative, Planning and Public Finance. He has also widely traveled abroad as a Delegate and on Deputation.	5	Panaca Biotech Ltd. Hindustan Wire Ltd. SIMOCO Telecommunication Ltd SREI Capital Ltd Gem Sugars Ltd.



DIRECTORS' REPORT FOR THE YEAR 2006 - 2007

Your Directors have pleasure in presenting the 17th Annual Report on the performance of our Company along with the Audited Balance Sheet and Profit and Loss Account for the year ended 31.3.2007.

Financial Results	2006-07 (Rs.in lakhs)	2005-06 (Rs in lakhs)
SALES		
Export	7623.80	4340.96
Domestic	1584.26	1352.17
Waste	390.48	389.65
Total	9598.54	6082.78
Operating Profit	1134.03	833.48
Less: Financial Charges	442.32	399.72
Gross Profit	691.71	433.76
Less : Depreciation	400.10	373.06
Less: Fringe Benefit Tax	2.12	3.10
Less: Minimum Alternate Tax	15.24	-
Less: Deferred Tax	(13.06)	-
Net Profit	287.31	57.60

Review of Operations

Your company has achieved a Turnover of Rs.9598.54 Lacs (Trading Rs.4033.81 Lacs) during the year under review as against Rs.6082.78 Lacs (Trading Rs.659.21 Lacs) in the previous year. In this, the turnover has increased by 57.80% as compared to the previous year. The Operating profit has touched the level of Rs.1134.03 Lacs as compared to the previous year mark of Rs.833.48 Lacs.

Your Directors have the pleasure in reporting a Net Profit of Rs. 287.30 lakhs for the year under report as against a net profit of Rs.57.60 lakhs during the previous year.

The improved operating performance was mainly due to the right decision to exit from EOU Scheme whereby the Company has come under the purview of Duty Drawback for its export proceeds besides savings in excise duty. Besides, the operating cost has come down because of the continuous monitoring of various input cost.

Members will be pleased to note that your company has been deregistered from BIFR with effect from 17th August 2006.

Management Perception

The textile sector is growing to fill up the gap created by closure of many units in the developed countries. In this process, many countries are competing including China, Indonesia, Pakistan, Vietnam, Turkey, CIS countries, African and South American countries. Even in many of these countries certain segments of the textile industry are growing and certain segments are getting phased out as some other regions are more cost effective.

In India, suddenly during the last couple of years more capacities are added in the spinning front and whereas in the other segments of processing and value added products manufacturing there are not such substantial investments.

Suddenly, these days there is a rethinking whether capacities are over added. It is pertinent to note that when green field spinning units were set up, some of the large and mid size Knitting and Garment units also added up large spinning capacities as backward integration and it is interesting that many cotton ginning companies also transformed into spinning. But our country can stabilize even if there is over capacities but there need to be some diversification for product manufacturing. Similarly, the Government policies on the pollution and environment aspects need to be pro-active and facilitating with clear directives as to what are the things to be done and not to be done. A way out has to be made to help setting up the processing industry with a view to add value to the products. It is not our intention that pollution should be accepted. We should rather never compromise on the pollution front but the suggestion is to have an exclusive place and clear process parameters like zero discharge and thereby help setting up more processing units.

On the export front, there are certain negative developments that have crept in recently. Regular depreciation of dollar to the tune of 12% in the last 12 months is an alarming serious factor. We do not think there is profit of 12% in the textile front across the board in general. As a result of this Dollar value erosion, the exporters are suffering and incurring losses to that extent particularly in the trading front. Added to this, the hike in the interest rates both on the Export finance / Working Capital and term loan have also created serious concern. With this background the general inflation of about 5.5%, has added up nearly about 20% of less value application of Rupee arising out of export front. In this scenario, the export front is already burdened with Service Tax and Fringe Benefit Tax which most of the competing countries are not having. There is a general impression that India which can be #2 in world's manufacturing sector after China is slipping away due to some of the non-workable policy followed in our country.



The visible impact of all these may have cascading effect after a couple of years. But only mobilization of revenue generation to the Government cannot be the sole objective while the impact caused over the general public and the industry will have a long term negative impact. We hope the Government will look into the importance of the manufacturing sector and particularly the textile sector and take immediate corrective measures to give adequate support.

Despite all this, we, the textile country have very strong potential to develop every segments of the textile sector into value added products and brand products as well. But unfortunately when there is suffering due to extraneous factors in the productivity and manufacturing, next stage of value addition, high value addition as well as brand building and global competition will also consequently slow down. We hope the Government will intervene quickly and help the manufacturing sector for its further growth.

The necessity of continuing the EOU sector becomes much more relevant now as the high criticism of SEZ of acquiring several thousands of acres and consequential social impact has caused a shadow. In fact, all the EOU companies' lands in the country used for export manufacturing will be less than one large SEZ area. We recall our last year's report of your Company where we have strongly wished the continuance of EOU Scheme.

Dividend

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

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 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, Mr.S.R. Asaithambi and Mr. K.M. Lal to retire at this Annual General Meeting and being eligible, offers themselves for reappointment.

During the year under report, BIFR has withdrawn their special director Mr. Sujit Bhattacharya since the company has been deregistered by the Hon'ble Bench of BIFR on 17th August 2006.

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

Place : Chennai - 86
Date : 14.6.2007

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 measures actual UKG was reduced from 6.78 in 2005-06 to 6.47 units in 2006-07 which is 4.72% reduction in overall power consumption.

- a. In Plant - I, 11 KW pre filter waste suction fan stopped and its load diverted to carding waste collection fan.
- b. In 25 Ring Frames suction pressure reduced to optimum level by replacing suction fan impeller.

B. Technology Absorption, Adoption and Innovation**a. Efforts made towards Technology Absorption and Innovation**

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

b. Benefits derived as a result of the above.

- i. Optimum use of Raw Material
- ii. Ability to spin yarn of international standard
- iii. Safety for the workers and better environment with references to noise and pollution.

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

Not Applicable

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:

	2006-07	2005-06
	(Rs. In Lakhs)	
i) CIF value of imports (Raw material, Spares & Capital goods)	388.33	231.86
ii) Expenditure in foreign currency (Travel and Commission)	67.33	37.16
iii) Foreign exchange earned	6446.00	4111.35

On behalf of the Board

Place : Chennai - 86

Date : 14.06.2007

R. VEERAMANI

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, judgments 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 2007 and of the profit or loss of the Company for the year 31st March 2007.
- ♣ 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

Date : 14.06.2007

R. VEERAMANI

Chairman and Managing Director

**FORM A**

Form for Disclosure of Particulars with respect to conservation of Energy

A. Power & Fuel Consumption

	2006-07	2005-06
1. Electricity		
a. Purchased Units	19871490	20464710
Total amount (Rs.)	83530642	85767958
Rate/Unit Rs.	4.20	4.19
b. Own Generation		
(I) Through Diesel Generator		
Units	131490	196089
Units per litre of Diesel oil	2.82	3.04
Cost per Unit (Rs.)	11.72	7.77
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

Generation	-	-
Quantity (tonnes)	-	-
Total Cost	-	-
Average Rate	-	-

B. Consumption per unit of Production

1. Electricity (KWH)	6.47	6.78
(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	-	-

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 rawmaterials, 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 rawmaterial

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

On behalf of the Board

Place : Chennai
Date : 14.06.2007

R. VEERAMANI
Chairman & Managing Director

Place : Chennai-86
Date : 14.06.2007

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 maximize 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

Board of Directors of the Company consist of two executive and five non-executive independent Directors as on 31.3.2007.

Name of the Director	Category	No. of Other Directorships and Committee Memberships including Pvt. Ltd. Cos. (Including this Company)			
		Other Directorship		Committee Membership	
		As Chairman	As Member	As Chairman	As Member
Mr. R. Veeramani	Chairman & Managing Director	2	18	Nil	2
Mr. S.R. Asaithambi	Whole time Director	Nil	20	Nil	2
Mr. S.R. Kumar	Non-Executive Director	—	11	1	1
Mr. P.P. Doddanavar	Independent Director	—	Nil	2	Nil
Mr.R. Anbalagan	Independent Director - Nominee Director - IDBI	—	1	Nil	1
Mr. R. Kannan	Independent Director - Nominee Director - ICICI	—	7	Nil	1
Mr. K.M.Lal	Independent Director	4			1

Attendance Record of the Directors

Director	No. of Meetings		Attended last AGM On 07.08.2006
	Held	Attended	
Mr. R. Veeramani	4	4	Yes
Mr. S.R. Asaithambi	4	4	Yes
Mr. S.R. Kumar	4	3	Yes
Mr. P.P. Doddanavar	4	4	Yes
Mr.R.Anbalagan	4	4	Yes
Mr. R. Kannan	4	3	Yes
Mr. K.M. Lal	4	2	Yes
Mr.Sujit Bhattacharya*	4	1	No

* since withdrawn by BIFR

Number of Board Meetings held, dates on which held :

Date of Board Meeting	Place / City	No. of Directors present
15.06.2006	CHENNAI	5
30.08.2006	CHENNAI	7
28.11.2006	CHENNAI	6
14.02.2007	CHENNAI	7

3 Audit Committee

The Audit Committee consists of Mr. P.P. Doddanavar as Chairman and Mr. R. Kannan and Mr. R. Anbalagan and Mr. K.M. Lal as members and Mr. S. Vasudevan as the Member Secretary.

Date of Meetings:

14.06.2006, 30.08.2006, 28.11.2006 & 14.02.2007

Name	Designation	No. of Meeting attended
Mr. P.P. Doddanavar	Chairman	4
Mr. R. Kannan	Member	3
Mr. R. Anbalagan	Member	4
Mr. K.M.Lal	Member	2

Mr. S. Vasudevan, Company Secretary, is the Secretary of the audit committee.

Terms of reference of Audit Committee

The Audit Committee shall oversee financial reporting process and disclosures, review annual financial statements, management discussion and analysis of financial condition and results of operation, review adequacy of internal audit function, management letters / letters of internal control weakness issued by the statutory auditors, internal audit report relating to internal control weakness, related party transactions, review financial and risk management policies, to look into the reasons for substantial defaults in the payment to depositors, debenture / shareholders and creditors, oversee compliance with stock exchange and legal requirements