

GEM SPINNERS INDIA LIMITED

NINETEENTH ANNUAL REPORT

2008-2009



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BOARD OF DIRECTORS

Mr. R.VEERAMANI

Chairman & Managing Director

Directors

Mr. S.R.ASAITHAMBI

Mr. P.P.DODDANAVAR

Mr. K.M.LAL

Nominee Directors

Mr. SHEKHAR R.RAO-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.

M/s.CNGSN & ASSOCIATES

Chartered Accountants

New No.20, Old No.13, Raja Street

T.Nagar, Chennai - 600 017

COST AUDITOR

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 Nineteenth Annual General Meeting of the shareholders of GEM SPINNERS INDIA LIMITED, Chennai will be held on Wednesday, the 9th September 2009 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 2009, 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 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 and M/s. CNGSN & Associates, Chartered Accountants, Chennai be and are hereby appointed as Joint 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 Board of Directors."

SPECIAL BUSINESS:

4. To consider and if thought fit to pass with or without modification the following resolution as an ORDINARY RESOLUTION:

"RESOLVED to make an application to the Board for Industrial and Financial Reconstruction as per Sick Industrial Companies Act, to report 100% erosion of peak net worth of the company, based on Balance Sheet and Profit and Loss Account in Form-A and that the Chairman cum Managing Director or the authorized person appointed by the Board be and is hereby authorized to submit necessary application/information and to appear before the Board for Industrial and Financial Reconstruction and to take all necessary steps as may be deemed appropriate by it to remedy the situation."

5. To consider and if thought fit to pass with or without modification the following resolution as an SPECIAL RESOLUTION:

"RESOLVED that subject to the provisions of the Companies Act, 1956, Securities Contract (Regulation) Act, 1956, and the rules framed there

under, listing agreement, SEBI (Delisting of Securities) Guidelines, 2003 and such other applicable laws, rules, regulations and guidelines, and subject to such approvals, permission and sanctions, as may be necessary, the Board of Directors of the company be and is hereby authorized to seek voluntarily delisting of its securities from Delhi Stock exchange."

"RESOLVED FURTHER THAT the Securities of the company shall continue to be listed on the stock exchange having nation wide trading terminals viz., the stock exchange Mumbai and therefore as per the said guidelines issued by the Securities and Exchange Board of India, no exit opportunity need to be given to the shareholders of the company.

"RESOLVED FURTHER THAT the Board of Directors of the company be and is hereby authorized to do all such acts, deeds, matters and things as it may in its absolute direction deem necessary or desirable and to execute all such deeds and documents as may be considered necessary and expedient to give effect to the above said resolution.

6. To consider and if thought fit to pass with or without modification the following resolution as an ORDINARY RESOLUTION

"RESOLVED THAT the consent of the Company be and is hereby accorded pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to the Board of Directors of the Company (hereinafter called "the Board" and which term shall be deemed to include any Committee, which the Board may have constituted or hereinafter constitute to exercise its powers including the powers conferred by this resolution and with the power to delegate such authority to any person or persons), to sell the land / part of the land, from time to time both present and future of the Company and in such manners as the Board may think fit, together with power to transfer the said assets subject to the approval of the Financial Institutions."

"RESOLVED FURTHER THAT the Board be and is hereby authorized to do all such acts, deeds and things and to sign all such documents as may be necessary, expedient and incidental thereto to give effect to this resolution."

By Order of the Board
For Gem Spinners India Ltd

Place : Chennai - 86
Date : 18.06.2009

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, 5 and 6 of the Notice is annexed to and forms part of the Notice.
3. The Register of Members of the Company shall remain closed from 1st September 2009 to 9th September 2009 (Both days inclusive).
4. Details of Directors seeking re-appointment are 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

Place : Chennai - 86
Date : 18.06. 2009

S. Vasudevan
Company Secretary

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

Item No.4

The Company's accumulated losses have eroded more than 100% of peak net worth. It was already intimated to the BIFR about the Company's 50% erosion. As per the Sick Industries (Special Provisions) Act 1985, the Company is required to refer to Board for Industrial And Financial Reconstruction about the erosion of the Company's net worth. So the Directors of your company have decided to intimate the same through Form-A to the BIFR. Since it requires reference to be made to shareholders and the approval of shareholders is required, the resolution is placed for approval.

The Board recommends the resolution for approval of members

None of the Directors are, in any way, concerned or interested in the said resolution as set out at Item no.4.

Item No.5

The Securities & Exchange Board of India (SEBI) notified guidelines for voluntary delisting of securities from the stock exchanges. As per clause 5.2 of SEBI (Delisting of securities) Guidelines, 2003 an exit opportunity to the shareholders need not be given where securities of the company remain listed on the stock

exchange having nation wide trading terminal, ie The Stock Exchange, Mumbai and any other stock exchange that may be specified by SEBI in this regard.

At present the equity shares of the company are listed at Mumbai, Madras and Delhi Stock Exchanges. Considering the negligible volume of trading and as a part of its cost reduction measure, the consent of members is sought for getting its securities delisted from Delhi Stock Exchange as proposed in the Special resolution. The securities of the company shall continue to be listed on the Stock Exchange Mumbai and Madras.

The Board recommends the resolution for approval of members

None of the Directors are, in any way, concerned or interested in the said resolution as set out at Item no.5.

Item No.6

The Board of Directors are of the opinion that the Company shall dispose off the non-productive assets of the Company (land) to augment long term source of funds, to settle the out standings with Financial Institutions as also to meet the working capital needs

The Board recommends the resolution for approval of members

None of the Directors are, in any way, concerned or interested in the said resolution as set out at Item no.6


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

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

The information / details to be provided in respect of the above said Director 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.	20	Gem sugars Limited Gem Holiday Resorts Limited. Stone Wonders (India) Limited Gem Global Trade Limited Gem Energy Industries Limited Gem Leathers Limited Gem Granites Private Limited Imperial Granites Private Limited Gem Stone Beach Resorts (P) Limited Celia Leathers (P) Limited Gem Graphites (P) Limited Gem Software Solutions Ltd Shiva New Terrain Agro Limited Koenigstein Softech Limited Balaji Bonded Brake Linings (P) Ltd Imperial Tiles Private Limited Green Herbs International Limited Gem Agro Industries Limited Gem Herbal Health Care Private Ltd Gem Earth Treasures Private Limited



DIRECTORS' REPORT FOR THE YEAR 2008 - 2009

Your Directors have pleasure in presenting the 19th Annual Report on the performance of our Company along with the Audited Balance Sheet and Profit and Loss Account for the year ended 31.3.2009.

Financial Results

	2008-09 Rs. in Lakhs	2007-08 Rs. in Lakhs
SALES		
Export	9059.58	8790.47
Domestic	748.09	976.80
Waste	488.21	486.41
Total	10295.88	10253.48
Operating Profit	80.89	623.73
Less: Financial Charges	392.71	408.55
Gross Profit	(311.82)	215.18
Less : Depreciation	310.34	392.61
Less: Fringe Benefit Tax	1.49	3.45
Less: Deferred Tax Liability/Asset	27.14	12.16
Net (Loss) / Profit	(596.51)	(168.72)

Review of Operations

Your company has achieved a Turnover of Rs.10295.88 Lakhs (Trading Rs.6401.98 Lakhs) during the year under review as against Rs.10253.48 Lakhs (Trading Rs.5083.19 Lakhs) in the previous year. Despite the reduction in capacity utilization, with the trading activities, the company could maintain its turnover to the last year level. The Operating profit was only of the order of Rs.80.89 Lakhs as compared to the previous year mark of Rs.623.73 Lakhs.

Your Directors have to report a Net Loss of Rs.596.51 Lakhs for the year under report as against a Net Loss of Rs.168.72 Lakhs during the previous year.

The negative performance for the year under report was mainly due to the reduced capacity utilization @67.76% consequent upon the declared power shut down by Tamil Nadu Government. If there was no power shut down, the Operating profit of the company would have been of the positive figure of Rs.397.91 Lakhs as against the actual reported figure of Rs.80.89 Lakhs and the cash accruals of the company for the year under report would have been of the positive figure of Rs.5.20 Lakhs as against the actual reported loss of Rs.311.82 Lakhs. The Company would have declared a negative net result of Rs.305.14 Lakhs as against the reported loss of Rs.596.51 Lakhs. The Company could have averted the situation of referring to BIFR.

Besides, the cost of raw material has gone up by 12.86% as compared to previous year. It may be noted that most

of the mills in Tamil Nadu have posted a negative performance during the year due to reasons beyond the control of the industry.

Dividend

In view of the insufficiency of the profits earned by the Company during the year, your directors not in position to recommend 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.

Reply to Auditor's Qualification for Point No.11 of Annexure A to Auditor's Report:

The Auditor's have vide clause 11 of their report qualified that the Company has defaulted in repayment of Financial Institutions.

The Company has represented to the Financial Institutions for restructuring of existing term loan as per RBI guidelines due to the global economic melt down. Besides, due to power shut down by the Tamil Nadu Government, the capacity utilization was under 67%. However, the Company is yet to receive any formal communication from the Institutions regarding the restructuring.

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 to retire at this Annual General Meeting and being eligible offers himself for reappointment.

During the year under report, ICICI has withdrawn its nominee Mr.R. Kannan.

During the year under report, Mr.S.R. Kumar has resigned from the Board



Deposits

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

Auditors

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

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 5.54 units in 2007-08 to 5.26 units in 2008-09 which is 17.98% reduction in overall power consumption.

- a. We have conducted Energy Audit through M/s. Systel Energy Solution (India) Pvt Ltd. by which we have saved 480 Units per day.

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.

Acknowledgement:

The Directors wish to place on record their appreciation for the assistance received from IDBI, ICICI, SBI, IOB, 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

R. Veeramani

Date : 18.06.2009

Chairman & Managing Director

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:

	2008-09	2007-08
	(Rs. In Lakhs)	
i) CIF value of imports (Raw material, Spares & Capital goods)	139.03	71.79
ii) Expenditure in foreign currency (Travel and Commission)	79.25	100.82
iii) Foreign exchange earned	8564.14	8233.84

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 2009 and loss of the Company for the year 31st March 2009.
- > 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 : 18.06.2009

Chairman & Managing Director

**FORM A**

Form for Disclosure of Particulars with respect to conservation of Energy

A. Power & Fuel Consumption **2008-2009** **2007-08**

1. Electricity

a. Purchased Units	13382550	19429200
Total amount (Rs.)	57534289	81983073
Rate/Unit Rs.	4.30	4.22

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

Units	24394	153383
Units per litre of Diesel oil	2.56	2.82
Cost per Unit (Rs.)	13.57	13.36

(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

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

B. Consumption per unit of Production

1. Electricity (KWH) (Yarn & Knitted Fabric (per KG))	5.26	5.54
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**

Fiber and Yarn

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

Optimum utilization of fiber 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 material

2. Ability to spin yarn of international standard

3. Safety for the workers and better environment with references 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 : 18.06.2009

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

Boards of Directors of the Company consist of one Executive, One Non-Executive and three Non-Executive independent Directors as on 31.3.2009.

Name of the Directors and	Category	No. of Other Directorship Committee Memberships excluding Pvt. Ltd. Cos. & (Excluding this Company)			
		Other Directorship		Committee Membership	
		As Chairman	As Member	As Chairman	As Member
Mr. R. Veeramani	Chairman & Managing Director	2	10	Nil	1
Mr. S.R. Asaithambi	Non - Executive Director	Nil	10	1	1
*Mr. S.R. Kumar	Non-Executive Director	Nil	6	1	Nil
Mr. P.P. Doddanavar	Independent Director	Nil	Nil	2	Nil
Mr. Shekhar R. Rao	Independent Director - Nominee Director - IDBI	Nil	Nil	Nil	2
**Mr. R. Kannan	Independent Director - Nominee Director - ICICI	Nil	7	0	1
Mr. K.M. Lal	Independent Director	Nil	5	Nil	2

* Mr.S.R.Kumar resigned from the Board since 31.10.2008

** ICICI has withdrawn their nominee Mr.R.Kannan from the Board w.e.f. 18.03.2009

Attendance Record of the Directors

Director	No. of Meetings		Attended last AGM on 11.09.2008
	Held	Attended	
Mr. R. Veeramani	4	4	Yes
Mr. S.R. Asaithambi	4	4	Yes
*Mr. S.R. Kumar	4	2	Yes
Mr. P.P. Doddanavar	4	1	No
Mr. Shekhar R. Rao	4	4	Yes
**Mr. R. Kannan	4	4	No
Mr. K.M. Lal	4	1	No

* Mr.S.R.Kumar resigned from the Board since 31.10.2008

** ICICI has withdrawn their nominee Mr.R.Kannan from the Board w.e.f. 18.03.2009

Number of Board Meetings held, dates on which held :

Date of Board Meeting	Place / City	No. of Directors present
22.05.2008	Chennai	6
29.07.2008	Chennai	5
31.10.2008	Chennai	4
31.01.2009	Chennai	5

3. Audit Committee

The Audit Committee is reconstituted consequent upon the withdrawal of Mr.R. Kannan as Nominee Director by ICICI, the Committee is reconstituted consisting of Mr. P.P. Doddanavar as Chairman and Mr. Shekhar R. Rao and Mr.K.M.Lal as members and Mr.S. Vasudevan as the Member Secretary

Date of Meetings:

22.05.2008, 29.07.2008, 31.10.2008, 31.01.2009.

Name	Designation	No. of Meeting attended
Mr. P.P. Doddanavar	Chairman	1
**Mr. R. Kannan	Member	4
Mr. Shekhar R. Rao	Member	4
Mr. K.M. Lal	Member	1

** ICICI has withdrawn their nominee Mr.R.Kannan from the Board w.e.f. 18.03.2009

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