



CG-VAK

SOFTWARE & EXPORTS LTD

AN ISO 9001:2000 CERTIFIED COMPANY

Report  Junction.com

11th Annual Report

2006

BOARD OF DIRECTORS

C. Ganapathy, B.Sc., (Agri.)
Chairman

M. Durairaj, M.Sc., B.Ed.,
Director

S. Muthukumar, B.Sc., B.E.,
Director

S. Mohan, B.E.,
Director

G. Suresh, B.E., M.B.A.,
Managing Director

AUDITORS

S. Lakshminarayanan Associates
Chartered Accountants
'Lakshya'
1056/1, Avinashi Road
Coimbatore - 641 018

BANKERS

State Bank of India
Commercial Branch
1443, Trichy Road
P.B. No. 3902
Coimbatore - 641 018

REGISTRARS & SHARE TRANSFER AGENTS

S.K.D.C. Consultants Limited
P.B. No. 2979
No.11, S.N. Dass Layout
Street No.1, Tatabad
Coimbatore - 641 012

Report  junction.com

REGISTERED OFFICE

171, Mettupalayam Road
Coimbatore - 641 043
INDIA

SUBSIDIARY

CG-VAK Software USA Inc.,
666, Plainsboro Road
Suite 516
Plainsboro
New Jersey 08536

CONTENTS

Notice to the Members	- 2
Director's Report	- 4
Corporate Governance	- 9
Auditor's Report	- 18
Balance Sheet	- 22
Profit & Loss Account	- 23
Schedules	- 24
Auditor's Report on Consolidated Financial Statement	- 34
Consolidated Balance Sheet	- 35
Consolidated Profit & Loss Account	- 36
Schedules to Consolidated Balance Sheet	- 37
Annual Report of USA - Subsidiary	- 42

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the 11th Annual General Meeting of the Shareholders of the Company will be held on Wednesday the 27th day of September 2006 at 4.30 P.M. at Hotel Annalakshmi, 106-A, Race Course Road, Coimbatore - 641 018, to transact the following business.

AGENDA**ORDINARY BUSINESS**

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 and the Profit and Loss Account for the year ended on that date together with the Reports of Directors and Auditors thereon.
2. To appoint a Director in the place of Mr.C.Ganapathy, who retires by rotation and is eligible for re-appointment.
3. To appoint the Auditors to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

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

RESOLVED THAT pursuant to Sec.198, 269, 309, 311, 314 and Schedule XIII and other applicable provisions, if any, of The companies Act, 1956, the Company hereby approves the appointment of Mr.C.Ganapathy as the Executive Chairman of the Company for a period of 5 years w.e.f. 1st July 2006 on the terms and conditions including remuneration as set out hereunder:

(A) Salary : Salary of Rs.25,000/- per month.

Commission on Net Profits : One percent of the Net Profits of the Company.

(B) Perquisites

(1) Conveyance : Free use of the Company's car with driver for official and private purposes.

(2) Club Fees: Fees of clubs, subject to a maximum of two clubs (excluding admission and life membership fees).

(3) Leave Travel Concession: Entitled to travel with family, by any mode, i.e. Air, Train and Road, once in every two years for visiting any place in India.

Note: Family for the purpose of Leave Travel shall besides the Executive Chairman, consists of spouse, wholly dependent parents and wholly dependent children of the Executive Chairman.

(4) Medical Benefit: Actual expenses incurred for the Executive Chairman and his family members.

(5) Contribution to Provident Fund.

(6) Telephones: The Company shall provide telephone at residence for office use.

(7) Personal Accident Insurance Perquisites shall however be restricted to an amount equal to the annual salary.

RESOLVED FURTHER THAT in the event of absence or inadequacy of profits in any financial year, the Executive Chairman shall be paid a minimum remuneration of the Salary mentioned above and the Perquisites and allowances will be within the overall ceiling as specified by Section II of Part II of Schedule XIII to The Companies Act, 1956, as in force, from time to time.

Place: Coimbatore

Date: 29.06.2006

By Order of the Board

G. SURESH

Managing Director

EXPLANATORY STATEMENT

(Pursuant to Section 173 of The Companies Act, 1956)

Item No.4

Considering the vast experience and business acumen of Mr. C. Ganapathy, Chairman, the Board of Directors at their meeting held on 29.06.2006 have appointed him as the Executive Chairman for a period of five years with effect from 1st July 2006.

The terms and conditions of appointment are set out in the text of the resolution contained in the notice of the Annual General Meeting, which may also be treated as notice u/s 302 of the Companies Act, 1956.

The resolution is placed before you for your approval.

Mr. C.Ganapathy, the appointee and Mr. G. Suresh, Managing Director being his relative, are interested in this resolution.

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and to vote on his behalf and such a proxy need not be a member of the Company.
2. Instruments of Proxy for use at the above meeting must be lodged at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 21.09.2006 to 27.09.2006 (both days inclusive).
4. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.

Place : Coimbatore

Date : 29.06.2006

By Order of the Board

G.SURESH

Managing Director

DIRECTOR'S REPORT

To

The Members of CG-VAK SOFTWARE AND EXPORTS LTD

The Director's of your Company have immense pleasure in presenting the 11th Annual Report on the business of your Company and the Audited Financial Accounts for the year ended 31st March 2006.

Financial Results 2006

During the year under review, your Company has achieved a turnover of Rs. 503.17 lakhs as against Rs. 439.55 lakhs in the previous year. The cash profit for the year is at Rs. 89.25 lakhs as compared to Rs. 77.19 lakhs in the previous year. The net profit after tax stood at 1.47 lakhs as compared to Rs. 1.14 lakhs in the previous year.

Global Revenue

The global revenues for the Company including the business done by the Wholly Owned Subsidiary for the year under review is Rs. 16.85 Crores.

Review of Business

The year under report had been a challenging one for your Company. The profit remained flat though there is a growth of 14% in revenue. The billing rates were hit because of competitive pressures and also the cost of services has increased.

The contributions of business from various markets were:

Software services contributed to 83.93%, BPO services 14.55% and Training 1.52%.

The contribution of offshore business has grown significantly over the last year. The offshore to on-site mix is 1:3 as compared to 1:6 in the previous year. There is a growth of **95 %** in the offshore revenue.

Our BPO business grew by 131% and has done a business of Rs. 73.21 lakhs during the current year when compared to Rs. 31.66 lakhs of previous year.

Quality

Your company has a strict quality assurance and control programs to ensure that high level of Quality service is delivered to the customers. Matured and proven quality management systems are in place based on the requirements of ISO 9001:2000 standards.

Future Plans

The IT Services Industry is maturing and more work is being moved offshore. And Indian offshore methodology has brought down costs and improved Quality. The company has already started gaining momentum in the offshore front and the offshore mix will increase this year. The Key differentiator for CG-VAK has been the ability to react to the customer needs more quickly. By virtue of our smaller size we are able to make radical changes to meet the changing needs of the market.

The company has made success in OPD (Out-sourced Product Development) market space by acquiring and retaining customers. The company will increase its focus on this segment.

The Company should perform better in the ensuing year with improvement in market conditions.

Dividend

As the company is passing through a very challenging phase, your Directors do not consider prudent to recommend any dividend for the financial year ended March 31, 2006.

US Subsidiary-CG-VAK Software USA Inc.

Your Company's Wholly Owned Subsidiary at USA, CG-VAK Software USA Inc. has achieved a Sales Turnover of US\$ 3.52 millions during this year, compared to the US\$ 3.23 millions during the last year.

As required under Section 212 of The Companies Act, 1956, the Annual Report of M/s.CG-VAK Software USA Inc. is annexed to this report.

Directors

Mr.C.Ganapathy is retiring by rotation at the ensuing Annual General Meeting and being eligible offer himself for-appointment.

The Resolution for appointing Mr.C.Ganapathy as Executive Chairman is brought for your approval.

Auditors

M/s. S. Lakshminarayanan Associates, Chartered Accountants, Coimbatore retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

Public Deposit

The Deposits accepted by your Company are within the prescribed limits and the provision of Section 58-A of the Companies Act, 1956, and the rules framed thereunder are complied with. There are no unclaimed deposits as on 31.03.2006.

Information pursuant to Section 217(1) (e) of the Companies Act, 1956.

As per the requirement 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 are appended hereto and form part of this report.

Particulars of Employees

There is no employee who is in receipt for remuneration in excess of the limits set under Section 217(2A) of The Companies Act, 1956, read with Companies (Particulars of Employees Rules 1975).

Director's Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors have:

1. Followed in the preparation of the Annual Accounts, the applicable accounting standards.
2. Selected such accounting policies and applied them consistently and made judgments 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 financial position of the Company for the period.
3. 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.

and

4. Prepared the attached statement of accounts for the year ended 31st March 2006 on a going concern basis.

Corporate Governance

The Board of Directors of your Company has taken all necessary steps to comply with Clause 49 of the Listing Agreement with The Stock Exchanges, which becomes applicable to the Company from the Financial Year 2002 – 2003. A Management discussion and analysis report forms part of this report.

Acknowledgement

The Directors of your Company would like to take this opportunity to thank one and all associated with it enabling it to scale greater heights and emerge as a recognized software solutions vendor in the industry. The faith and confidence shown on your Company by banks, global clients, government authorities and shareholders has propelled our enthusiasm and strengthen our determination to achieve our vision.

Finally your Directors would like to express their sincere thanks to the dedication and committed hardwork of the employees working in India, USA and at various client locations overseas, turning every milestone to reach our corporate vision.

Place : Coimbatore
Date : 29.06.2006

By Order of the Board
G.SURESH
Managing Director

ADDENDUM

With reference to the Auditor's remark on non-provision of gratuity liability, we wish to state that the same will be recognized on actual payment.

Place : Coimbatore
Date : 29.06.2006

By Order of the Board
G.SURESH



**INFORMATION PURSUANT TO THE COMPANIES
(DISCLOSURE OF PARTICULARS IN THE REPORT OF DIRECTORS) RULES 1988**

FORM A

-

NOT APPLICABLE

FORM B

A. RESEARCH AND DEVELOPMENT

The nature of the business of software development involves inbuilt, constant Research and Development as a part of its process of manufacturing (development). The Company is developing applications engines, re-usable codes and libraries as a part of its R&D activities.

B. TECHNOLOGY ABSORPTION

The Company has not absorbed technology from outside.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange Earnings	Rs.4,95,52,398
Foreign Exchange Outgo	
Foreign Travel	Rs. 2,01,169
Onsite Services	Rs.2,33,73,117
Others	Rs. 16,62,850
Total	<u>Rs.2,52,37,136</u>

Place : Coimbatore

Date : 29.06.2006

By Order of the Board

C.GANAPATHY

Chairman

**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956
RELATING TO SUBSIDIARY COMPANY.**

1. Name of the Subsidiary : CG-VAK Software USA Inc.
2. Financial year ended : 31.03.2006
3. No.of shares held in the Subsidiary as on the above date : 750 equity shares of \$ 1000/- each
4. Percentage of holding of equity : 100%
5. Net aggregate of profits or losses for the current financial year of the Subsidiary so far as it concerns the members of the holding company :
 - a. Dealt with or provided in the accounts of the holding company : Nil
 - b. Not dealt with or provided in the accounts of the holding company : USD 50,955/-
6. The net aggregate of profit or losses for the previous financial years of the subsidiary so far as it concerns the members of the holding company,
 - a. Dealt with or provided in the accounts of the holding company : Nil
 - b. Not dealt with or provided in the accounts of the holding company : USD 2,46,433/-

C.GANAPATHY
Chairman

S.MUTHUKUMAR
Director

S.MOHAN
Director

G.SURESH
Managing Director

Place: Coimbatore
Date: 29.06.2006

REPORT OF CORPORATE GOVERNANCE
(In Compliance with Clause 49 of the Listing Agreement)

I. Company's Philosophy on Corporate Governance

Your Company believes that good Corporate Governance practice enables the Management to direct and control the affairs of the Company in an efficient manner and to achieve its ultimate goal of maximizing value for all its shareholders. The Company's efforts are towards efficient conduct of its business and fulfilling its obligations towards employees and shareholders, guided by a strong emphasis on transparency, accountability and integrity.

II. Board of Directors

The Board consists of one Non-Executive Chairman, one Managing Director and three Independent Directors. The composition of Directors and their attendance at the Board Meeting during the year and the last Annual General Meeting are as follows:

Name of Director	Category of Directorship	No. of Board Meetings Attended	Attendance in the last AGM
Mr.C.Ganapathy	Non-Executive Chairman	7	Yes
Mr.G.Suresh	Managing Director	6	Yes
Mr.M.Durairaj	Independent Director	-	No
Mr.S.Muthukumar	Independent Director	7	Yes
Mr.S.Mohan	Independent Director	7	Yes

Number of other Companies or Committees the Directors of the Company is a Director/Member/Chairman

Name of Director	Other Directorship	Other Committee Positions	
		Member	Chairman
Mr.C.Ganapathy	4	Nil	Nil
Mr.G.Suresh	3	Nil	Nil
Mr.M.Durairaj	Nil	Nil	Nil
Mr.S.Muthukumar	Nil	Nil	Nil
Mr.S.Mohan	Nil	Nil	Nil

Seven Board Meetings were held during the 12 month period ended 31.03.2006. The dates on which the Board Meetings were held are 14.05.2005, 28.06.2005, 01.07.2005, 27.07.2005, 27.10.2005, 19.11.2005 and 27.01.2006.

III. Audit Committee

The primary objective of this committee is to monitor and provide effective supervision of the financial control and reporting process. The terms of reference of the Audit Committee are in tandem with those laid down by Stock Exchange regulations and the provisions of the Companies Act, 1956.

The Audit Committee consists of two non executive independent directors and one Non executive Director. The Composition of the Committee and attendance of Committee Meetings are given below: