





10th Annual Report

2005



ANNUAL REPORT 2005

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

REGISTEREDOFFICE

171, Mettupalayam Road Coimbatore - 641 043 INDIA

SUBSIDIARY

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

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NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the 10th Annual General Meeting of the Shareholders of the Company will be held on Friday the 30th day of September 2005 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 2005 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.M.Durairaj, 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 in supercession of the Resolution passed at the Annual General Meeting of the Company held on 29.09.2000, no remuneration be paid to Mr.K.Manickam, former Managing Director of the Company on and with effect from 01.09.2004. RESOLVED FURTHER THAT the remuneration and commission payable to him upto 31.08.2004, shall not exceed Rs.1,25,000/- (Rupees One lakhs and twenty five thousand only).
- 5. To consider and if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution: RESOLVED THAT Mr.S.Mohan who was appointed as Additional Director by the Board and who in terms of Section 260 of The Companies Act, 1956, and Article 145 of the Articles of Association, holds office upto the date of the AGM and in respect of whom a notice has been received from a shareholder under Section 257 of the said act, be and is hereby appointed as a Director of the Company.
- 6. 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 reappointment of Mr.G.Suresh as the Managing Director of the Company for a period of 5 years w.e.f. 01.09.2005 on the terms and conditions including remuneration as set out hereunder:

(A) Salary : Salary of Rs.50,000/- 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 Managing Director, consists of spouse, wholly dependent parents and wholly dependent children of the Managing Director.

(4) Medical Benefit : Actual expense incurred for the Managing Director 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 Managing Director 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: 28.06.2005 By Order of the Board GSURESH Managing Director SANSCO SERVICES - Annual Reports Library Services - www.sansco.net



EXPLANATORY STATEMENT

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

Item No.4

Mr.K.Manickam had stopped attending to the affairs of the Company since 1st September 2004 and owing to his continued absence from Board Meetings also, he vacated Office as Director with effect from 28.06.2005. The Board at its Meeting held on 31st January 2005 resolved that no remuneration be paid to Mr.K.Manickam from 1st September 2004, subject to the approval of General Body being granted for the same and the remuneration and commission payable to him upto 31.08.2004 shall be restricted to Rs.1,25,000/- (Rupees One lakhs and twenty five thousand only). None of the Directors of the Company are interested in the Resolution.

Item No.5

Mr.S.Mohan was appointed as an Additional Director of the Company by the Board of Directors pursuant to the provisions contained in Article 145 of the Articles of Association of the Company and Section 260 of The Companies Act, 1956. According to the provisions of the said Article and Section 260 of The Companies Act, 1956, he will hold office upto the date of the Annual General Meeting. As required under Section 257 of the said Act, notice has been received from a member alongwith a deposit of Rs.500/-, signifying his intention to propose Mr.S.Mohan as a candidate for the office of Director. Mr.S.Mohan holds directorship in several other Companies in India. It is in the interest of the Company to continue to avail of his services as a member of the Board.

As required under Section 257 of The Companies Act, 1956, the Company has received a notice along with a deposit, from a member proposing the candidature of Mr.S.Mohan as Director of the Company. The Board recommends the resolution seeking your approval to the appointment of Mr.S.Mohan as Director of the Company.

None of the Directors except Mr.S.Mohan are concerned or interested in this resolution.

Item No.6

The Board of Directors of the Company has approved the re-appointment of Mr.G.Suresh, Managing Director, whose present terms comes to an end on 31.08.2005. The Board has re-appointed Mr.G.Suresh for a period of 5 years w.e.f. 01.09.2005 at the remuneration stated in the resolution. Your Directors place the resolution for your approval.

None of the Directors are concerned or interested in this resolution other than Mr.C.Ganapathy and Mr.G.Suresh.

Place : Coimbatore Date : 28.06.2005 By Order of the Board G.SURESH Managing Director

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 24.09.2005 to 30.09.2005 (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 : 28.06.2005 By Order of the Board G.SURESH Managing Director

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CG-VAK

DIRECTOR'S REPORT

То

The Members of CG-VAK SOFTWARE AND EXPORTS LTD

The Director's of your Company have immense pleasure in presenting the 10th Annual Report on the business of your Company and the Audited Financial Accounts for the year ended 31st March 2005.

Financial Results 2005

During the year under review, your Company has achieved a turnover of Rs.439.55 lakhs as against Rs.505.39 lakhs in the previous year. The cash profit for the year is at Rs.77.19 lakhs as compared to Rs.78.47 lakhs in the previous year. The profit after tax stood at Rs.3.46 lakhs.

Global Revenue

The global revenues for the Company including the business done by the Wholly Owned Subsidiary for the year under review is Rs.15.19 Crores.

Review of Business

The year under report had been a challenging one for your Company. The billing rates were hit because of competitive pressures. We worked with the clients closely and offered additional services and better value for the money they spend.

The contribution of business from various markets were:

USA contributed to 89.89% and Middle East 7.83% and domestic market 2.28%.

The contribution of offshore business has grown significantly over the last year. The offshore to on-site mix is 1:6.

Our BPO business grew many folds and has done a business of Rs.31.66 lakhs during the current year when compared to Rs.7.58 lakhs of previous year.

The Company has re-engineered its operations and has brought in many new strategies, which have started yielding results. The strength of offshore marketing team has been increased many folds and has generated many positive leads/prospects out of which few have already been converted in to order.

Future Plans of the Company

Over the next year and beyond we expect the Services Industry to mature and more work would be 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 existing clients have increased their business significantly.

At the same time the Company is also increasing the manpower to provide onsite services. The onsite consulting business for the Company is targeted to grow at 20%.

The Company should perform better in the ensuing year with improvement in market conditions, and with initiatives for revenue growth are already yielding positive results.

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, 2005.

CG-VAK

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\$ 3.23 millions during this year, compared to the US\$ 2.80 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.M.Durairaj is retiring by rotation at the ensuing Annual General Meeting and being eligible offer himself for-appointment.

Mr. S. Mohan who was appointed as Additional Director holds office upto the date of Annual General Meeting. A notice has been received from a shareholder proposing him to be appointed as a Director.

Resolution for the re-appointment of Mr.G.Suresh as Managing Director is brought for your approval.

On account of not attending three consecutive Board Meetings of the Company, under Section 283(1) (g) of The Companies Act, 1956, the Directors, Mr.K.Ramanathan and Dr.M.Veerappan have automatically vacated the office of Director on 14.05.2005 and Mr.K.Manickam has vacated the office of Director on 28.06.2005.

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 31.03.2005.

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 2005 on a going concern basis.

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ANNUAL REPORT 2005

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.

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 : 28.06.2005 By Order of the Board GSURESH 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 : 28.06.2005 By Order of the Board G.SURESH Managing Director

G-VAK

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 EarningsRs.4,29,52,025Foreign Exchange OutgoRs.2,30,54,063

Place : Coimbatore Date : 28.06.2005 By Order of the Board C.GANAPATHY Chairman

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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		:	31.03.2005	
3.	No.of shares held in th as on the above date	e Subsidiary	:	500 equity shares of \$ 1000/- each	I
4.	Percentage of holding c	f equity	:	100%	•
5.	Net aggregate of profits for the current financial Subsidiary so far as it o members of the holding	year of the concerns the	: .		
	a. Dealt with or provid accounts of the hold		:	Nil	
-	b. Not dealt with or protect the accounts of the leader the company		Л	USD 45,553/-	
6.	The net aggregate of pr for the previous financia subsidiary so far as it co members of the holding	al years of the oncerns the			
ч. ¹	a. Dealt with or provid accounts of the hold		:	Nil	
v	c. Not dealt with or pro the accounts of the h company		:	USD 2,00,881/-	
C.G A Chairr	NAPATHY nan	S. MUTHUKUMAR Director		S. MOHAN Director	G. SURESH Managing Director

Place: Coimbatore Date: 28.06.2005

G-VAK

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	No.of other Directorship held in other Companies
Mr.C.Ganapathy	Non-Executive Chairman	6	Yes	3
Mr.G.Suresh	Managing Director	6	Yes	3
Mr.M.Durairaj	Independent Director	1	No	Nil
Mr.S.Muthukumar	Independent Director	6	Yes	Nil
Mr.S.Mohan *	Independent Director	3	No	Nil
Mr.K.Ramanathan **	Promoter Director	0	No	1
Dr.M.Veerappan **	Independent Director	0	No	Nil
Mr.K.Manickam ***	Managing Director	3	No	3

* Appointed as Additional Director w.e.f. 28.10.2004.

** Vacated office of Director u/s 283(1) (g) w.e.f. 14.05.2005

*** Vacated office of Director u/s 283(1) (g) w.e.f. 28.06.2005

Six Board Meetings were held during the 12 month period ended 31.03.2005. The dates on which the Board Meetings were held are 30.06.2004, 29.07.2004, 28.10.2004, 22.11.2004, 19.01.2005 and 31.01.2005.

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. During the year the Committee was reconstituted with Mr.S.Muthukumar as Chairman and Mr.C.Ganapathy and Mr.S.Mohan were co-opted as members.

The Committee met four times during the year on 28.06.2004, 28.07.2004, 27.10.2004 and 30.01.2005.