



CYBERSCAPE
MULTIMEDIA LIMITED

11th

Report  reportjunction.com

Annual Report
2006-07



BOARD OF DIRECTORS

Anand S.K.
Managing Director

M.S. Sridhar
Joint Managing Director

Dr. Mohan S. Kankanhalli
Director

M. Siva Shankar
Director

T.S. Ramachandran
Director

Company Secretary
Krishnakant Parashar *

Auditors

Manish D. Ladage & Co.,
Chartered Accountants
2124, 2nd Floor, Oberoi Garden Estates,
Chandivli Farms Road, Off Saki Vihar Road,
Chandivli, Mumbai-400072.

COMMITTEES OF THE BOARD

Audit Committee

T.S. Ramachandran, Chairman
M. Siva Shankar

Shareholders/Investors Grievances Committee

M. Siva Shankar, Chairman
T.S. Ramachandran
Anand S.K.

Share Transfer Committee

Anand S.K.
M.S. Sridhar
M. Siva Shankar

Registered & Corporate Office

941, 21st Main, 22nd 'A' Cross
Opp: BDA Complex
Banashankari II Stage
Bangalore-560 070.
Telefax: 91-80-26714446 / 26710925
www.cyberscapeindia.com
email: info@cyberscapeindia.com

Branches

Mumbai :

Unit No. 108, Sector No. 3, Bldg. No. 3,
Millennium Business Park, Mahape-400701.
Tel.: 91-22-27782779 / 80 / 81

New Delhi :

M-5, Swastik Bhavan, Ranjeetnagar Complex
Near Satyam Cinema
New Delhi-110008.

Registrars & Share Transfer Agents

Alpha Systems Pvt. Ltd.,
30, Ramana Residency
4th Cross, Sampige Road
Malleswaram
Bangalore-560 003.
Tel: 91-80-23460815 - 818
Fax: 91-80-23460819
E-mail: alfint@vsnl.com

Bankers

ICICI Bank Ltd.
Vijaya Bank

* Till 10-03-2007

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the 11th Annual General Meeting of the shareholders of **Cyberscape Multimedia Limited** will be held at 10:00 a.m. on Friday, the 28th September 2007 at Suchitra Main Hall, Suchitra Film Society, 36, 9th Main Road, Banashankari 2nd Stage, Bangalore-560 070 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended March 31, 2007 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in the place of Mr. T.S. Ramachandran, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Dr. Mohan S. Kankanhalli, who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint Auditors to hold office from conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s Manish D. Ladage & Co., Chartered Accountants, Mumbai, retiring auditors, are eligible for re-appointment. The declaration under Section 224(1B) of the Companies Act, 1956 has been received. In this connection, to consider, and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT M/s Manish D. Ladage & Co., Chartered Accountants, be and are hereby re-appointed as the Auditors of the Company to hold office from the conclusion of this Annual General Meeting to the conclusion of the next Annual General Meeting, on such remuneration as may be determined by the Board of Directors in consultation with the Auditors."

By Order of the Board

ANAND S.K.

Bangalore, July 28, 2007

Managing Director

NOTES

1. **A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote instead of himself/herself. The proxy need not be a member of the Company. Proxy to be valid must be deposited with the Company not later than 48 hours before the commencement of the meeting.**
2. The Register of Members and Share Transfer Books of the Company will remain closed from 24th September, 2007 to 28th September, 2007 (both days inclusive).
3. Members holding shares in physical form are requested to intimate immediately any change in their address to the Registrar and Share Transfer Agents and the members holding shares in dematerialised form may inform the same to their respective depository participants.
4. Members desirous of getting any information in respect of accounts are requested to send their queries in writing to the Company at the Registered Office so as to reach the Company 7 days before the meeting.
5. As members are aware, equity shares of the Company are traded in electronic form for all shareholders. Members who hold equity shares in physical form may dematerialise the same. ISIN allotted to the Company for this purpose is INE519B01019 (Fully Paid-up) and INE9519B01017 (Partly Paid-up).
6. Members/Proxies are requested to bring their copy of the Annual Report and the Attendance Slip sent herewith duly filled in to the Annual General Meeting.
7. Members who hold shares in physical form in multiple folios in identical names or joint accounts in the same order of names are requested to send the share certificates to the Company's Registrars and Share Transfer Agents M/s Alpha Systems Private Limited, for consolidation into a single folio.
8. The information as required under Clause 49 of the Listing Agreement in respect of re-appointment of retiring Directors
 - (i) Mr. T.S. Ramachandran (49 years) is B.Sc., ACA, CAIIB and also a Post Graduate Diploma holder in EDP & Computer Management. He has worked in Centurion Bank Ltd., Syndicate Bank and ING Vysya Bank Ltd in various senior management positions. He is a Chartered Accountant and presently in the profession of teaching in a prestigious college of Bangalore. He has been a Director of the Company since 30.08.2001 and presently he is also the Chairman of the Audit Committee.
 - (ii) Dr. Mohan S. Kankanhalli (43 years) is B.Tech. (Hons.) in Electrical Engineering and M.S. & Ph.D. in Computer Systems Engineering. Having research interests in multimedia systems, signal processing & multimedia security, he has presented a number of research papers in international conferences. He has several books, publications and patents to his credit and currently working as Professor and Vice-Dean, Dept. of Computer Science, National University of Singapore. He has been a Director of the Company since 10.02.2000.

By Order of the Board

ANAND S.K.

Bangalore, July 28, 2007

Managing Director

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the 11th Annual Report together with the audited accounts of the Company for the year ended March 31, 2007.

FINANCIAL RESULTS

(Rupees in lacs)

PARTICULARS	2006-07	2005-06
Total Income	708.20	420.47
Operating Profit (PBIDT)	4.96	(2.37)
Interest	1.00	1.33
Depreciation	24.77	29.59
Profit/(Loss) before Taxation	(20.81)	(33.29)
Provision for Deferred Tax	(0.34)	(6.37)
Fringe Benefit Tax	0.83	0.47
Income Tax for earlier years	0.36	-
Profit / (Loss) after Tax	(21.65)	(27.40)
Balance of Profit / (Loss) from previous year	(204.67)	(177.27)
Amount available for appropriation	(226.33)	(204.67)

During the year, the Company has recorded a significant increase in the total income from Rs. 420.47 lacs to Rs. 708.20 lacs over the previous year and incurred a loss of Rs. 20.81 lacs (including depreciation) as against a loss of Rs. 33.29 lacs in the previous year. Excluding depreciation, the company had a cash profit of Rs. 3.96 lacs. The increase in turnover is on account of trading in computer software, which has improved the profitability of the Company to some extent. Depreciation was Rs. 24.77 lacs as against Rs. 29.59 in the previous year. The Loss after tax decreased from Rs. 27.40 lacs in the previous year to Rs. 21.65 lacs. The Company has done a few successful pilot projects by virtue of marketing alliances formed earlier and is hopeful of large scale deployment.

DIVIDEND

Your Directors do not recommend any dividend for the year in view of the loss incurred by the Company.

INVESTORS RELATIONS

Alpha Systems Pvt Ltd., a SEBI registered Transfer Agent, is the Company's Share Transfer Agent. All correspondence regarding securities and investor grievances are being attended to at the Registered Office or at the Share Transfer Agent's office located at

Malleswaram, Bangalore. The Company, with an objective of friendly investor relations has set up a Shareholders'/Investors' Grievances Committee. The Committee ensures that all the queries and suggestions are properly attended to.

CORPORATE GOVERNANCE

Your Company adheres to all the mandatory recommendations of Corporate Governance Code laid down under Clause 49 of the Listing Agreement with Bombay Stock Exchange. A report on Corporate Governance is provided in this Report. The Auditors' Certificate on Corporate Governance forms part of this Annual Report.

PUBLIC DEPOSITS

Your Company has not accepted any deposits from the public during the year under review.

PARTICULARS OF EMPLOYEES

None of the employees of the Company employed throughout the year or part of the year was in receipt of remuneration in excess of limits specified in Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.



ADDITIONAL INFORMATION

Particulars pursuant to Section 217(1)(e) of the Companies Act, 1956 and Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988.

A. Conservation of energy and technology absorption

The Company's operations are not energy intensive. However, adequate measures have been taken to reduce energy consumption by using energy efficient computers with latest technologies. An effort to conserve energy goes on a continual basis.

B. Foreign Exchange Earnings and outgo

The information related to foreign exchange earnings and outgo during the year under review is given in notes on accounts.

DIRECTORS

Mr. T.S. Ramachandran and Dr. Mohan S. Kankanhalli, Directors, retire by rotation and being eligible, offer themselves for re-appointment.

A brief profile of the Directors is given in the Notice of the Annual General Meeting. Necessary resolutions are submitted for your approval.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors accept the responsibility for the integrity and objectivity of the Profit and Loss Account for the year ended March 31, 2007 and the Balance Sheet as at that date. Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, the Directors hereby confirm that :

- i. In the preparation of annual accounts for the year 2006-07 the Generally Accepted Accounting Principles (GAAP) of India and the applicable accounting standards have been followed along with proper explanation relating to material departures.
- ii. The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were 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 profits of the Company for the year under review.

- iii. The Directors have taken proper and sufficient care for 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.
- iv. The Directors have prepared the annual accounts for the financial year ended March 31, 2007 on a 'going concern' basis.

AUDITORS

The auditors M/s Manish D. Ladage & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and are recommended for re-appointment. A certificate from the auditors has been received to the effect that the re-appointment, if made, would be in accordance with Section 224(1B) of the Companies Act, 1956.

STATUTORY DISCLOSURE

None of the Directors of the Company is disqualified under the provisions of Section 274(1)(g) of the Companies Act, 1956. Your Directors have made necessary disclosures as required under various provisions of the Companies Act, 1956 and Clause 49 of the Listing Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis forming part of this Annual Report is attached.

ACKNOWLEDGEMENTS

The Directors wish to thank the Company's customers, bankers, suppliers, shareholders, business associates, regulatory authorities, Government departments and Government agencies for their support and co-operation. The Directors also appreciate and value the contributions made by every member of the Cyberscape family.

On behalf of the Board of Directors

Bangalore
July 28, 2007

Anand S.K.
Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY OUTLOOK

The Indian IT Services companies have truly arrived on the global map. The Indian IT software industry currently generates around \$ 17.3 billion (excluding BPO) revenues of which over 97% comes from services. In comparison, IT product companies in India are small in number and there have not been many success stories. One of the main reasons for this being the lack of world class research and development (R&D) facilities in our academic institutions which spurs innovation. Product companies are mostly created and managed by individuals with research or engineering background and not necessarily good business acumen. On the contrary good businessmen have built the success of the Indian IT services industry where the ROI is much quicker. There is no much product engineering talent available in India and neither is it being nurtured. Top-tier talent from institutions such as IITs has migrated for greener pastures. In a nutshell, for Indian companies to be relevant in the IT products market space we need an environment that encourages innovation and this has to begin in college campuses.

In spite of your company's best attempts to diversify revenue streams, it is still dependent on the flagship product Akruti to generate revenues. While the entire economy is upbeat with over 9% growth rate, we are still not seeing any traction for our products in the domestic software segment. The strategy of persevering with our existing niche markets hoping for an upswing in the demand is yet to show any results. Though the number of players in the localized multilingual software has dwindled there is no upsurge in the off-take and our bottom line has improved marginally. We are yet to break out of the cycle of inadequate resources holding back our effort to market our significant product portfolio.

While the IT sector in general is doing extremely well, especially those in the services area targeting overseas customers, domestic product market is yet to show any significant improvement, especially in the niche that your company is in, namely the multilingual software products. In fact, in all areas that we operate we are seeing that

steadily, the big players are gaining ground because of their deep pockets to keep funding R&D at the expense of smaller local companies like ours. This is putting pressure on us to divest ourselves of some of our products and use the funds to concentrate on fewer product lines, but we are yet to find takers at acceptable prices.

POSITIVES

For the first time after many years we have a cash profit and the turnover has grown after shrinking in the previous years. We are still sitting on some unique products and some valuable IPR (Intellectual Property Rights) in non-overlapping areas like Multilingual Software, Banking and Micro-credit Sector, Document / Knowledge Management, E-Governance and Office Administration. We have also started exploring in a small way, projects in upcoming areas like embedded software and mobile telephony. Your company has supplied some key localization software components to some OEM (Original Equipment Manufacturer) in Japan and India.

NEGATIVES

While we keep plodding on and manage to survive at below acceptable rates compared to the industry and the country average as a whole, the very foundation of our people dependent business, our staff is getting restless and it is becoming increasingly difficult to retain people especially in Bangalore, where opportunities are abound. Also inability to fund any sustained marketing campaign for our products is worrying because it keeps us locked in a low growth cycle.

OPPORTUNITIES AND FUTURE PROSPECTS

While it is yet to prove itself at the ground level for us, almost all the indicators are pointing to the fact that the Indian economy may touch double-digit growth rates pushing demand across all the sectors. To take the goods and services to the vast consuming masses not necessarily in the big metros, it is obvious that all the dynamic sectors like retail, construction and telecommunication will have to look at growth in the Tier II and Tier III cities. In this context, communication and hence computing in local languages is a natural corollary. Frost & Sullivan have studies to show that the local language software

applications market is poised to grow at a compounded growth rate of over 50% per annum. In view of the dwindling competition, we can look forward to a good share of this market with our Akruti and related products.

The sheer volumes, good profitability and the relatively low default rates of well managed Micro Credit institutions is attracting the hitherto urban oriented financial institutions and venture capital to this area. It seems that Dr. C. K. Prahalad's visionary "profit at the bottom of the pyramid" exhortations are coming true with professionals streamlining the co-operative banking and micro-credit institutions. Here too the maximum action will be in the vernacular dominated Tier II and Tier III towns stimulating demand for our vernacular language enabled solutions like cyBANK and cyCRED.

The growth of the economy and the unleashing of the 300 million strong middle class aspirations is propelling state and central governments to streamline their administration and governance mechanisms using the latest information technology. E-Governance is bound to be deployed more widely than ever before. Any solution which does not reach out to the non-English literate masses is bound to have limited reach. Thus we see a good potential for e-Karyalaya, which is a multilingual e-Administration solution in the coming years.

While IT and IT enabled services sector is still going to be a key driver of our economy, overseas outsourcers are insisting on tighter security for their precious data and IP. Slowly we see the maturing IT sector adopting state-of-the-art Document and Knowledge Management systems to protect and marshal the crucial but intangible knowledge assets. In this scenario, we feel two of our products cyDOCS and cyKNIT should find good demand in the coming years.

CHALLENGES

Our biggest challenge is to convert our product IP into a steady revenue stream. Though we are unable to spend on marketing due to resource constraints, we are hoping to either sell off some product lines or rights to bigger players in those areas in order to improve our finances to concentrate on fewer products and turn them into revenue generating lines.

FINANCIAL SCENARIO AND OPERATIONAL PERFORMANCE

The total income of the company has increased from Rs. 420.47 lakhs in 2005-2006 to Rs. 708.20 lakhs in 2006-2007 and for the first time posted a small profit of Rs. 3.96 lakhs. Including depreciation of 24.77 lakhs, the company has incurred a loss of Rs. 20.81 lakhs as compared to a net loss of Rs. 33.77 lakhs (including depreciation of 29.59 lakhs and cash loss of 4.19 lakhs) in the previous year. The increase is primarily in trading turnover, which impacts the turnover significantly but has little effect on profitability. In spite of cost control, to prevent obsolescence of the IP, substantial expenditure is still incurred on upgrading our non-revenue generating products to keep them upgraded with new technology.

HUMAN RESOURCES

As part of cost control, our Bangalore operations are scaled down to the minimum and it is not prudent to increase the staff till revenues increase because of high salaries here. In Mumbai, we are inducting new staff to take care of attrition as and when required. The marketing team under a Vice President is helping rejuvenate product marketing for Akruti and other products. We are slowly restructuring the core team to face up to new tasks. We are thankful to this team which has been meeting and exceeding our expectations with dedication. Our Company Secretary, Mr. Krishnakant Parashar, who guided us thru difficult years has moved on and we wish him all the luck in his new role.

DISCLAIMER

The information given and opinion expressed in this section may contain certain forward looking statements, which the management believes to be true to the best of its knowledge at the time of its presentation. The Company cannot guarantee that these assumptions / expectations are accurate or will be realised. The management shall not be liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein. The information contained herein should not be disclosed, reproduced or used in whole or in part for any purpose or furnished to any other person/s without the express prior written permission of the Company.

REPORT ON CORPORATE GOVERNANCE



Corporate Governance is about commitment to values and ethical business conduct. It is about how an organization is managed viz. its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Timely and accurate disclosure of information regarding the financial situation of the Company, its performance and ownership forms part of the Corporate Governance.

The Company's activities are carried out in accordance with good corporate practices, and the Company is constantly striving to better them and adopt the best practices. It is firmly believed that good corporate governance practices would ensure efficient conduct of the affairs of the Company and help the Company achieve its goal of maximizing value for all its stakeholders. The Company is in compliance with the requirements of the revised guidelines on corporate governance stipulated under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited.

CORPORATE GOVERNANCE PHILOSOPHY

The corporate governance philosophy of the Company is driven by the following fundamental principles :

- i. Adhere to corporate governance standards beyond the letter of law.
- ii. Maintain transparency and high degree of disclosure levels.
- iii. Maintaining a clear distinction between the personal interest and corporate interest.
- iv. Transparent corporate structure driven by business needs and
- v. Ensuring compliance with applicable laws.

BOARD OF DIRECTORS

The corporate governance principles of the Company ensure that the Board remains informed, independent and involved in the company and that there are ongoing efforts towards better corporate governance to mitigate "non business" risks. The Board is fully aware of its fiduciary responsibilities and recognizes its

responsibilities to stakeholders to uphold the highest standards in all matters concerning Cyberscape and has empowered responsible persons to implement its broad policies and guidelines and has set up adequate review process.

Cyberscape's commitment to ethical and lawful business conduct is a fundamental shared value of the Board of Directors, the senior management and all other employees of the Company. Consistent with its values and beliefs, the Company has formulated a Code of Conduct applicable to the Board and senior management. Further, the Company has also adopted an insider trading code for prevention of insider trading.

- i) The Company has five Directors. Mr. Anand S.K. is the Managing Director and Mr. M.S. Sridhar is the Joint Managing Director of the Company. The rest of the Directors are non-executive Directors.
- ii) All major policy decisions are taken at the Board Meetings. The Board Meetings constitute a very important and significant aspect of Company's functioning. The meetings are governed by a detailed agenda. All issues included in the agenda are backed by comprehensive background information to enable the Board to take decisions. All decisions are arrived at after due deliberations by the members of the Board. The Board plans, monitors and controls the business of the Company and ensures compliance with applicable laws and regulations.
- iii) None of the Directors on the Board is a member of more than 10 Committees or Chairman of more than 5 Committees across all the companies in which he is a Director. Necessary disclosures regarding Committee positions in other public companies as on March 31, 2007 have been made by the Directors.
- iv) The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and at the last Annual General Meeting and number of directorships and Committee Chairmanships/Memberships held by