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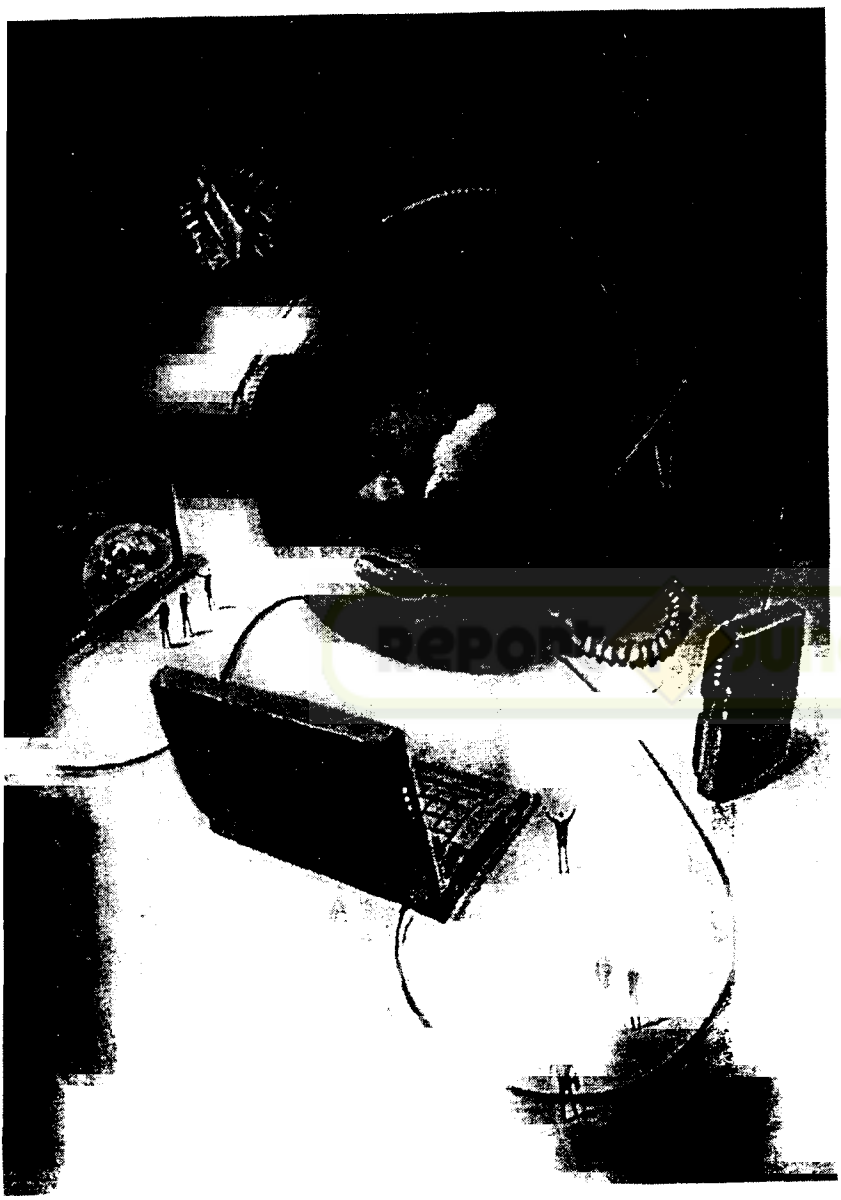

Catalyzing Innovative Broadband Services & Solutions

VIRTUAL SOFT SYSTEMS LTD.

ANNUAL REPORT 2003 - 04

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BOARD OF DIRECTORS	Mr. Gokul Tandan	Managing Director
	Mr. Rajendra V. Kulkarni	Whole time Director
	Mr. Ashok K. Anand	Director
	Mr. Suresh Rajpal	Director
	Mr. Gurmukh Singh	Additional Director
COMPANY SECRETARY	Miss Vandana Yadav	
BANKERS	Central Bank of India Jeevan Tara Building Parliament Street New Delhi-110 001.	
	Standard Chartered Grindlays Bank B-68, Greater Kailash-I New Delhi-110 048.	
STATUTORY AUDITORS	I.M. Puri & Co. Chartered Accountants C-30, Chirag Enclave New Delhi-110 048	
REGISTERED OFFICE	S-101, Panchsheel Park, New Delhi-110 017	
SHARE TRANSFER AGENT:	Mas Services Pvt.Ltd. AB-4, Safdarjung Enclave New Delhi- 110 029	

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Notice

Notice is hereby given that the Thirteenth Annual General Meeting of the Members of the Company will be held on Tuesday, September 28, 2004 at 9:00 a.m. at **AMBER BANQUETS, B-1/636, Main Najafgarh Road, Janakpuri, New Delhi-110 058.** to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2004 and the Profit & Loss Account for the year ended as on that date and the Reports of Auditors and Directors thereon.
2. To appoint a Director in place of Mr. Ashok Kumar Anand, Director who retires by rotation and being eligible, has offered himself for re-appointment.
3. To appoint a Director in place of Mr. Suresh Rajpal, Director who retires by rotation and being eligible, has offered himself for re-appointment.
4. To re-appoint auditors M/s. I. M. Puri & Co., Chartered Accountant as to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS :

To Consider and if thought fit, to pass with or without modifications the following resolution as a special resolution:

5. **RESOLVED that** Mr. Gurmukh Singh, who was appointed as the Additional Director of the Company on by the Board of Directors and who ceases to hold office under section 260 of the Companies Act, 1956 at ensuing AGM and in respect of whom the Company has received a notice in writing proposing his candidature for the office of Director, be and is hereby appointed a Director of the Company on such terms and conditions as may be decided by the Board.
6. **RESOLVED THAT** subject to the approval of the members and all applicable provisions of the Company's Act, 1956 that the Company make application (s) with, Jaipur & Ahmedabad Stock Exchanges towards de list of its' security listed at above Stock Exchanges due to non – active trading of its' equity shares for the last three years and saving of huge listing fee's etc. payable to concerned stock Exchanges.

   "FURTHER RESOLVED THAT Mr. Rajendra V. Kulkarni, Director of the Company be and is hereby authorized to make an application, representation etc. to the abovementioned Stock Exchanges in this regard and to take all other necessary steps to comply with all legal formalities for the purpose of de –list of its' Equity shares'

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING ARE ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.

   The instrument of proxy should, however, be deposited at the Registered Office of the company, not less than 48 hours before the meeting.
1. An explanatory statement pursuant to section 173 of the Companies Act 1956, in respect of the items under special business is annexed hereto.
2. The Register of members and Share Transfer Books of the Company will remain closed from Saturday, September 25, 2004, to Tuesday, September 28,2004, (both days inclusive.)
3. Members are requestede :
   i. to kindly notify the change of address, if any to the Company / the Registrar / Depository Participant.
   ii. to bring their copy of the Annual Report .
   iii. to deposit to the duly Completed Attendance Slip at the meeting .

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT 1956,

Item no. 5

The Board of Directors of the Company appointed Mr. Gurmukh Singh as the Additional Director of the Company on 23rd February 2004. According to the Provision of the Section 260 of the Companies Act, 1956, he can hold office of Additional Director only up to the date of the ensuing Annual General Meeting. As required by Section 257 of the Act, a notice has been received from member signifying his intention to propose his appointment as a Director along with the deposit of Rupees 500/-. The Board considers it desirable that the Company should continue to avail itself of his services.

Your Director, commend the resolution for approval of the members.

None of the Director except Mr. Gurmukh Singh is concerned or interested in the resolution.

Item no. 6

Since there is no active trading of the Shares of the Company at "Jaipur & Ahmedabad Stock Exchange " for the last 3 years so it is uneconomical for the Company to bear unnecessary huge annual listing fees so it was considered desirable and appropriate that the Companies Shares be got de – listed with "Jaipur & Ahmedabad Stock Exchange " subject to the approval of the Members of the Company.

Your Director, commend the resolution for approval of the members.

None of the Director except Mr. Gokul Tandan & Mr. Suresh Rajpal is concerned or interested in the resolution under the capacity of Share holder of the Company.

Registered Office:
S-101, Panchsheel Park,
New Delhi-110 017.
Dated: August 18, 2004

By order of the Board of Directors

Vandana Yadav
Company Secretary

Registered Office:
S-101, Panchsheel Park,
New Delhi-110 017.
Dated: August 18, 2004.

By Order of the Board of Directors

Vandana Yadav
Company Secretary

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Directors' Report

Dear Shareholders,

Your Directors take pleasure in presenting for your consideration and approval the Thirteenth Annual Report of your Company for the financial year ended March 31, 2004.

1. FINANCIAL RESULTS

	Particulars	(Rs. In Lakhs) Year Ended 31.03.2004	(Rs. In Lakhs) Year Ended 31.03.2003
1	Income		
	Net Sales/Income from operations		
	Export Income	0.00	0.00
	Domestic Income	483.63	481.90
2	Other Income	0.94	0.55
3	Expenditure:		
	Software Purchased	459.95	449.69
	Staff Cost	39.67	42.75
	Legal & Professional	13.97	5.87
	Hire/Rental Charges	9.59	13.27
	Communication Costs	2.50	2.52
	Bad Debts/Provision for doubtful Balances	0.00	0.00
	Other Costs	120.42	9.21
4	Interest	3.34	4.66
5	Depreciation	25.62	21.52
6	Profit/(Loss) before tax	(190.49)	(67.04)
7	Provision for Tax	0.00	0.00
8	Net Profit/(Loss)	(190.49)	(67.04)
9	Paid up Share Capital	754.76	754.76
	(Face Value of the share Rs. 10/-)		
10	Reserves & Surplus	20.00	20.00
	Excluding Profit & Loss Accumulated Balance of	(677.37)	(486.88)
11	Basic and diluted EPS for the year end	(2.52)	(0.89)
12	Aggregate of Non-Promoter Shareholding		
	- No. of Shares	1,571,110	1,571,110
	- % of Shareholding	20.82	20.82

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2. BUSINESS AND OPERATIONS OF THE COMPANY

VIRTUAL SOFT - PIONEERING BROADBAND SERVICES & SOLUTIONS

Broadband networks are revolutionizing the way we do business. Virtual Soft and its vReach division offer outstanding digital broadband solutions. They use technology to the advantage of your organization. Broadband network solutions offer you a convergence of voice, data and video that can be used on-demand for your business needs.

VirtualSoft transforms conventional business, learning, entertainment and media enterprises into rich media digital corporations. It uses the technologies of the day to set up the infrastructure needed for streaming interactive rich media content over the internet, intranet or extranet

A proprietary system called vCode guarantees clarity and seamless delivery of audio, video and multimedia files across both narrowband and broadband networks.

VirtualSoft has developed a world-class Enterprise Communication Platform called vReach that utilizes existing corporate computing infrastructure to make real-time business meetings and events more cost-effective and convenient by reducing travel and extending reach to globally dispersed customers, partners, and co-workers over low-bandwidth network connections through a simple browser interface.

VirtualSoft's vReach division also offers Rich Media content creation and migration services using proprietary technology and business methods. It creates near video on-demand content synchronized with Powerpoint slides and other interactive mechanisms for leading conference organizers like CII, FICCI, The Federation of Asian Advertising Associations, Business Today; and for leading enterprises such as The World Bank and the Tata Group.

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VirtualSoft's Unique Broadband Services/Solutions Business Model

Content	Content Creation/ Sourcing • Original content creation • Best-in-class content sourcing • Text, audio, video, assets creation • Digitally immersive multimedia	Content Packaging • Digitization of content • Directing, editing, interactive • Customization • Content-based software development • Online content and software repositories • Encoding & Indexing	Market Making • Program development full services delivery • Customer access mgmt. • Solution integration • 7 day/24-hour customer care help desk, director services, anytime and anywhere availability • Online services, Web sites • Digital Rights Management
Information Delivery	Hosting/Bandwidth Providers • Internet Data Centres • ISPs/CDNs • Telecom / Cable TV Companies (Resources for online multimedia caching & delivery)	Delivery Support • Internet access, virual private networks, ECDNs • Server platform management and operations • Local access points guaranteed bandwidth, QoS, financial settlement	Interface and Systems • User interface, navigation, personalisation agents • Virtual Learning/Event management/Operating Environments. • Authoring tools, e.g. Macromedia/Flash • Electronic Book Generators

Broadband Services/Solutions

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It has created over 800 hours of such content for 80 different conferences and training events. This content is available in CD/DVD form as well as on a knowledge on-demand intranet/internet mode.

3. DIVIDEND

Your Directors do not recommend a Dividend.

4. AUDITORS

M/s. I. M. Puri & Co., Chartered Accountants, Auditors of the Company retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

5. DIRECTORS

Mr. Ashok Kumar Anand and Mr. Suresh Rajpal, retire by rotation at the ensuing Annual General Meeting of the Company and being eligible offer themselves for reappointment.

Mr. Gurmukh Singh, Additional Director has been appointed on as a non-executive Director in place of Mrs. Ritu Tandan, who resign from the post of Director of the Company

6. DEPOSITS

The Company has not accepted deposits from the public for the year under consideration.

7. UNPAID DIVIDEND WITH THE BANK SINCE AUGUST 1997

The Board has approved to credit of Rs. 27,390/- lying in Oriental Bank Of Commerce in Cannought Place as unclaimed Dividend for a Period of seven year have expired in August 2004, transfer to the Central Government A/c Investor's Education and Protection Fund

8. PARTICULARS OF EMPLOYEES

There is no employee of the Company who has received remuneration in excess of such sum as prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

9. CAPITAL MARKET DEVELOPMENTS

As on date, 76.75% of shares are in Demat form and are listed on various stock exchanges. The company has, from time to time, reminded the shareholders/investors, holding the shares in physical form to convert their shareholdings to dematerialized form.

10. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO

i. Details of Conservation of Energy

The Company uses electric energy for its equipment such as air-conditioners, computer terminals, lighting and utilities in the work premises.

All possible measures have been taken to conserve energy:

- By identifying potential areas for saving;
- By incorporating energy efficient equipment;
- By automation.

ii. Technology Absorption

Research & Development

Specific areas in which Research & Development work has been done in the Company- Intranet Content Delivery Network (ICDN) solution. This solution helps Companies slash costs and raise intellectual capital.

© Foreign Exchange Earnings

There had been no foreign exchange earnings, during the year.

11. DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors wish to state that:

i. in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii. that they had 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 profit and loss of the Company for that period;

iii. that they had 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;

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iv. that they had prepared the annual accounts on a going concern basis.

12. CORPORATE GOVERNANCE

A septate statement an Corporate Governance along with the Auditor's Certificate on its compliance is given as part of the Annual Reports.

13. ACKNOWLEDGEMENTS

Your Directors acknowledge with a deep sense of gratitude the continued support extended by investors, customers, business associates, bankers and vendors. Your Directors take this opportunity to thank the regulatory and governmental authorities.

For and on behalf of the Board of Directors

Place: New Delhi	**Mr. Gokul Tandan**	**Mr. R.V.Kulkarni**
Date: August 18,2004	**Managing Director**	**Wholetime Director**

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Corporate Governance Report

Corporate Governance is about commitment to values and about ethical business conduct. Its about how an organization is managed. This includes its Corporate Structure , its culture, policies and manner in which it deals with various stakeholders. Accordingly timely and accurate disclosure of information regarding the financial situation, performance , ownership and governance of the Company is an important part of Corporate Governance. This improves public understanding of the structure , activities and policies of the Organization . Consequently the Organization is able to attract investors , and to enhance the trust and confidence of the stakeholders.

Your Company believes that sound Corporate Governance is critical to enhance and retain investor trust . Accordingly, your Company always seeks to attain its performance rules with integrity. The Board extends its fiduciary responsibilities in the widest sense of the term. Your Company's endeavors to enhance long – term shareholder value and respect minority rights in all our business decisions.

1. VSL Philosophy on Corporate Governance

Satisfy the spirit of law and not just the letter of the law. Corporate Governance standards should go beyond the law .

Be transparent and maintain high degree of disclosures levels. When in doubt, disclose.

Make a clear distinction between personal conveniences and corporate resources.

Communicate externally, in a truthful manner , about how the Company is run internally.

Have a simple and transparent corporate structure driven solely by the business needs.

Management is the trustee of the shareholder's capital and not the owner.

2. Board of Directors

At the core of its Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Company. Your Company believes that an active, well – informed and independent Board is necessary to ensure the highest standards of Corporate Governance. Majority of the Board, 3 out of 5, are independent Directors.

During the Financial Year ended 31st March 2004, Six, Board meetings were held on 30.04.03 , 14.05.03 , 31.07.03 , 31.10.03, 31.01.04 & 24.02.04

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The Last Annual General Meeting was held on 29th September, 2003 and the last Extra – ordinary General Meeting was held on 17.01.01

The Composition of the Board, attendance of Directors at the Board Meetings held during the year under review as well as in the last Annual General Meeting and the number of other Directorships / Committee positions held by them are as under: -

S. No.	Name & Designation	Category	No. of other Director ships	No of Board meetings		Name last AGM (29 – 09.03)
				Held	Attended	
1.	Mr. Gokul Tandan	MD	3	6	6	YES
2.	Mr. Rajendra V. Kulkarni	WTD	5	6	6	YES
3.	Mr. Suresh Rajpal	NEID	3	6	3	NO
4.	Mr. Ashok Anand	NEID	1	6	6	YES
5.	Mr. Gurmukh Singh (From 23.02.04)	NEID	1	6	1	NO
6.	Mrs. Ritu Tandan (upto 23.02.04)	NEID	None	6	4	YES

(MD- Managing Director , WTD – Whole Time Director , NEID – Non-Executive Independent Director)

Directorship / Committee Positions

S.No.	Name of the Director	Director ships	Committees Positions		
			Name of the Company	Committee	Position
1.	Mr. Gokul Tandan	3	1. M/s V – Reach Sollutions Pvt. Limited		Director
			2. Goto Customers Services Pvt. Ltd.		Director
			3.Virtual Software & Training Pvt. Ltd.		Director
2.	Mr. Rajendra V. Kulkarni	5	1. M.R. Capital. Pvt. Ltd.		Director
			2. Ms Vijay Stampings Pvt. Limited		Director
			3. M/s Foundation Technologies Pvt. Ltd.		Director
			4. M/s Virtual Software & Training Pvt. Limited		Director
			5. Advani Exports Pvt. Limited		Director

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S.No.	Name of the Director	Director ships	Committees Positions		
			Name of the Company	Committee	Position
3.	Mr. Suresh Rajpal	3	1. M/s Tecnova India Pvt. Limited		Director
			2. M/s Purolator Pvt. Ltd		Director
			3. M/s Four Soft Pvt. Limited		Director
4.	Mr. Ashok Anand	1	1. Ms Virtual Software & Training Pvt. Limited		Director
5.	Mr. Gurmukh Singh (From 23.02.04)	1	1. M/s Goto Customers Pvt. Limited		Director

None of the Directors on the Board hold Directorships in more than fifteen Companies and hold memberships in more than ten Committees and they do not act as Chairman of more than five Committees across all the Companies in which they are Directors.

2.1 Information Placed before the Board

In addition to the matters which statutorily require Board's approval , as required by Corporate Governance, the following matters are regularly placed before the Board :-

- Minutes of Audit Committee Meetings, Share Transfer & Investors Grievance Committee Meetings.
- Recruitment and Remuneration of senior executives below the board level.
- Details of Joint Ventures / Collaboration Agreement.
- Disclosure of material related party transaction , if any
- Compliance with Regulatory and statutory requirements including Listing requirement & Shareholders services.
- Details of show cause , demand , prosecution and penalty notices which are materially important
- Transactions involving substantial payments towards goodwill , brand equity or intellectual Property.
- Sale of material nature of investments , subsidiaries and assets which are outside the normal course of business.

3. Committees of the Board

In terms of the SEBI code, the Board of the Company has constituted the Following Committees :-

Audit Committee
Share Transfer and Investors Grievance Committee.
Remuneration Committee.

3.1 Audit Committee

The following are the members and their attendance at the committee meetings :-

S.No.	Name of Directors	Status	No. of Meetings		
			Held	Attended	
1.	Mr. Suresh Rajpal	Member	5	3	
2.	Mr. Ashok Anand	Chairman	5	5	
3.	Mr. Gurmukh Singh	Member	5	1	

During the period 01.04.03 to 31.03.04, the Audit Committee met 5 times on 05.05.03 , 25.08.03 , 20.10.03 , 24.12.03 , 05.03.04

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