

Annual Report



VXL Instruments Limited

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2000 - 2001

Fifteenth Annual Report 2000-2001**BOARD OF DIRECTORS**

M V Nagaraj	Managing Director
Kumar Shyam	Director
M V Shetty	Director
Laxmi J Mundkur	Director
Dr. Ali Jawad	Director

OPERATIONS COMMITTEE

M V Nagaraj	Managing Director
Kumar Shyam	Director
M V Shetty	Director
S Chandrasekhar	Chief Financial Officer

COMPANY SECRETARY

S Chandrasekhar

LEGAL ADVISOR

Mr. N Jayaraman

REGISTERED OFFICE

House of Excellence
17, Electronics City, Hosur Road
Bangalore - 561 229
Tel: 91-080-8520046
Fax: 91-080-8520095
Email: info@vxl.co.in
Web: <http://www.vxl.net>

AUDITORS

S Madhavan & Co.
Chartered Accountants
Bangalore

BANKERS

State Bank of India
Union Bank of India
Shamrao Vithal Coop Bank Ltd.
HDFC Bank Ltd.

FACTORY

86, 4th Cross, Electronics City
Hosur Road, Hebbagodi Post
Bangalore - 561 229 E-2/3,
Sakivihar Road,

REGISTRAR AND SHARE

TRANSFER AGENTS
Bigshare Services Pvt. Ltd.,
Ansa Industrial Estate
Saki Naka, Andheri (E)
Mumbai - 400 072
Tel: 91-022-852 3474 / 856 0652
Fax: 91-022-852 5207

**ELECTRONIC HARDWARE TECHNOLOGY
PARK (EHTP) 100% EOU UNIT**

Plot Nos. 57, 58, 59 and 63, Electronics City
Hosur Road
Bangalore - 561 229

VXL Instruments Limited

Contents	Page No.
Directors' Report	2
Auditors' Report	7
Balance Sheet.....	10
Profit & Loss Account.....	11
Schedules to the Accounts.....	12
Accounts of the Subsidiary Companies.....	
- XLnet Software Systems Limited	31
- VXL Instruments Limited (U.K.).....	44
- VXL eTech Limited.....	54
Performance at a Glance	67
AGM Notice.....	69

Fifteenth Annual General Meeting

On Thursday, the 27th September, 2001

at

VXL Instruments Limited

N0.17, 'House of Excellence'

Electronics City, Hosur Road

Bangalore – 561 229

At 3:30 p.m.

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Fifteenth Annual Report 2000-2001

DIRECTORS' REPORT

To
The Members

Your Directors present the fifteenth Annual Report of VXL Instruments Limited together with the audited statement of accounts for the year ended March 31, 2001.

FINANCIAL RESULTS

	(Rs. In lakhs)	
	2000-2001	1999-2000
Gross Profit/(Loss)	97.92	(374.86)
Interest	432.96	251.99
Depreciation	123.16	157.91
Profit / (Loss) before tax & extra ordinary item	(458.20)	(784.76)
Loss on Insurance Claim (-) / Value of goods lost in fire (+)	(220.10)	621.90
Taxation of prior years	(111.88)	----
Loss for the year	(790.18)	(162.86)
Profit carried forward from last year	-----	0.94
Loss carried forward	790.18	161.92

GENERAL

The year under review has been an extraordinarily difficult year for the Company. The aftermath of the fire and the delay in the settlement of the insurance claim caused financial loss to your Company. In addition, difficult business conditions in India and overseas resulted in lower gross margins. The loss on insurance claim, the taxation in respect of prior years and the interest burden on additional borrowings consequent to the fire accident contributed significantly to the loss. Average Price realisation in respect of the products have been constant in comparison to the previous year; However, there is significant price pressure on the products since January 2001.

INSURANCE CLAIM

As members are aware, the Company lodged a claim with New India Assurance Company Ltd for a sum of Rs.13 crores. The claim was settled in July, 2001 at a loss of Rs.2.20 Crores. The Company did not receive any interim settlement from the insurer. Apart from the loss on the eventual settlement of the insurance claim, the delay resulted in increasing interest costs and loss of business opportunities and it required great effort to maintain the Company's reputation with vendors and customers. The lack of transparency in the insurance company's claim settlement rules and the absence of customer friendly procedures delayed the settlement of the claim.

SALES TURNOVER

Despite adverse business conditions and the economic slow down, your Company managed to register a growth of 12% over last year. The Company executed several prestigious orders including one large order from the Hon'ble High Court of Karnataka. Major Corporates such as ITC Ltd and TVS Suzuki Limited have placed orders for our products.

The Company's government customers include BHEL, BSNL, ITI Limited and Dept. of Atomic Energy. The Company is privileged to have banks such as Dhanalaxmi Bank and Amanath Co-operative Bank among other banks as our customers.

The Company continues to strengthen its business relationship with major system integrators and OEM Vendors like Wipro and CMC Ltd. It is an integral part of the Company's sales strategy to further grow this relationship and make its products and solutions available to a wide segment of customers.

VXL Instruments Limited

Your Directors are happy to report that the Company has successfully integrated its products with software solutions in some specialized vertical segments like the education segment. The Company's products and solutions have been well received in the Industrial automation sector.

OVERSEAS OPERATIONS

With a view to enhancing the business prospects in the prosperous Middle East region, your Company has formed a Joint Venture Company VXL International FZ LLC in Dubai Free Zone with offices in Dubai Internet City. Several leading business personalities of the Middle East are associated with this company. Dr. Ali Jawad is the Managing Director of the Company. Your Company has an option for enhanced equity participation in VXL International FZ LLC. The Directors are confident that this company will successfully pioneer the implementation of Thin Client technology in this region.

Your Directors have also similar plans for Australia and New Zealand region. Your Company has signed a Memorandum of Understanding with Optima Computer Technology Company, Sydney, Australia, one of the largest distributors of IT Hardware and Software products in the region. The Directors feel that the dedicated efforts of the employees in Australia will contribute to the success of the company's products and solutions.

The above ventures are expected to contribute significantly to the revenues in the coming years.

The company's products continue to be well received in the US and UK regions.

RESEARCH AND DEVELOPMENT

The outlay on R&D this year, at Rs.155.54 lakhs, which constitutes about 3.4% of the sales turnover.

R&D emphasis this year was to enhance and stabilize the products released and enhance utility of the products to the users through a process of customised solutions. Your Company worked on the book-end version of this client product. The Company also works closely with Citrix in order to stay at the forefront of technology developments in the thin-client software area. The Company also focused on in house development on the Linux operating system. Your Company continues to deploy the resources in key technical areas such as access control while at the same time focusing attention on software solutions. The Company out sourced R&D technology from VXL eTech Limited, the subsidiary company.

SUBSIDIARY COMPANIES

Despite recording an increase of 18% in sales, VXL Instruments Limited, UK incurred a loss of 2,65,822 GBP. The loss is mainly due to increase in marketing expenses and an abnormal write-down of earlier year stock purchases. Despite the continued poor performance, the Directors feel that the Company has a sufficient large prospect base and there are good chances of conversion of some of these prospects.

During the year under review, VXL eTech Limited became a subsidiary of your Company. VXL eTech has the corporate vision of rendering high end R&D services in hardware and software. Due to economic slowdown in US and other markets, VXL eTech has not fulfilled its business objectives during the current year.

Xlnet Software Systems Limited, did not engage in active business operations during the year.

FUTURE PROSPECTS

The Company has incurred losses in the first quarter of the current year. The Company's second half performance is normally better than the first half and indications for a good second half are positive. In order to achieve profitability, the Company will pursue an aggressive plan of cost reduction and better working capital management. The Directors believe that Thin Client technology is poised for greater acceptance all over the world. In order to achieve global success the Company has established relationships with entities in Australia, Middle East and South Africa.

PARTICULARS OF EMPLOYEES

None of the employees draw remuneration in excess of the limit prescribed in Sec 217(2A) of the Companies Act, 1956.

DIRECTORS

During the year under review, Mr. A V Kasargod who has been the Chairman and Managing Director of your Company resigned owing to health reasons.

Your Board places on record its deep appreciation for the yeoman services rendered by Mr. AV Kasargod and for the significant contribution made by him to the growth and development of the Company.

Mr.M L S Shastri, Mr.Moti Jiandani and Mr.Ajit Shelat ceased to be Directors during the year. The Board wishes to record their appreciation for the services rendered by the said outgoing Directors.

Mr.M V Shetty and Mr. Kumar Shyam, having taken up Whole-time Directorships in VXL eTech Limited, the Company's subsidiary, ceased to be Whole-time Directors.

Mr. M V Shetty and Mrs. Laxmi J Mundkur retire by rotation and being eligible, offer themselves for re-appointment.

The Board wishes to welcome Dr. Ali Jawad to the membership of the Board. Dr Jawad is a distinguished management consultant with international experience. He was appointed as a Director on 30th July, 2001. Your Company stands to benefit immensely from his experience and reputation.

AUDITORS

Messrs S Madhavan & Co., Chartered Accountants, Bangalore, being eligible, offer themselves for re-appointment.

AUDITORS REPORT

Members' attention is drawn to Note No. 5 of Schedule 20 dealing with Notes on Accounts, which has dealt with Point No.6 of the Auditors' Report and is self-explanatory.

FIXED DEPOSITS

Your Company has been accepting fixed deposits from the public and shareholders. The total amount of such fixed deposits as on 31st March, 2001 was Rs. 51.89 lakhs. There were no unclaimed deposits as at that date.

LISTING:

Your Company's shares are traded compulsorily in the electronic form and are enlisted on the stock exchanges at Bangalore, Mumbai, Ahmedabad and New Delhi.

DIRECTORS' RESPONSIBILITY STATEMENT

As required by Section 217(2AA) of the Companies Act, 1956, the Directors state and confirm that:

- (a) The financial statements have been prepared in conformity with the generally accepted accounting standards and principles and in terms of the requirement of the Companies Act, 1956. Reasonable and prudent judgements and estimates have been made wherever necessary.
- (b) The accounting policies selected and applied consistently give a true and fair view of the financial statements.

VXL Instruments Limited

- (c) The Company has implemented adequate internal controls to provide reasonable assurance of the reliability of its financial records, proper safeguarding and use its assets and detection of frauds and irregularities.
- (d) The Directors have prepared the annual accounts on a "going concern" basis.

CORPORATE GOVERNANCE

The relevant SEBI guidelines on corporate governance are to be complied with by March 31, 2003. The Directors desire to confirm that your Company has already initiated steps to adhere to the code of Corporate Governance fully.

The Board of Directors meets at regular intervals and transacts various business. The Company consistently forwards the quarterly financial results to the stock exchanges and publishes the same in the newspapers as per listing agreement.

Other information for the benefit of the investors at large is furnished separately in the Annual Report.

INDUSTRIAL RELATIONS

Industrial relations continued to be cordial during the year.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The information required to be furnished under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 is annexed hereto and forms part of this Report.

APPRECIATION

The Directors wish to thank the customers, vendors, business associates and the investors for their continued support during this difficult year.

The Directors also thank State Bank of India, IDBI, Union Bank of India and The Shamrao Vithal Co-operative Bank Ltd., for their unstinted co-operation extended by them uniformly.

The Directors especially thank the State Bank of India, Commercial Branch, Bangalore for the support extended in this difficult year.

Lastly, your Directors thank the employees for their dedication and co-operation in your Company's efforts to improve its operations.

For and on behalf of the Board of Directors

Date : 30th July, 2001
Place: Bangalore

M V Nagaraj
Managing Director

M V Shetty
Director

Fifteenth Annual Report 2000-2001

ANNEXURE TO DIRECTORS' REPORT

(A) CONSERVATION OF ENERGY

Your Company's Operations consume minimal electricity and fuel. However, efforts are being put on a continuing basis for the optimal usage of electricity and fuel.

(B) TECHNOLOGY ABSORPTION, RESEARCH AND DEVELOPMENT

1. The areas in which work has been carried out by the Company.
 - i. Thin Client variants
 - ii. Solution specific hardware and software
2. Benefits derived
 - i. Access to wider markets
 - ii. Improved performance
 - iii. Lower cost
3. Future Plan of Action
 - i. More variants of Thin client Products
 - ii. Development of Products for converging IT and Telecom Technologies
4. Total expenditure on R&D was Rs.155.54 lakhs, which constituted about 3.4% of sales turnover.

(Rs. In lakhs)

i) Revenue Expenditure	155.54
ii) Capital Expenditure	--

	155.54

TECHNOLOGY ABSORPTION, ADAPTATION, INNOVATION

1. Efforts made for development of specialized terminal server
2. Slim line version of Thin Client.

(C) FOREIGN EXCHANGE EARNINGS AND OUTGO

Total Foreign Exchange earned was Rs.1454.52 lakhs and total outgo was Rs.2413.35 lakhs

For and on behalf of the Board of Directors

M V Nagaraj
Managing Director

M V Shetty
Director

Date : 30th July, 2001
Place : Bangalore

VXL Instruments Limited

**AUDITORS' REPORT TO THE MEMBERS OF
VXL INSTRUMENTS LIMITED**

We have audited the attached Balance Sheet of VXL Instruments Limited as at 31st March, 2001 and also the annexed Profit and Loss Account for the year ended on that date and report that:

1. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
2. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
3. The Balance Sheet and the Profit and Loss Account dealt with by this Report are in agreement with the books of account;
4. In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent applicable;
5. According to the information and explanations made available to us, none of the Directors of the Company is disqualified from being appointed as a Director as on 31st March, 2001 under the provisions of Section 274(1)(g) of the Companies Act, 1956.
6. In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account together with the notes thereon, comply with Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 subject to Notes No. 5 in Schedule 20 – Notes on Accounts regarding:

Total investment and amount due of Rs.5,169,261/- and Rs.60,265,174/- respectively, pertaining to a subsidiary company whose accumulated losses at the year end exceeded its paid-up capital continuing to be carried in the accounts at original book value as well as investments and amounts due of Rs.2,904,010/- and Rs.9,747,725/-, respectively in two other subsidiary companies whose losses are in excess of the paid-up capital continuing to be carried at original book value

And, observation in Note No.6 in Schedule 20 – Notes on Accounts regarding:

Recognition and adjustment of loss of Rs.22,009,981/- in the books of account as at 31st March, 2001, arising on settlement of insurance claim by the insurers, though such settlement and receipt of claim amount have taken place subsequent to close of the financial year give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:

a. In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2001 and,

b. In the case of the Profit and Loss Account, of the loss for the year ended on that date.

7. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate, we further report that:
 - i. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management during the year under report and no material discrepancies were noticed on such verification.
 - ii. None of the fixed assets has been revalued during the year.
 - iii. Physical verification has been conducted by the management at reasonable intervals during the year in respect of finished goods, stores and raw materials.
 - iv. In our opinion, the procedure of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - v. We have been informed that no significant discrepancies were noticed on such verification as compared to book records.

Fifteenth Annual Report 2000-2001

- vi. In our opinion, the valuation of these stocks has been fair and proper in accordance with normally accepted accounting principles and is on the same basis as in the preceding years.
- vii. The rate of interest and terms and conditions on which unsecured loans have been taken from parties listed in the register maintained under Section 301 of the Companies Act 1956 are, prima facie, not prejudicial to the interests of the Company. No loans have been taken from companies under the same management as defined under Section 370 (1B) of the Companies Act, 1956.
- viii. As per the information made available by the Company, no loans or advances in the nature of loans have been granted by the Company to parties listed in the register maintained under section 301 of the Companies Act, 1956. No loans have been granted to the companies under the same management as defined under Section 370 (1B) of the Companies Act, 1956.
- ix. In respect of loans or advances in the nature of loans given to parties and employees, where repayments have been stipulated, the parties and employees are repaying the principal amounts as stipulated except in a few cases of loans to employees where the repayment is not as per stipulation. In case the loans or advances carry interest, the same is being collected in accordance therewith.
- x. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials, plant and machinery, equipment and other assets and for the sale of goods.
- xi. In our opinion and according to the information and explanations made available, transactions relating to purchase of goods and materials and sale of goods made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000/- or more in value in respect of each party have been made at prices which are reasonable having regard to the prevailing market prices for such goods and materials or the prices at which transactions for similar goods and materials have been made with other parties.
- xii. As explained to us, unserviceable or damaged/deteriorated stores and raw materials are determined in accordance with the Company's procedures and adequate provision for loss arising thereon has been made in the accounts.
- xiii. In our opinion and according to the information and explanations given to us, the Company has complied with the directives issued by the Reserve Bank of India and the provisions of Section 58A of the Companies Act, 1956 and the rules framed thereunder, where applicable, with regard to deposits accepted from the public.
- xiv. In our opinion, the Company has maintained reasonable records for the sale and disposal of scrap. We have been informed that the Company's operations do not generate any by-products.
- xv. We are of the opinion that the Company has an internal audit system commensurate with its size and the nature of its business.
- xvi. We have been informed that the Central Government has not prescribed maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 in respect of the Company.
- xvii. The Company has, during the year, generally been regular in depositing Provident Fund and Employees' State Insurance dues with the appropriate authorities. There were no arrears at the close of the year.
- xviii. There was no amount outstanding on 31st March, 2001 in respect of undisputed Income tax, Wealth-tax, Sales-tax, Customs Duty and Excise Duty which were due for more than six months from the date they became payable.
- xix. According to the records of the Company and as per the information and explanations given to us, no personal expenses have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practices.