

# Annual Report 2004 - 2005



**VXL Instruments Limited**

**VXL Instruments Limited**

**BOARD OF DIRECTOR**

<b>Arun Kumar Bhuwania</b>	<i>Chairman</i>
<b>D S Rao</b>	<i>Vice Chairman</i>
<b>M V Nagaraj</b>	<i>Managing Director</i>
<b>M V Shetty</b>	<i>Wholetime Director</i>
<b>Kumar Shyam</b>	<i>Director</i>
<b>K Prakash</b>	<i>Director</i>

**AUDIT COMMITTEE**

<b>K Prakash</b>	<i>Chairman</i>
<b>D S Rao</b>	<i>Member</i>
<b>Kumar Shyam</b>	<i>Member</i>

**AUDITORS**

Ishwar & Gopal  
Chartered Accountants  
Bangalore.

**REMUNERATION COMMITTEE**

<b>D S Rao</b>	<i>Chairman</i>
<b>K Prakash</b>	<i>Member</i>
<b>Kumar Shyam</b>	<i>Member</i>

**BANKERS**

State Bank of India  
Industrial Development Bank of India

**INVESTORS' GRIEVANCES COMMITTEE**

<b>K Prakash</b>	<i>Chairman</i>
<b>M V Shetty</b>	<i>Member</i>
<b>Kumar Shyam</b>	<i>Member</i>

**REGISTRARS AND SHARE  
TRANSFER AGENTS**

Bigshare Services Pvt. Ltd.,  
E-2/3, Ansa Industrial Estate  
Sakivihar Road, Saki Naka  
Andheri (E), Mumbai 400 072  
Tel : 91-022-28523474/28560652  
Fax : 91-022-2852 5207

**SHARE TRANSFER COMMITTEE**

<b>M V Shetty</b>	<i>Chairman</i>
<b>Kumar Shyam</b>	<i>Member</i>

**REGISTERED OFFICE**

"House of Excellence", No. 17  
Electronics City, Hosur Road  
Bangalore 560 100  
Tel : 91-80-852 0046/30222525  
Fax : 91-80-852 0095

**WORKS/DOMESTIC UNIT**

No. 86, 4th Cross, Electronics City  
Hosur Road, Bangalore - 560 100  
Tel : 91-80-8520042

**WORKS/100%EOU**

No. 17, Ground Floor  
Electronics City, Hosur Road  
Bangalore - 560 100  
Tel : 91-80-852 0046/30222525

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### Nineteenth Annual General Meeting

On Monday,  
the 26th September, 2005  
at  
"House of Excellence"  
No.17, Electronics City  
Hosur Road, Bangalore - 560 100  
at 3.00 p.m.

## NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of the Company will be held at 3.00 p. m. on Monday, the 26<sup>th</sup> September, 2005 at the Registered Office of the Company at "House of Excellence", No.17, Electronics City, Hosur Road, Bangalore-560 100 to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2005 and the Profit and Loss Account for the year ended on that date together with the reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. K Prakash, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. Dipak Rao, who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.

### SPECIAL BUSINESS:

5. To consider, and if thought fit to pass with or without modification(s), the following as an Ordinary Resolution:

"RESOLVED THAT pursuant to Section 293(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company for mortgaging and / or charging on such terms and conditions and at such time or times and in such form or manner as they may think fit, of all the immovable and movable properties of the Company, together with power to takeover the management of the Company in certain event to, or in favour State/ Central financial institutions/ banks or such other financial institution/Merchant bankers to secure the necessary borrowings and the Board of Directors be authorized to take such action as may be necessary including signing the deeds, documents etc."

6. To consider and if thought fit, to pass with or without modification(s), the following as an Ordinary Resolution:

"RESOLVED THAT pursuant to section 293(1)(d) and all other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company to borrow any sum or sums of money in any manner from time to time with or without securities and upon such terms and conditions as they may deem fit notwithstanding that monies already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) may exceed the aggregate of the paid-up capital and free reserves of the Company, subject however to condition that such borrowings at any point of time shall not exceed Rs. 100 Crores".

By order of the Board  
M V NAGARAJ  
Managing Director

Place : Bangalore  
Date : 22nd August 2005

### NOTES:

1. Explanatory Statement under Section 173(2) of the Companies Act, 1956 is attached to the notice in respect of Special Businesses.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself/ herself and such proxy need not be a member of the Company; proxies in order to be effective, must be received by the Company at the registered office not less than 48 hours before the meeting.
3. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
4. Members/proxies should bring the Attendance Slip sent here with duly filled in to attend the meeting.
5. The Register of Members and Share Transfer Books shall remain closed from 22<sup>nd</sup> September, 2005 to 26<sup>th</sup> September, 2005 ( both days inclusive).

6. Members are requested to address all their correspondence including change of address, etc to the present Registrars and Share Transfer Agent: Big Share Services Pvt Ltd, E-2/3, Ansa Industrial Estate, Sakivihar Road, Saki Naka, Andheri (E), Mumbai - 400 072.
7. Consequent upon amendment of Section 205A of the Companies Act, 1956 and introduction of Section 205C of the Companies (Amendment) Act, 1999 the amount of dividend for the subsequent years remaining unpaid or unclaimed for a period of 7 years from the date of transfer to Unpaid Dividend Account of the Company shall be transferred to the Investor Education and Protection Fund setup by the Govt. of India and payments shall be made in respect of any such claims by the Fund.
8. Transportation facility will be made at the following location to enable the intending Shareholder/s to attend. The bus will leave the said location at 2.15 p.m.

Madiwala Bus Stop.  
Near Madiwala Police Station  
Madiwala, Bangalore.

Place : Bangalore  
Date : 22nd August 2005

By order of the Board  
M V NAGARAJ  
Managing Director

#### EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956:

##### Item No. 5 & 6:

Your Board proposes to expand the existing business and capitalise the opportunities abroad. This requires huge infusion of funds from time to time. To facilitate infusion of funds, the aforesaid resolutions are required to be passed pursuant to the provisions of Section 293 of the Companies Act, 1956 i.e. approvals from the shareholders of the Company to avail financial facilities from Banks/ Financial Institutions/ Government/High Networth Individuals whomsoever by offering the assets of the Company as security. The Company Law requires that the existing borrowings together with the borrowings proposed, if exceed the paid up Capital and free reserves, requires approval of the Shareholders. The resolution is only enabling the Board to borrow from time to time by way of Working Capital or Term Loan or combination of both.

Your Board recommends these resolutions to be passed.  
None of the Directors is interested/concerned in the aforesaid resolutions.

Place : Bangalore  
Date : 22nd August 2005

By order of the Board  
M. V. NAGARAJ  
Managing Director

#### **INFORMATION REQUIRED TO BE FURNISHED UNDER LISTING AGREEMENT**

As per Listing Agreement, particulars of Director who are proposed to be re-appointed are given below:

1. Name: Mr. K. Prakash  
Age: 55 years  
Qualification:  
a. M.Com  
b. FCS  
c. LLB  
Expertise:  
Legal, Corporate Affairs and Finance
2. Name : Mr. Dipsak Rao  
Age : 56 years  
Practicing Accountant in U K  
Corporate Affairs

## VXL Instruments Limited

## REPORT OF DIRECTORS AND MANAGEMENT DISCUSSION &amp; ANALYSIS

To  
The Members

Your Directors present their report on the business and operations of your Company for the year ended 31<sup>st</sup> March 2005.

### FINANCIAL RESULTS (Rs.In lakhs)

	2004-05	2003-04
Sales	5282.00	5044.97
Depreciation / Amortization	154.39	161.98
Profit / ( Loss ) after		
Taxation	(213.06)	(254.86)
Balance carried forward	832.89	364.97

### YEAR UNDER REVIEW

During the year under review, your Company achieved a net turnover of Rs.528 million as compared to Rs.504 million in the previous financial year. Your Company has incurred a loss of Rs.213.06 million in the financial year as against Rs.254.86 million in the previous year.

Your Company's operational results were affected by the entry pricing strategy for a new range of Thin Clients introduced in early 2004. This coupled with related marketing costs for launch of the products and high interest costs affected the bottom line. Despite this, you will note that your Company was able to reduce its losses by 16.40%.

Your Company has put in a slew of measures to ensure profitable operations in the near future. These include: -

\*Progressive increase of the Average Sale Price (ASP) of its products.

\*Introduction of new products, which will enable the Company to get an edge over the competition in the market and also increase in ASP.

\*Entry into the US Market wherein the Company has tied up with Synnex Corporation, USA, to be its Distribution Partner for the North American market. Synnex is a global IT Supply Chain Services Enterprise offering a comprehensive range of services to Original Equipment Manufacturers, Software Publishers and Reseller Customers worldwide.

The shareholders will be pleased to note that "Data News", an influential European magazine on Technology, has declared the VXL Itona Thin Client - TC3541 as the best purchase for users. Further, as per IDC reports VXL continues to be positioned internationally as one of the leading Thin Client companies.

The Management is also witnessing a global trend of increasing demand and interest in Thin Client due to security, logistics and value implications. Due to this, new verticals in the areas of Banking, Logistics, Hospitality Industry, BPO, Call Centres, etc., have begun to show great interest in Thin Client.

The Management is gearing up to meet these growth challenges through which it would be able to achieve good profitability.

### OVERSEAS OPERATION

Your Company has tied up with Priya Ltd., for providing support in Logistics and Distribution of its products in Europe and USA.

VXL-UK has been able to give good support in terms of marketing of the Company's products in Europe and USA.

Your Company has also started to make entry into new markets in APAC region.

### RESEARCH AND DEVELOPMENT

Your Company recognizes R & D as one of its major focus areas in both Hardware and Software. This focus has helped your Company to prepare the ground for launching of new products in the coming financial year.

### SUBSIDIARY COMPANIES

VXL Instruments (UK) has been able to increase its customer base. One more new Distributor namely Computer Links, has been signed on in Germany. With the launch of its new Software Management Application Tool, XL-Manage in Europe, the Company has bagged certain big project implementation contracts which will boost the Company's revenues and its image as a technology leader. The market development expenses which had to be incurred for launching of products is now bearing fruit and your Company can now look forward to steady reduction of the cumulative loss of VXL Instruments (UK).

XLnet Software Systems Limited did not engage in any active business operations during the year. It is proposed to re-launch this company in the field of Software Services and Technical consultancy to provide complementary support services to the parent Company's vast customer base.

### FUTURE PROSPECTS

During the year under review, your Company restructured its financials by placement of equity and commencing negotiations with the Banks and Financial Institutions for restructuring of its loans and reduction in interest costs.

Your Board is happy to state that this exercise has been completed and the benefits of restructuring will be seen in the immediate following financial year.

Your Company wishes to place on record its appreciation for the help and cooperation extended by State Bank of India, Industrial Development Bank of India and Karnataka State Financial Corporation.

#### PARTICULARS OF EMPLOYEES

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

#### DIRECTORS

Mr. Arun Kumar Bhuwania was appointed as Director and Chairman of your Board during the year. Mr Dipak Rao stepped down to Vice Chairman. Mr. K Prakash and Mr Dipak Rao, retire by rotation and being eligible, offer themselves for re-appointment.

#### AUDITORS

Messrs Ishwar & Gopal, Chartered Accountants, Auditors of the Company, being eligible, offer themselves for re-appointment.

#### FIXED DEPOSITS

Your Company has been accepting fixed deposits from the public and shareholders. The total amount of such fixed deposits as on 31<sup>st</sup> March, 2005 was Rs.149.37 lakhs. There were no unclaimed deposits as at that date.

#### LISTING:

Delisting is being applied to the Delhi Stock Exchange. The Listing Fees has been paid to up to date. During the year under review, Equity Shares were issued and allotted after complying with all the procedural requirements as follows:

Date	No. of Shares allotted	Price
08-03-2005	90,000	Rs.39/ per share

#### 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.

- (c) The Company has implemented adequate internal controls to provide reasonable assurance of the reliability of its financial records, proper safe guarding 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 Board meets at regular intervals and transacts various businesses. The Company consistently forwards the quarterly financial results to the Stock Exchanges and publishes the same in the newspapers as per the listing agreement.

#### 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, KSFC, Union Bank of India and The Shamrao Vitthal Co-operative Bank Ltd., for their unstinted co-operation extended by them.

Lastly, your Directors thank the Employees for their dedication and co-operation in your Company's efforts to be a significant global player.

For and on behalf of the Board of Directors

M V Nagaraj      M V Shetty  
Managing Director      Wholtime Director

Place : Bangalore

Date : 22nd August 2005

## VXL Instruments Limited

### 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 MARKET RELATED

##### 1. The areas in which work has been carried by the Company.

- I. Thin Client variants
- II. Software Management Tools
- III. Retail Billing Products and Systems.

##### 2. Benefits derived

- i. Access to wider markets
- ii. Improved performance and lower cost
- iii. Better performance

##### 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.34.70 lakhs, which constituted about 0.64 % of sales turnover

### TECHNOLOGY ABSORPTION, ADAPTATION, INNOVATION

1. Efforts made for development of specialized Thin Clients for specific requirements
2. Integrated model of Thin Client.
3. Software Tools and application Add-ons

#### (C) FOREIGN EXCHANGE EARNINGS AND OUTGO

Total Exports including deemed exports was Rs. 4053.32 lakhs and total outgo was Rs. 301.34 lakhs.



## REPORT ON CORPORATE GOVERNANCE

The detailed report on Corporate Governance, in respect of the financial year ended 31<sup>st</sup> March 2005 is set out below:

### A. Company's Philosophy on Code of Governance :

The Company is firmly committed to adopting and adhering to all globally recognized corporate governance concepts and practices. The Company strives to meet the expectations of its stakeholders on matters related to transparency, integrity, accountability and trusteeship, on a continuous basis.

### B. Board of Directors :

#### Composition & Size of the Board

The Company currently has five Directors, including three non-executive Directors, viz. Mr. Arun Kumar Bhuwania, Mr. Dipak Rao, Mr. K Prakash, and Mr. Kumar Shyam. Of these, Mr. Arun Kumar Bhuwania, Mr. D S Rao and Mr. K Prakash are Independent Directors. Mr. D S Rao stepped down from the Chairman of the Company though his services are available as Vice Chairman to the Company. Mr. Arun Kumar Bhuwania was appointed as Chairman in his place. Mr. M V Shetty is Whole-time Director and Mr. M V Nagaraj, continues to be Managing Director of the Company.

#### No. of Board Meetings held during the year along with the dates of the Meetings

Eleven Board Meetings were held during the year. The dates on which the said meetings were held are as follows :

14.04.2004, 05.05.2004, 02.06.2004, 05.07.2004, 30.07.2004, 12.10.2004, 29.10.2004, 08.12.2004, 12.01.2005, 31.01.2005, 08.03.2005,

Attendance of each Director at the Board Meetings and last Annual General Meeting (AGM) and the number of Companies and Committees where he is Director/Member.

Name of Director	Category of Directorship	No. of Board Meetings attended	Whether Attended last AGM	No of Directorship in other Companies Incorporated in India	No of Committees membership Members/ chairman In other companies in India
D S Rao	Independent & Non-Executive	2	No	NIL	NIL
M V Nagaraj	Promoter - Executive	11	Yes	2	NIL
M V Shetty	Promoter - Executive	11	Yes	1	NIL
Kumar Shyam	Promoter- Non Executive	8	Yes	1	NIL
K Prakash	Independent & Non-Executive	10	Yes	NIL	NIL
Arun Kumar Bhuwania	Independent & Non-Executive	Nil	No	3	NIL

## VXL Instruments Limited

### Committees of the Board

- \* Audit Committee
- \* Remuneration Committee
- \* Investor grievances redressal committee
- \* Share transfer/transmission committee

### Audit Committee

The Audit Committee is responsible for overview of the Company's financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible; recommending the appointment and removal of the statutory and internal auditors, fixation of audit fees, the approval for payment for any other services and reviewing with the management the annual financial statements before submission to the Board.

The Audit Committee comprises of Mr. K Prakash, Chairman, Mr. D S Rao, Independent Director and Mr. Kumar Shyam, Non-Executive Director.

The terms of Reference of this Committee include the matters covered under Clause 49 of the Listing Agreement.

### Meetings and the attendance during the year

There were 3 meetings of the Audit Committee during the year. The attendance of each member of the Committee is given below:

Name of Director	No. of Meetings attended	Remarks
K Prakash	4	—
Kumar Shyam	4	—
D S Rao	Nil	—

### Remuneration Committee

The Company has set up a Remuneration Committee to determine/review the remuneration performance and related bonuses of management/compensation of senior management.

The details of remuneration paid to the Directors during the year 2004-05 are given below:

#### a. Executive Directors

(In Rupees)

Directors	Salary and allowances	Fixed Commission	Perquisites	Sitting Fees	Total
M V Nagraj	922,597	—	—	—	9,22,597
M V Shetty	739,184	—	—	—	7,39,184
Total	1,661,781	—	—	—	16,61,781

#### b. Non-Executive Directors

Name	Sitting Fees	Commission
K. Prakash	Rs.25000	—