

20th Annual Report

2005 - 2006

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VXL Instruments Limited

VXL Instruments Limited**BOARD OF DIRECTORS**

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

Narayana Bhat	<i>Chief Financial Officer & Company Secretary</i>
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AUDIT COMMITTEE

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

AUDITORS

Ishwar & Gopal
Chartered Accountants
Bangalore

REMUNERATION COMMITTEE

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

BANKERS

State Bank of India
Industrial Development Bank of India

INVESTORS' GRIEVANCES COMMITTEE

K.Prakash	<i>Chairman</i>
M.V.Shetty	<i>Member</i>
Kumar Shyam	<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: 91-22-2852 3474/2856 0652
Fax: 91-22-2852 5207

SHARE TRANSFER COMMITTEE

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

WORKS/100% EOU

No.17, Electronics City,
Hosur Road,Bangalore560 100
Tel: 91-80-2852 0046/3022 2525

REGISTERED OFFICE

"House of Excellence",
No.17, Electronics City, Hosur Road
Bangalore – 560 100
Tel: 91-80-2852 0046/3022 2525
Fax: 91-80-2852 0095

WORKS/DOMESTIC UNIT

No.86, 4th Cross, Electronics City,
Hosur Road, Bangalore – 560 100
Tel: 91 80 2852 0042

Twentieth Annual Report 2005 - 2006

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TWENTIETH ANNUAL GENERAL MEETING

On Tuesday
the 19th September 2006

at

"Hotel Ajantha"

No. 22-A, Mahatma Gandhi Road,
Bangalore – 560 001
at 3.00 p.m.

VXL Instruments Limited

NOTICE

Notice is hereby given that the Twentieth Annual General Meeting of the Members of the Company will be held at 3 p.m. on Tuesday, the 19th September 2006 at Hotel Ajantha, Mahatma-Gandhi Road, Bangalore-560 001 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 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. Arun Kumar Bhawania, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. Kumar Shyam who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and to authorise 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 resolution as Special Resolution:

"RESOLVED THAT subject to the provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the rules framed there under, Listing Agreements, and all other applicable Laws, Rules, Regulations and Guidelines and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modification(s) as may be prescribed or imposed by any authority while granting such approvals, permissions and sanctions, which the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this resolution), be and is hereby authorised to accept, the consent of the Company be and is hereby accorded to the Board to de-list the Equity Shares of the Company from the Stock Exchange at New Delhi".

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

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, Schedule XIII and other applicable provisions, if any of the Companies Act, 1956 (the Act) and the approval of the Central Government, if necessary and any other appropriate authorities, consent of the Company be and is hereby accorded to increase the remuneration of Mr. M V Shetty, Wholtime Director of the Company from the existing Rs.45,000/- (Basic Rs.35,000 + HRA

Rs. 10,000) plus perquisites per month to Rs. 75,000/- (Basic Rs.55,000 + HRA Rs.20,000) plus perquisites per month with effect from 01.07.2006 with the terms and conditions and perquisites as set out in the Explanatory Statement, which terms and conditions and perquisites the Board of Directors (the Board) are at liberty to alter and vary but so as not to exceed the limits specified in Schedule XIII of the Act, or any amendments thereto as may be agreed to between the Board and Mr. M V Shetty."

By Order of the Board
Narayana Bhat

Chief Financial Officer &
Company Secretary.

Place : Bangalore

Date : 28.07.2006

NOTES

1. Explanatory Statement under Section 173(2) of the Companies Act, 1956 is attached to the notice of Special Business.
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. The instrument appointing the proxy, 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 herewith duly filled in to attend the meeting.
5. The Register of Members and Share Transfer Books shall remain closed from 15th September 2006 to 19th September 2006 (both the 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 205 A of the Companies Act, 1956 and introduction of Section 205 C 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.

By Order of the Board
Narayana Bhat

Chief Financial Officer &
Company Secretary.

Place : Bangalore

Date : 28.07.2006

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INFORMATION REQUIRED TO BE FURNISHED UNDER LISTING AGREEMENT

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

1. Name : Mr. Arun Kumar Bhuwania
Age : 59 years
Qualification : B.Sc., Maths
Expertise : Management with focus on Business related to Electronics and Software
2. Name : Mr. Kumar Shyam
Age : 54 years
Qualification : B.Tech
Expertise : Engineering & Technology

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

Item No. 5:

Your Company's Equity Shares are listed at premier stock exchange-Bombay Stock Exchange (BSE). The Equity Shares of the Company are also listed at regional Stock Exchange at New Delhi where no trading is taking place. Therefore, your Directors propose to de-list from the said Stock Exchange, for which, your approval is required. However, your company's shares continue to be listed at BSE. Your Directors recommend to approve the resolution. None of the Directors is concerned or interested in this resolution.

Item No. 6 :

Despite several hurdles faced by the Company in the last few years, your Company continues to be a frontrunner in the segment to which it belongs to. Though the credit for the operations goes to the entire team of VXL, the services of Mr. M V Shetty, one of the original Promoters and holetime Director who has been part of the Core Team in steering the Company from the inception and who has the technology requisite for the Company, were taken note of, by your Board. The remuneration of Mr. M.V Shetty, Wholetime Director of the Company presently is Rs 45,000/- (Basic Rs.35,000+ HRA Rs.10,000/-) plus perquisites per month which was fixed earlier. The various initiatives taken by the management to turn the Company around are bearing results. This will be reflected in the second half of the financial year 2006-07.

Mr. M.V.Shetty is part of the team bringing about the improvement in operation. Considering the current terms of his appointment, compensation paid to similar positions in the industry and the capabilities of Mr. M.V. Shetty, the revision in the remuneration is recommended

The proposed increase in remuneration will be within the limits prescribed by the Companies Act, 1956

and Schedule XIII thereto. Following are the revised terms & conditions:

- i) Salary of Rs.55,000/- (Rupees Fifty Five Thousand only)
- ii) Commission: In addition to salary, perquisites and other allowances, commission based on the net profit of the Company computed in the manner laid down in Section 309(5) and other applicable provisions, if any, of the Companies Act, 1956. Such Commission shall be of such percentage and of such amount as the Board of Directors of the Company may determine keeping in view of the performance of the Company in respect of each financial year.
In addition to salary and commission, the following shall be allowed to Mr. M.V.Shetty.
- iii) Housing : Mr. M.V.Shetty shall be entitled to rent free furnished residential accommodation. In case no accommodation is provided by the Company, Mr. M.V.Shetty shall be entitled to House Rent Allowance of Rs.20,000/- per month
- iv) Reimbursement of gas, electricity, water charges and furnishings.
- v) Reimbursement of medical expenses for self and family as per Company rules.
- vi) Leave Travel Concession for self and family as per Company rules.
- vii) Fees to clubs subject to maximum of two clubs.
- viii) Personal Accident Insurance, as per Company rules
- ix) Provision of car for business and personal purposes.
- x) Telephone at the residence. Mr.M.V.Shetty will be paid the following perquisites which shall not be included in the computation of the ceiling on the remuneration in the event the Company has no profits or its profits are inadequate in any financial year during the aforesaid period.
- xi) Contribution to Provident Fund, Superannuation Fund or annuity Fund as per Company Schemes to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- xii) Gratuity payable at the rate of half a month's salary for each completed year of service.
- xiii) Earned/Privilege leave: On full pay and allowances as per rules of the Company. Leave encashment also as per Company rules.

Apart from Mr. M V Shetty himself, no other Director is interested in the resolution.

The Board recommends the adoption of the resolution.

The above may be treated as abstract of the terms of appointment in terms of Section 173 of the Companies Act, 1956.

Narayana Bhat

Place : Bangalore

Chief Financial Officer &

Date : 28.07.2006

Company Secretary.

VXL Instruments Limited

REPORT OF DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS

To

The Members

Your Directors present their report on the business and operations of your Company for the year ended 31st March 2006.

FINANCIAL RESULTS

(Rs. In Lakhs)

	2005-06	2004-05
Sales	4,042.05	5,282.00
Depreciation/Amortisation	156.01	154.39
Profit/(Loss) after		
Taxation	(461.33)	(213.06)
Balance carried forward	(1294.22)	(832.89)

YEAR UNDER REVIEW

During the year under review, your Company achieved a Net turnover of Rs.404 million as compared to Rs.528 million in the previous financial year. Your Company has incurred a loss of Rs.46 million in the financial year as against Rs.21 million in the previous year.

Due to reduced sales and higher cost of materials, the loss for the year has increased. However, your Company is confident of turning around the business during the next fiscal year on account of the increased demand for the product and new product expected to be released shortly. Your Company is one of the first companies to have ready newly designed products complying with the rule introduced on Restriction on use of Hazardous substance (ROHS) in office & household equipments. These new products are not only fully compliant but also carry better features and ergonomics.

OVERSEAS OPERATION

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

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

Steps initiated during the last year to sell in USA -the biggest market for thin clients has started yielding results.

RESEARCH AND DEVELOPMENT

Your Company recognises R & D as one of its major focus areas in both Hardware and Software. This focus has helped your Company to design fully ROHS compliant products carrying better features and ergonomics. These products are eagerly awaited by our Distributors.

SUBSIDIARY COMPANIES

VXL- UK has managed to earn a profit due to efficient operations.

XLnet Software Systems Limited did not engage in any active business operations during the year.

FUTURE PROSPECTS

During the year under review, your Company restructured its financials by placement of equity shares and restructuring its loans with the Banks and Financial Institutions. This has substantially reduced the interest costs.

With the introduction of new products carrying better features and with the strengthening and addition of better and more features in our complementing software products, your Company expects a substantial jump in sales.

Your Company wishes to place on record its appreciation for the help and co-operation extended by State Bank of India and Industrial Development Bank of India.

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 and Mr Kumar Shyam retire by rotation, and being eligible, offer them selves 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 31st March, 2006 was Rs.180.93 lakhs. There were no unclaimed deposits as at that date.

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DELISTING: Delisting of the Shares from the Delhi Stock Exchange is proposed.

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

Some of the employees of your Company abstained from work for a short period during the year. However, your Company took necessary steps to ensure that the operations and business are not affected

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 the continued support during this difficult year.

The Directors also thank State Bank of India and IDBI for the unstinted co-operation extended by them.

For and on behalf of the Board of Directors

M V Nagaraj
Managing Director

M V Shetty
Wholtime Director

Place : Bangalore

Date : 28.07.2006

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

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. 73.90 lakhs which constituted about 1.78 % of sales turnover.

TECHNOLOGY ABSORPTION, ADAPTATION, INNOVATION

1. Efforts made for development of specialised 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. 3,069.24 lakhs.

The foreign exchange outgo was Rs. 301.25 lakhs.

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REPORT ON CORPORATE GOVERNANCE

The detailed report on Corporate Governance, in respect of the financial year ended 31st March 2006 is set out below:

A. Company's Philosophy on Code of Governance:

The Company is firmly committed to adopting and adhering to all globally recognised 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 SIX Directors, including four non-executive Directors, viz. Mr. Arun Kumar Bhuwania, Mr. D.S 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. Arun Kumar Bhuwania is the Chairman and Mr. D S Rao is the Vice Chairman, of the Company, Mr. M V Nagaraj continues to be Managing Director of the Company and Mr. M V Shetty functions as Wholtime Director.

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

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

08.04.2005, 31.05.2005, 14.07.2005, 29.07.2005, 22.08.2005, 31.10.2005, 09.11.2005, 07.12.2005, 28.12.2005, 30.01.2006

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
Arun Kumar Bhuwania	Independent & Non-Executive	2	No	2	NIL
D S Rao	Independent & Non-Executive	1	Yes	NIL	NIL
M V Nagaraj	Promoter - Executive	10	Yes	2	NIL
M V Shetty	Promoter- Executive	10	Yes	1	NIL
Kumar Shyam	Promoter- Non Executive	2	No	1	NIL
K Prakash	Independent & Non-Executive	10	Yes	NIL	NIL

VXL Instruments Limited

Committees of the Board

- Audit Committee
- Remuneration Committee
- Investors' 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 4 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	3	-
D S Rao	2	-

Remuneration Committee

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

The details of remuneration paid to the Directors during the year 2005-06 are given below:

a. Executive Directors

(In Rupees)

Directors	Salary and allowances	Fixed Commission	Perquisites	Sitting Fees	Total
M V Nagraj	13,18,992	-	-	-	13,18,992
M V Shetty	7,18,992	-	-	-	7,18,992
TOTAL	20,37,984	-	-	-	20,37,984

b. Non-Executive Directors

(In Rupees)

Name	Sitting Fees	Commission
K. Prakash	15,000	-