

21st
Annual Report
2006-2007

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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>Whole Time Director</i>
Kumar Shyam	<i>Director</i>
K. Prakash	<i>Director</i>
Narayana Bhat	<i>Chief Financial Officer & Company Secretary</i>

AUDIT COMMITTEE

K.Prakash	Chairman
D.S.Rao	Member
Kumar Shyam	Member

AUDITORS

Ishwar & Gopal
Chartered Accountants
Bangalore.

REMUNERATION COMMITTEE

D.S.Rao	Chairman
K.Prakash	Member
Kumar Shyam	Member

BANKERS

State Bank of India

INVESTORS' GRIEVANCES COMMITTEE

K.Prakash	Chairman
M.V.Shetty	Member
Kumar Shyam	Member

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: 91-22-2847 0652/ 2856 0653

Fax: 91-22-2847 5207

SHARE TRANSFER COMMITTEE

M.V.Shetty	Chairman
Kumar Shyam	Member

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 / 100% EOU

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

WORKS/DOMESTIC UNIT

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

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TWENTY FIRST ANNUAL GENERAL MEETING

on Monday
the 17th September, 2007
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 Twenty First Annual General Meeting of the Members of the Company will be held at 3 P.M. on Monday, the 17th September, 2007 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 2007 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. D. S. Rao who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. K. Prakash 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 pursuant to the provisions of Section 198, 269, 309, 310, 311 Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (the Act) or any re-enactment or modifications thereof, and subject to the approval of the members and subject to the approval of Central Government, if required, be and is hereby accorded to the appointment of and the remuneration payable to, Mr. M V Nagaraj, as Managing Director of the Company with effect from 31.07.2007 for a period of three years on 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 Nagaraj."

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, 310, 311 Schedule XIII and other applicable provisions, if any of the

Companies Act, 1956 (the Act) or any re-enactment or modifications thereof, and subject to the approval of the members and subject to the approval of Central Government, if required, be and is hereby accorded to the appointment of and the remuneration payable to Mr. M V Shetty, as Whole Time Director of the Company with effect from 01.10.2007 for a period of three years on 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 : 20.08.2007

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 13th September 2007 to 17th September 2007 (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.

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7. Consequent upon amendment of Section 205A 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 set up 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 : 20.08.2007

INFORMATION REQUIRED TO BE FURNISHED UNDER LISTING AGREEMENT

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

1. Name : Mr. Dipak S Rao
Age : 58 years
Qualification : Practicing Accountant in U.K.
Expertise : Corporate Affairs
2. Name : Mr. K. Prakash
Age : 57 years
Qualification : M.com, FCS, LLB
Expertise : Legal, Corporate Affairs and Finance

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

Item No. 5:

The Board of Directors of the Company ("the Board") at its meeting held on 31st July 2007, on the recommendation of the Remuneration Committee and subject to the approval of the Members, accorded its approval for re-appointment of Mr. M V Nagaraj as Managing Director for a further period of three years w.e.f. 31.07.2007 and for remuneration payable to Mr. M V Nagaraj, Managing Director w.e.f. 31.07.2007 as per the terms & conditions given below:

- i) Salary of Rs.75,000/- (Rupees Seventy 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. Nagaraj.

- iii) Housing : Mr. M.V.Nagaraj shall be entitled to rent free furnished residential accommodation.

In case no accommodation is provided by the Company, Mr. M.V.Nagaraj 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.

- xi) M.V.Nagaraj 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.

1. Contribution to Provident Fund, Superannuation Fund or Annuity Fund as per Company Schemes to the extent these either single or put together are not taxable under the Income Tax Act, 1961.

2. Earned/Privilege leave: On full pay and allowances as per rules of the Company. Leave encashment also as per Company rules.

The proposed increase in remuneration will be within the limits prescribed by the Companies Act, 1956 and Schedule XIII thereto.

Apart from Mr. M V Nagaraj 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 302 of the Companies Act, 1956.

VXL Instruments Limited**Item No.6:**

The Board of Directors of the Company ("the Board") at its meeting held on 31st July 2007, on the recommendation of the Remuneration Committee and subject to the approval of the Members, accorded its approval for re-appointment of Mr. M V Shetty, as Whole-Time Director for a further period of three years w.e.f. 01.10.2007 and for remuneration payable to Mr. M V Shetty, Whole-Time Director w.e.f. 01.10.2007 as per the terms & conditions given below:

- 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.
- xi) 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.

1. Contribution to Provident Fund, Superannuation Fund or Annuity Fund as per Company Schemes to the extent these either single or put together are not taxable under the Income Tax Act, 1961.
2. Earned / Privilege leave: On full pay and allowances as per rules of the Company. Leave encashment also as per Company rules.

The proposed increase in remuneration will be within the limits prescribed by the Companies Act, 1956 and Schedule XIII thereto.

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 302 of the Companies Act, 1956.

By Order of the Board

Narayana Bhat

*Chief Financial Officer &
Company Secretary.*

Place : Bangalore

Date : 20.08.2007

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 2007.

FINANCIAL RESULTS

Rs. In Lakhs

	2006-07	2005-06
Sales	7,341.05	4,042.05
Depreciation/Amortization	146.84	156.01
Profit/(Loss) after Taxation	(445.04)	(461.36)
Balance carried forward	(1,739.27)	(1294.22)

YEAR UNDER REVIEW

During the year under review, your Company achieved a Net turnover of Rs. 734 million as compared to Rs. 404 million in the previous financial year. Your Company has incurred a loss of Rs. 44 million in the financial year as against Rs. 46 million in the previous year.

The loss during the year under review was mainly due to loss of nearly six months due to the delayed launch of our ROHS products. Due to this delay imports and exports had to be air freighted resulting in additional costs. However, your Company is confident of turning around the business during the next fiscal year on account of the increased demand for the new products. Your Company is one of the first companies to have ready newly designed products complying with the requirements of 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 OPERATIONS

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.

Your Company has signed a distribution agreement with Gtech, the largest thin client distributor in UK and Europe.

Your Company has entered into a distribution agreement with Ingram Micro, the world's largest

technology distributor to distribute VXL Products throughout United States. The New relationship with Ingram Micro is testimony to the strength of VXL Product Range and the potential for growth.

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 recognizes 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 have been well received by our customers.

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

The Company's future would depend on its ability to maintain competitiveness in global thin client market with respect to price.

Here the Company is currently hampered by changes in international trends on account of which its one time main product CRT TERMINAL (GVX) is being phased out, consequential to which employees who are connected with the manufacture of this product are surplus. The Company is reviewing various measures to tackle this, since this otherwise affects the Company's price competitiveness and ability to get large institutional orders.

By focusing on issues related to costs, improved software and new products with better features the Company expects to improve its sales.

According to International Data Corporation, the thin client market segment is forecast to more than double its unit volume shipments world wide in the next several years-growing from just over 3 million units in 2002 to 7.6 million units in 2006 of which India constitutes 1.46 lakh units. Windows embedded thin client shipments are expected to grow at a 26 per cent compound annual growth rate.

VXL Instruments Limited

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 Dipak S Rao and Mr. K. Prakash 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 31st March, 2007 was **Rs.177.44 lakhs**. There were no unclaimed deposits as at that date.

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

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 of 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 the continued support during the 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

Whole Time Director

Place: Bangalore

Date : 20.08.2007

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.

Benefits derived

- i. Access to wider markets
 - ii. Improved performance and lower cost
 - iii. Better performance
2. Future Plan of Action
 - i. More variants of Thin Client Products
 - ii. Development of Products for converging IT and Telecom Technologies
 3. Total expenditure on R & D was Rs.88.22 lakhs and which constituted about 1.20% 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. 6,296.24 lakhs.

The foreign exchange outgo was Rs. 6,232.13 lakhs.

VXL Instruments Limited**REPORT ON CORPORATE GOVERNANCE**

The detailed report on Corporate Governance, in respect of the financial year ended 31st March 2007 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 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 functions as Chairman. Mr. M V Nagaraj, continues to be Managing Director of the Company.

Mr. M V Shetty functions as a Whole-Time Director.

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

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

- | | |
|---------------|---------------|
| 1. 26.05.2006 | 5. 30.10.2006 |
| 2. 24.06.2006 | 6. 16.01.2007 |
| 3. 14.07.2006 | 7. 31.01.2007 |
| 4. 28.07.2006 | |

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 Committee 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	No	NIL	NIL
M V Nagaraj *	Promoter - Executive	7	Yes	2	NIL
M V Shetty	Promoter - Executive	7	Yes	1	NIL
Kumar Shyam	Promoter - Non Executive	2	No	1	NIL
K Prakash	Independent & Non-Executive	7	Yes	NIL	NIL

*Mr. M V Nagaraj ceased to be Managing Director with effect from the close of 30th July, 2007 but continued to be Director of the Company. He was re-appointed as Managing Director with effect from 31st July, 2007 subject to requisite approvals.