

23rd
Annual Report
2008-2009

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VXL Instruments Limited

VXL Instruments Limited

BOARD OF DIRECTORS

Arun Kumar Bhuwanla	<i>Chairman</i>
D. S. Rao	<i>Vice Chairman</i>
M. V. Nagaraaj	<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>CFO & Company Secretary</i>

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

INVESTORS' GRIEVANCES COMMITTEE

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

SHARE TRANSFER COMMITTEE

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

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 : 91-80-3022 3636.

AUDITORS

Ishwar & Gopal
Chartered Accountants
Bangalore.

BANKERS

State Bank of India

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

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
Website : www.vxl.net

Twenty Third Annual Report 2008 - 2009**CONTENTS**

	Page No.
Notice.....	04
Directors' Report, Management Discussion and Analysis.....	05
Report on Corporate Governance.....	08
Auditors' Report.....	14
Balance Sheet.....	18
Profit and Loss Account.....	19
Schedules to the Accounts.....	20
Cash Flow.....	37
Balance Sheet Abstract.....	38
Statement Pursuant to Section 212 (1)(e).....	39
Accounts of the Subsidiary Companies.....	40
XLnet Software Systems Limited.....	41
VXL Instruments Limited (UK).....	50
Consolidated Accounts.....	54

TWENTY THIRD ANNUAL GENERAL MEETING

on Wednesday
the 16th September, 2009
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 Third Annual General Meeting of the Members of the Company will be held at 3 p.m. on, Wednesday the 16th September, 2009 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 2009 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. Dipak 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.

By Order of the Board

Narayana Bhat

Chief Financial Officer &
Company Secretary.

Place : Bangalore
Date : 30th June 2009

5. Members are requested to address all their correspondences including change of address etc., to the present Registrars and Share Transfer Agent; Bigshare Services Pvt. Ltd., E-2/3, Ansa Industrial Estate, Sakivihar Road, Saki Naka, Andheri (E), Mumbai – 400 072.
6. 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 Government 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 : 30th June 2009

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:

Notes:

1. 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.
2. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
3. Members/proxies should bring the Attendance slip sent herewith duly filled in to attend the meeting.
4. The Register of Members and Share Transfer books shall remain closed from 11th September, 2009 to 16th September, 2009 (both the days inclusive).

1. Name : Mr. Dipak S Rao
Age : 61 years
Qualification : Practicing Accountant
Expertise : Corporate Affairs

2. Name : Mr. K. Prakash
Age : 60 years
Qualification : M.Com., FCS, LLB
Expertise : Legal, Corporate Affairs and Finance

By Order of the Board

Narayana Bhat

Chief Financial Officer &
Company Secretary.

Place : Bangalore
Date : 30th June 2009

Twenty Third Annual Report 2008 - 2009

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 2009.

FINANCIAL RESULTS

Rs. in Lakhs

Particulars	2008-09	2007-08
Sales	8,069	9,457
Depreciation/Amortization	119	176
Profit/(Loss) before Taxation	32	(894)
Profit/(Loss) after Taxation	(205)	(557)
Balance carried forward	(2,511)	(2,306)

YEAR UNDER REVIEW

During the year under review, your Company achieved a net turnover of Rs. 807 million as compared to Rs.946 million in the previous financial year. Your Company has earned a profit before taxation of Rs. 3 millions in the financial year as against a Loss before taxation of Rs.89 millions in the previous year. The Profit before taxation has been achieved after a gap of six years.

The loss during the year under review was mainly because of adverse Exchange Fluctuation of Rs. 21 million, provision of Rs. 8 million towards old receivables and reversal of deferred tax credit of Rs. 23 million relating to the Assessment Year 2001-02 as it cannot be carried forward beyond 8 years. Additionally, the lower margin is also in part due to surplus work force [due to the phasing out of CRT Terminals (GVX) business] at the unit manufacturing CRT Terminals (GVX). However, your company is confident that the Thin Client and software businesses along with a solution to the surplus work force issues will ensure a turn around in the company's operations in the coming periods.

During the year under review, the Company has also received the Letter of Permission under the Software Technology Park Scheme for the development/manufacture of Computer Software/IT enabled Services and this has also contributed to the revenues of the Company.

During the year under review, your Company has generally paid all installments due on time which has substantially reduced the term loans from Banks. Out of four term loans, three have been repaid fully. Out of the Term Loans of Rs. 79 million as on 31.03.2004, we are left with only Rs. 18 million for repayment.

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 especially in USA during the year under review.

VXL has been one of the first Indian Companies to venture into exports of computer hardware and in spite of many obstacles and misconceptions about Indian quality and products in Hardware compared to Software, VXL has established itself worldwide as a strong player.

USA is the largest market for Thin Client. Efforts to open up the same continued.

FUTURE PROSPECTS

A. GENERAL

The company's competitiveness on cost and price continues to be affected with the surplus labour force related to the unit at No. 86, 4th Cross, Electronics City, Hosur Road, Bangalore - 560 100 which previously used to manufacture CRT Terminals (GVX) and which product has been phased out in markets worldwide. A retrenchment order passed by the Labour Commissioner in favour of the Company was returned by the High Court on certain technical grounds during 2007-08. The work force related to the unit is on strike and the matter is pending before the respective Labour Department / Labour Court. However, there has been no disruption of work at the main unit where Thin Clients are being manufactured and this is due to the fact that the majority of employees have not joined the Union or the strike.

In order to enhance value addition to our customers we are providing additional customised Information and Communication Technology solutions to our customers.

B. EXPORT

IDC reported recently that usage of thin clients in APEJ (Asia-Pacific, Excluding Japan) is having continued strong growth:

"The APEJ thin client market is expected to grow strongly over the next five years, with a compound annual growth rate (CAGR) of 21.4%. This growth will be driven primarily by India and the PRC, with good support from Singapore, Indonesia and Thailand. Encouraged by the increase in operational efficiency that organizations have reaped from server virtualization, companies are now open to the idea of

desktop virtualization, and thin clients can play an ideal complementary role as the access terminal across various verticals. The government/education, healthcare, and financial services segments especially, which traditionally have been strong proponents of thin clients, will continue to see expansion over the forecast period"

The global market for Thin Client by 2010 is expected to be just over 5 million units. This does not include the potential from conversion of existing PC users to Thin Clients which will substantially increase the potential.

Our growth will primarily come from increased sales in North America where our sales have been very low. In 2008-09, there has been substantial growth which is expected to take off in 2009 -10 and contribute to our growth.

VXL has now established a good network of Distributors and Value Added Resellers across Europe from where VXL products are exported to more than 40 countries. However, in terms of world market size, the values and quantities offer a huge potential for growth in volumes and revenues compared with the market size, primarily because VXL has had only a small presence in the dominant US market. For the last one year VXL has been slowly stepping into the US and has been able to enter into major enterprise contracts as well as partnering with some leading distributors. The coming years should see substantial growth from these continuing export efforts.

The CRT Terminals (GVX) business is winding down now and we are only servicing residual orders of small quantity from old customers and ensuring proper servicing of earlier GVX installations

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 incurred a loss of GBP 16,614 during the year.

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

PARTICULARS OF EMPLOYEES

None of the employees drew remuneration in excess of the limits 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.

AUDITORS' REPORT

The Auditors have pointed out in their report with regard to non-provision in respect of the Company's investments in and receivables from a Subsidiary and also receivables from certain other parties and accounting of deferred tax credits. In view of the long term prospects and steps taken to recover these receivables, the Directors feel that no provision need be made in the accounts.

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, 2009 was Rs. 129 lakhs. There were no unclaimed deposits as at that date.

ALLOTMENT OF EQUITY SHARES ON PREFERENTIAL BASIS

Share Application Money of Rs. 7,42,49,653/- received from overseas investors has been returned to them as the share issue procedure could not be completed within the time stipulated by SEBI. Pursuant to the approval of shareholders at the Extra-Ordinary General Meeting held on April 29, 2009, the Company has allotted 66,60,600 equity shares on June 16, 2009 on a preferential basis in order to meet the long term resources of the Company, raise funds for long term working capital requirements and repayment of Unsecured Loans.

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.

Twenty Third Annual Report 2008 - 2009

- (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 Exchange and publishes the same in the newspapers as per the listing agreement.

INDUSTRIAL RELATIONS

As mentioned earlier the company enjoys the support of the majority of employees which has ensured smooth flow of operations despite the strike by the employees at the Gvx unit during the year 2008-09.

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 for their unstinted co-operation extended by them.

For and on behalf of the Board of Directors

M.V. Nagara]
Managing Director

M.V. Shetty
Whole Time Director

Place : Bangalore
Date : 30th June 2009

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. 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. 87.39 lakhs which constituted about 1 % of sales turnover

TECHNOLOGY ABSORPTION, ADAPTATION AND 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 7,064 lakhs.

The foreign exchange outgo was Rs. 6,752 lakhs.

VXL Instruments Limited**REPORT ON CORPORATE GOVERNANCE**

The detailed report on Corporate Governance, in respect of the financial year ended 31st March, 2009 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 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

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

- | | |
|---------------|---------------|
| 1. 25.04.2008 | 5. 29.11.2008 |
| 2. 26.06.2008 | 6. 30.01.2009 |
| 3. 31.07.2008 | 7. 27.02.2009 |
| 4. 31.10.2008 | 8. 20.03.2009 |

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 India
Arun Kumar Bhuwania	Independent & Non-Executive	2	No	2	NIL
D S Rao	Independent & Non-Executive	2	No	NIL	NIL
M V Nagaraj	Promoter - Executive	8	Yes	3	NIL
M V Shetty	Promoter - Executive	8	Yes	1	NIL
Kumar Shyam	Promoter - Non Executive	2	Yes	1	NIL
K Prakash	Independent & Non-Executive	8	Yes	NIL	NIL

Twenty Third Annual Report 2008 - 2009**Committees of the Board**

- Audit Committee
- Remuneration Committee
- Investors' Grievances Redressal Committee
- Share Transfer/Transmission Committee

Audit Committee

The Audit Committee is responsible for over view 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 5 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	5	-
Kumar Shyam	5	-
D.S. Rao	1	-

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 2008-09 are given below:

a. Executive Directors

(in Rs.)

Directors	Salary	Fixed Commission	Perquisites	Sitting Fees	Total
M V Nagaraj	9,00,000	-	4,57,359	-	13,57,359
M V Shetty	6,60,000	-	4,25,701	-	10,85,701
Total	15,60,000	-	8,83,060	-	24,43,060

b. Non-executive Directors

Name	Sitting fees	Commission
K. Prakash	Rs. 13,000	-
D.S. Rao	Rs. 3,000	-
TOTAL	Rs. 16,000	-

Investors' Grievance Redressal Committee

This Committee looks into redressing of shareholders' complaints like non-transfer of shares, non-receipt of declared dividends. As of 31st March, 2009, the Committee comprised of Mr. K Prakash, Mr. Kumar Shyam and Mr. M V Shetty. The Committee met four times during the year.

VXL Instruments Limited

Attendances at these Meetings are as under:

Name of Director	No. of Meetings attended	Remarks
K. Prakash	4	—
Kumar Shyam	2	—
M.V. Shetty	4	—

There were 8 Nos. of complaints received and resolved during the year ended 31st March, 2009. There were no pending share transfers as on the same date.

Name, designation & address of Compliance Officer

Mr. Narayana Bhat,
CFO & Company Secretary,
VXL Instruments Limited
"House of Excellence"
No.17, Electronics City
Hosur Road, Bangalore 560 100.

E-Mail : narayanbhat@vxl.net

Phone : 91-80-3022 2525

Fax : 91-80-2852 0095

The Company has fulfilled all the compliance requirements under the listing agreements as regards the Investors' Grievances Committee.

General Body Meetings

Location and time of the last three Annual General Meetings:

Year	Date	Venue	Time
2006	19-09-2006	Hotel Ajantha, M G Road, Bangalore	3.00 P M
2007	17-09-2007	Hotel Ajantha, M G Road, Bangalore	3.00 P M
2008	17-09-2008	Hotel Ajantha, M G Road, Bangalore	3.00 P M

There were no special resolutions which were put through postal ballot.

Disclosures

Transactions with the related parties are disclosed in Note No.11 of Notes to Accounts of Schedule 17 to the Accounts in the Annual Report.

The Register of Contracts containing the transactions, in which Directors are interested, is placed before the Board as and when necessary.

During the last three years, there were no situations or penalties imposed by either SEBI or the Stock Exchanges or any statutory authority for non-compliance of any matter related to the capital markets.