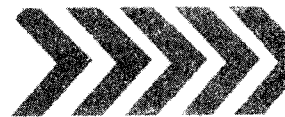


Catalyzing Innovative Broadband Services & Solutions



**VIRTUALSOFT SYSTEMS LTD
ANNUAL REPORT 2006-2007**

Virtualsoft Systems Limited

95

Mr. Gokul Tandan
 Mr. Rajendra V. Kulkarni
 Mr. Ashok K. Anand
 Mr. Suresh Rajpal
 Mr. Gurmukh Singh

Managing Director
 Whole time Director
 Director
 Director
 Director

COMF

Mr. Atul Kumar

BANKERS

HDFC BANK LIMITED
 D-965, Opp. Mata Ka Mandir
 New Friends Colony
 New Delhi-110 065.

STATUTORY AU.

Nath Ahuja & Co.
 Chartered Accountants
 400, Graater Kailash -II
 Delhi-110 048

REGISTERED OFFICE

S-101, Panchsheel Park,,
 New Delhi-110 017

SHARE TRANSFER AGENT

Mas Services Pvt. Ltd.
 AB-4, Safdarjung Enclave
 New Delhi – 110 029

C o n t e n t s

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NOTICE

Notice is hereby given that the Sixteenth Annual General Meeting of the Members of the Company will be held on Friday, September 28, 2007 at 9:00 a.m. at **Rama Krishna Banquets Hall, Near Main Market, Bhajanpura, Main Wazirabad Road, Delhi -110 053**, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2007 and the Profit & Loss Account for the year ended as on that date and the Reports of Auditors and Directors thereon.
2. To re-appoint Mr. Suresh Rajpal, Director who retires by rotation and being eligible, has offered himself for re-appointment.
3. To re-appoint Mr. Ashok Kumar Anand, Director who retires by rotation and being eligible, has offered herself for re-appointment.
4. To appoint M/s. Nath Ahuja & Co., Chartered Accountants as Auditors of the Company who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

Registered Office:
S-101, Panchsheel Park,
New Delhi-110 017.

By Order of the
Board of Directors

Dated: August 14, 2007

Atul Kumar
Company Secretary

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.

The instrument of proxy should, however, be deposited at the Registered Office of the Company not less than 48 hours before the Meeting.

2. The Register of Members and Share Transfer Books of the Company will remain closed from **Wednesday September 26, 2007 to Friday 28, 2007 (both days inclusive)**.
3. Member are requested:
 - i. to kindly notify the change of address, if any to the Company/ the Registrar / Depository Participant.
 - ii. To bring their copy of the Annual Report,
 - iii. to deposit to duly completed attendance slip at the meeting

Registered Office:
S-101, Panchsheel Park,
New Delhi-110 017.

By Order of the
Board of Directors

Dated: August 14, 2007

Atul Kumar
Company Secretary



DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting for your consideration and approval the Fourteenth Annual Report of your Company for the financial year ended March 31, 2007.

1. FINANCIAL RESULTS

| (Rs. In Lakhs) | | | |
|---|--------------------------|--------------------------|--|
| Particulars | Year Ended 31.03.2007 | Year Ended 31.03.2006 | |
| 1. Income | | | |
| Net Sales/Income from operations | | | |
| Export Income | 0.00 | 0.00 | |
| Domestic Income | 512.64 | 340.03 | |
| 2. Other Income | 0.00 | 1.25 | |
| 3. Expenditure: | | | |
| Software Purchased | 483.15 | 317.68 | |
| Staff Cost | 21.90 | 35.20 | |
| Legal & Professional | 9.61 | 12.90 | |
| Hire/Rental Charges | 2.63 | 3.85 | |
| Communication Costs | 2.75 | 3.50 | |
| Other Costs | 10.22 | 109.69 | |
| 4. Interest | 0.10 | 1.19 | |
| 5. Depreciation | 64.11 | 71.22 | |
| 6. FBT | 0.70 | 0.00 | |
| 7. Profit/(Loss) before tax | (82.53) | (213.95) | |
| 8. Provision for Tax | 0.00 | 0.00 | |
| 9. Net Profit/(Loss) | (82.53) | (213.95) | |
| 10. Paid up Share Capital (Face Value of the share Rs. 10/-) | 754.76 | 754.76 | |
| 11. Reserves & Surplus | 20.00 | 20.00 | |
| Excluding Profit & Loss Accumulated Balance of | (1194.74) | (1112.21) | |
| 12. Basic and diluted EPS for the year end | (1.09) | (2.85) | |
| 13. Aggregate of Non-Promoter Shareholding | | | |
| - No. of Shares | 1,788,125 | 2,164,640 | |
| - % of Shareholding | 23.69% | 28.67% | |



2. BUSINESS AND OPERATIONS OF THE COMPANY

VIRTUAL SOFT- PIONEERING BROADBAND SERVICES & SOLUTIONS

Broad band networks are revolutionizing the way we do business. Virtual Soft and its v Reach division offer outstanding digital broadband solutions. They use technology to the advantage of your organization. Broadband network solutions offer you a convergence of voice, data and video that can be used on-demand for your business need.

Virtual Soft transforms conventional business, learning, entertainment and media enterprises into rich media digital corporations. It uses the technologies of the day to set up the infrastructure needed for streaming interactive rich media content over the internet, intranet or extranet.

A proprietary system called v Code guarantees clarity and seamless delivery of audio, video and multimedia files across both narrowband and broadband networks.

Virtual Soft has developed a world-class Enterprise Communication Platform called vReach that utilizes existing corporate computing infrastructure to make real-time business meeting and events more cost-effective and convenient by reducing travel and extending reach to globally dispersed customers, partners, and co-workers over low-bandwidth network connections through a simple browser interface

VirtualSoft's vReach division also offers Rich Media content creation and migration services using proprietary technology and business methods. It creates near video on-demand content synchronized with Power point slides and other interactive mechanisms for leading conference organizers like CII, FICCI, The Times of India Group, The Federation of Asian Advertising Associations, Business Today; and for leading enterprises such as SAP, IBM, The World Bank and the Tata Group.

It has created over 1000 hours of such content for over 100 different conferences and training events. This content is available in CD/DVD form as well as

on knowledge on-demand servers accessible over the intranet and/or internet.

3. DIVIDEND

Your Directors do not recommend a dividend.

4. AUDITORS

M/s. Nath Ahuja & Co., Chartered Accountants, Auditors of the Company retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

5. DIRECTORS

Mr. Suresh Rajpal and Mr. Ashok Kumar Anand retire by rotation at the ensuing Annual General Meeting of the Company and being eligible offer themselves for reappointment.

6. DEPOSITS

The Company has not accepted deposits from the public for the year under consideration.

7. PARTICULARS OF EMPLOYEES

There is no employee of the Company who has received remuneration in excess of such sum as prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

8. CAPITAL MARKET DEVELOPMENTS

As on date, 78.42% of Shares are in Demat form and are listed on various stock exchanges. The Company has, from time to time, reminded the shareholders/ investor, holding the Shares in Physical form to convert their Shareholding to dematerialized form.

9. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO

(a) Details of Conservation of Energy

The Company uses electric energy for its equipment such as air-conditioners, Corporate Governance Report



Virtualsoft Systems Limited

computer terminals, lighting and utilities in the work premises.

All possible measures have been taken to conserve energy:

- By identifying potential areas for saving;
- By incorporating energy efficient equipment;
- By automation.

(b) Technology Absorption

Research & Development

Specific areas in which Research & Development work has been done in the Company- Intranet Content Delivery Network (ICDN) solution. This solution helps Companies slash costs and raise intellectual capital.

© Foreign Exchange Earnings

There had been no foreign exchanges earnings, during the year.

10. DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors wish to state that:

- (a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

- (b) that they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period;
- (c) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) that they had prepared the annual accounts on a going concern basis.

11. CORPORATE GOVERNANCE

A Separate statement on Corporate Governance along with the Auditor's Certificate on its compliance is given as part of the Annual Reports.

12. ACKNOWLEDGEMENTS

Your Directors acknowledge with a deep sense of gratitude the continued support extended by investors, customers, business associates, bankers and vendors. Your Directors take this opportunity to thank the regulatory and governmental authorities.

For and on behalf of the Board of Directors

Place : New Delhi
Date : August 14, 2007

Mr. Gokul Tandan
Managing Director

Mr. R.V.Kulkarni
Wholetime Director



Corporate Governance Report

Corporate Governance is about commitment to values and about ethical business conduct. Its about how an organization is managed. This includes its Corporate Structure, its culture, policies and manner in which it deals with various stakeholders. Accordingly timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the Company is an important part of Corporate Governance. This improves public understanding of the structure, activities and policies of the Organization. Consequently the Organization is able to attract investors, and to enhance the trust and confidence of the stakeholders.

Your Company believes that sound Corporate Governance is critical to enhance and retain investor trust. Accordingly, your Company always seeks to attain its performance rules with integrity. The Board extends its fiduciary responsibilities in the widest sense of the term. Your Company's endeavors to enhance long – term shareholder value and respect minority rights in all our business decisions.

1. VSL Philosophy on Corporate Governance

1. Satisfy the spirit of law and not just the letter of the law. Corporate Governance standards should go beyond the law.
2. Be transparent and maintain high degree of disclosures levels. When in doubt, disclose.
3. Make a clear distinction between personal conveniences and corporate resources.

4. Communicate externally, in a truthful manner, about how the Company is run internally.
5. Have a simple and transparent corporate structure driven solely by the business needs.
6. Management is the trustee of the shareholder's capital and not the owner.

2. Board of Directors

At the core of its Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Company. Your Company believes that an active, well – informed and independent Board is necessary to ensure the highest standards of Corporate Governance. Majority of the Board, 3 out of 5, are independent Directors.

During the Financial Year ended 31st March 2007, Five Board meetings were held on 30.06.06, 31.07.06, 14.08.06, 31.10.06 & 31.01.07

The Last Annual General Meeting was held on 23rd September 2006 and the last Extra – ordinary General Meeting was held on 17th, January 20001.

The Composition of the Board, attendance of Directors at the Board Meetings held during the year under review as well as in the last Annual General Meeting and the number of other Directorships / Committee positions held by them are as under: -



Virtualsoft Systems Limited

| S. No. | Name & Designation | Category | No. Of other Directorships held | No of Board meetings | | Attended last AGM (23 .09.06) |
|--------|--------------------------|----------|---------------------------------|----------------------|----------|-------------------------------|
| | | | | Held | Attended | |
| 1. | Mr. Gokul Tandan | MD | 5 | 5 | 5 | YES |
| 2. | Mr. Rajendra V. Kulkarni | WTD | 6 | 5 | 5 | No |
| 3. | Mr. Suresh Rajpal | NEID | 3 | 5 | 3 | No |
| 4. | Mr. Ashok Anand | NEID | 1 | 5 | 4 | Yes |
| 5. | Mr. Gurmukh Singh | NEID | | 5 | 4 | Yes |

(MD- Managing Director, WTD – Whole Time Director, NEID – Non-Executive Independent Director)

Directorship / Committee Positions

| S. No. | Name of the Director | Directorships | Committees Positions | Committee | Position |
|--------|--------------------------|---------------|---|-----------|--|
| 1. | Mr. Gokul Tandan | 5 | 1. M/s. Foundation Technologies (Pvt.) Ltd. 2. Goto Customers Services Pvt. Ltd. 3. Virtual Software & Training Pvt. Ltd. 4. Goto Customer Services India Pvt. Ltd. 5. Techsure Online Services Pvt. Ltd. | | Director Director Director Director Director |
| 2. | Mr. Rajendra V. Kulkarni | 6 | 1. M R Capital Pvt. Ltd. 2. M/s. Vijay Stampings Pvt. Ltd. 3. M/s. Foundation Technologies (Pvt.) Ltd. 4. M/s. Virtual Software & Training (P). Ltd. 5. Advani Exports Pvt. Ltd. 6. SME Business Services Lttd. | | Director Director Director Director Director Director |
| 3. | Mr. Suresh Rajpal | 3 | 1. M/s. Tecnova India Pvt. Ltd. 2. M/s Purolator Pvt. Ltd. 3. M/s. Four Soft Pvt. Ltd. | | Director Director Director |
| 4. | Mr. Ashok Anand | 1 | 1. M/s. Virtual Software & Training Pvt. Ltd. | | Director |
| 5. | Mr. Gurmukh Singh | | | | |

None of the Directors on the Board hold Directorships in more than fifteen Companies and hold memberships in more than ten Committees and they do not act as Chairman of more than five Committees across all the Companies in which they are Directors.



Virtualsoft Systems Limited

2.1 Information Placed before the Board

In addition to the matters which statutorily require Board's approval, as required by Corporate Governance, the following matters are regularly placed before the Board :-

- Minutes of Audit Committee Meetings, Share Transfer & Investors Grievance Committee Meetings.
- Recruitment and Remuneration of senior executives below the board level.
- Details of Joint Ventures / Collaboration Agreement.
- Disclosure of material related party transaction, if any
- Compliance with Regulatory and statutory requirements including listing requirement & Shareholders services.
- Details of show cause, demand, prosecution and penalty notices which are materially important

- Transactions involving substantial payments towards goodwill, brand equity or intellectual Property.
- Sale of material nature of investments, subsidiaries and assets, which are outside the normal course of business.

3. Committees of the Board

In terms of the SEBI code, the Board of the Company has constituted the Following Committees: -

Audit Committee

Share Transfer and Investors Grievance Committee.

3.1 Audit Committee

The following are the members and their attendance at the committee meetings: -

During the period 01.04.06 to 31.03.07, the Audit Committee met -4 times on 30.06.06, 31.07.06, 27.10.06, & 31.01.07

| S.No. | Name of Directors | Status | No. .of Meetings | |
|-------|-------------------------|----------|------------------|----------|
| | | | Held | Attended |
| 1. | Mr. Ashok Kumar Anand | Chairman | 4 | 4 |
| 2. | Mr. Suresh Rajpal | Member | 4 | 4 |
| 3. | Mr. Rajendra V Kulkarni | Member | 4 | 4 |

The broad terms of references of Audit Committee are as follows: -

- Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment / re-appointment of external and internal auditors, tax auditors, fixation of statutory audit fees, internal audit fees and tax audit fees and also approval for payment of any other services.
- Review and management the annual financial statements before submission to the Board.
- Review quarterly UN – audited /audited financial results, half yearly review report.
- Review with Management, external and internal auditors the adequacy of internal control system.
- Review the adequacy of internal audit programme, internal audit reports; follow