



Encore Software



Encore Software Limited

FIFTEENTH ANNUAL REPORT 2006-07



CORPORATE INFORMATION

DIRECTORS	Mr. Vinay L Deshpande	Chairman & CEO
	Mrs. Chhanda Deshpande	Executive Director
	Dr. Saibal Kanti Gupta	Director
	Prof. V Rajaraman	Director

MANAGEMENT TEAM	Mr. Vinay L Deshpande	Chairman & CEO
	Mrs. Chhanda Deshpande	Executive Director
	Mr. Mark Mathlas	President
	Mr. Shashank Garg	Vice President
	Mr. M P Vasuki	Vice President
	Mr. Kaushik V Shah	General Manager

AUDITORS	Ishwar & Gopal Chartered Accountants
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BANKERS	Syndicate Bank
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REGISTERED OFFICE	Leo Complex, 6th Floor # 44 & 45 Residency (Cross) Road, Bangalore 560 025 Web: www.ncoretech.com
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USA OFFICE	20590 Shady Oak Lane Cupertino, CA 95014 USA
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SHARE TRANSFER AGENTS	Alpha Systems Pvt Ltd 30, Ramana Residency, 4th Cross Sampige Road, Malleswaram Bangalore 560 003 Phone: 23460815-818 Fax: 23460819 Email: shares@123alpha.com
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NOTICE

NOTICE is hereby given that the 15th Annual General Meeting of the members of the Company will be held at 4.00 p.m. on Thursday, the 27th September, 2007 at Hotel Ajantha, M G Road, Bangalore 560 001 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 and Loss Account for the year ended on that date, together with the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr. S K Gupta, who retires by rotation, and is eligible for reappointment, but doesnot wish to seek re-appointment owing to perosnal reasons.
3. To appoint auditors and authorise the Board to fix their remuneration.

560 003, about the changes, if any, in their registered addresses, along with the PIN Code number quoting their folio number. All correspondence relating to transfer of shares may be sent directly to the aforesaid Transfer Agents of the Company.

4. Members are requested to bring their copies of the Annual Report to the Meeting.

The resolution set out in the Notice is recommended for the approval of the shareholders.

ADDITIONAL INFORMATION ON DIRECTOR SEEKING RE-APPOINTMENT AT THE FIFTEENTH ANNUAL GENERAL MEETING.

Does not arise since Dr. S.K. Gupta, who is retaining and is eligible for reappointment doesnot wish to seek reappointment due to personal reasons.

By order of the Board

Date: August 23, 2007 Vinay L Deshpande
Place: Bangalore Chairman & CEO

By order of the Board

Date: August 23, 2007 Vinay L Deshpande
Place: Bangalore Chairman & CEO

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ALSO ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/ HERSELF AND THE PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING PROXY, IN ORDER TO BE EFFECTIVE, SHOULD REACH THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE MEETING.
2. The Register of Members and Share Transfer Books of the Company will remain closed on September 27, 2007.
3. The Shares of the Company are compulsorily traded in electronic form. Members are requested to inform the Company's Registrars and Share Transfer Agents viz., Alpha Systems Pvt. Ltd., Unit: Encore Software Limited, 30, Ramana Residency, Ground Floor, 4th Cross, Sampige Road, Malleswaram, Bangalore



DIRECTORS' REPORT

Your Directors are pleased to present the Fifteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2007

FINANCIAL RESULTS (Rs. In Million)

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Operating Income	35.78	62.34
Gross Profit/(Loss) after Interest But Before Depreciation and Tax	(48.13)	(43.99)
Less: Depreciation	2.33	3.23
Provision for Tax	0.21	0.23
Profit/(Loss) after Tax	(50.31)	(47.45)
Transfer to Reserve	NIL	NIL

OPERATIONS

Despite disappointing operating results, your Company has a lot to look forward to during the coming year.

INDUSTRY OUTLOOK

Mobile computing devices have continued growing in popularity worldwide, in specific verticals, instead of just being used as PDAs for personal productivity and are already appearing to become mainstream products owing to the market expectations of affordable computing products for education, healthcare, enterprise, and e-Governance. The global multinational, Intel Corporation, announced their *Classmate* low-cost (\$200) laptop for developing economies this year, and Dr. Nicholas Negroponte's OLPC, otherwise known as the "\$100 Laptop," admitted that even at a million-piece quantity, it would cost \$176! Your Company therefore has focused on its new products, in order to benefit from the worldwide interest in these new concepts, which is expected to grow into a worldwide market size in the range of a few billions of Dollars annually.

MOBILE COMPUTING PRODUCTS

Having completed development of the *Mobilis* and the *SofComp* during the previous year, we initiated productionization of these newest members of our family of *affordable information appliances* which also include our *Simputer* and *SATHI*.

A total of 110 *SofComps* and 390 *Mobilis* of a variety of configurations, were produced during the year, of which 220 *Mobilis* were sold to the Department of Communications, Government of South Africa, and 40 *Mobilis* were gifted to the Ministry of Education, Government of Brazil, for evaluation in their One-Computer-per-Student project. Encore is privileged to be one of the three organizations shortlisted for evaluation in this prestigious project, the other two being Dr. Nicholas Negroponte's One Laptop Per Child (OLPC), and Intel Corporation, both of the USA. As of the writing of this Report, the actual classroom tests in the Planalto School in the Brazilian capital city of Brasilia, have been proceeding very well, and the teachers, students, and officials participating in the evaluation have been very happy with the *Mobilis*. The tests will be completed in September this year, after which the successful organizations will be invited to bid for the first volume procurement by the Brazilian government. Your Company is confident of being among those who will bid for such procurement, and of then winning a significant portion of the order.

As a result of the above evaluation trials, we have been approached by Grupo RF-Telavo, a Brazilian technology group, for the purpose of forming a joint venture for local manufacturing, marketing, and customer support in Brazil of our *Mobilis*, *Simputer*, and *SofComp*. Local manufacture of these devices in Brazil will give them a distinct commercial edge over their competitors, in view of total exemption of import duties and other local taxes which total up to almost 95 percent *ad valorem*. Discussions with Grupo RF-Telavo are currently in an advanced stage, and we do expect to formalize an agreement with them soon, which will also put us in a very competitive position in the entire South American, Latin American, and North American markets, as the joint-venture will localize our three products for the Spanish and Portuguese languages used in the region, as well as make certain modifications for these markets. In addition, the joint-venture expects to modify the *SofComp* as an internet-access device cum set-top box for the Brazilian-standard Digital TV. As a result of these

initiatives, your Company will begin seeing, starting in the coming year, significant returns from this joint venture in Brazil, which is promising to be a very high-profile project and an excellent example of South-South cooperation.

An important milestone related to the above markets, was the signing of an agreement between the Company and Cnotinfor, a Portuguese developer of innovative educational software, which was held in the personal presence of the Portuguese President and the Indian Minister for Commerce, Mr. Kamal Nath, on January 17 in Bangalore. The Company will therefore now embed Cnotinfor's *Já Está*, a children's creativity tool, which would be very useful in the Company's participation in the Brazilian Schools Computerization programme. The software is available in Portuguese and English already, and the Company and Cnotinfor will jointly develop Indian-language versions of the same. The Company will also be able to bundle it with *Mobilis* and *SofComp* devices sold in all its markets including USA, Africa, Asia, and Europe. Cnotinfor has also approached your Company for sales rights of the *Mobilis* and *SofComp* in Portugal, the EU, and Angola and Mozambique, and negotiations are in progress.

The 220 *Mobilis* devices delivered to the DoC, South Africa, will be deployed in pilot evaluation projects in education and healthcare, along with an additional 180 that have also been ordered and will be delivered in the coming year. On successful completion of these projects, your Company expects to receive significantly large orders for the *Mobilis* and *SofComp* from South Africa.

Your Company has also made an entry in the significant US market, with the sale of 100 *Mobilis* to Wink Interactive, a company that sells IT solutions in the healthcare market. These have been deployed on a pilot basis in Ophthalmologist establishments, after Wink's application software was developed and fine-tuned, and the solution has received very warm response from the market. As a result, we expect reasonably large orders from Wink Interactive in the coming year. What is more, this lead order will help us obtain FCC certification, leading to orders from other customers in the US.

The International Association for Digital Publishing (IADP), Washington, DC, have selected the *Mobilis* for a multilaterally-funded pilot project on e-learning in four universities

in South Africa, and have procured 10 *Mobilis* devices for initial evaluation as an e-Book reader and internet access device. A pilot phase of a couple of 100 devices will follow during the coming year, leading finally to larger volume procurement subsequently. Successful completion of the IADP pilot is expected to significantly boost the *Mobilis*' image worldwide.

In addition to the above, several *Mobilis* and *SofComp* devices have been distributed as evaluation samples among various potential customers in the Government and private sectors in India, Brazil, Japan, and the United States. Successful completion of these evaluations will surely lead to volume orders from these areas, in the coming year(s).

Your Company also had a high-profile visit by HE Dató Mr. Effendi Norwawi, Minister in the Prime Minister's Office in Malaysia, accompanied by 30 members of his team, who were extremely keen to adopt the *Mobilis*, *SofComp*, and *Simputer* for various projects in Malaysia. They expect to schedule a series of high-level government meetings in Kuala Lumpur for the Company's team, during the coming year, which should lead to large orders from Malaysia for these products subsequently.

A well-known software provider to the financial services segment, from Delhi, have successfully integrated the *Mobilis* in their offerings, which should lead to large-volume sales in the financial sector in India and abroad.

Meanwhile, a development order for development of a Crime-Scene Recording System has been received from Technology Information, Forecasting, and Assessment Council (TIFAC), New Delhi, under the Ministry of Science and Technology, involving specially-configured *Mobilis* devices with digital cameras and WiFi, as well as development of specialized software for the purpose aptly described by the project title. The development of this System is progressing well, and the Company expects to complete it soon, leading to field trials by Bangalore Police, in the coming year.

Also, work is progressing on an order for development of an eBook Reader using a specialized processor designed by ANURAG, a DRDO laboratory in Hyderabad, which was received during the past year.

All in all, therefore, our *affordable information appliances* clearly seem to hold exciting potential in the market.



SATHI

The first production batch of *SATHI* battlefield handhelds was delivered during the previous year, incorporating several enhancements requested by the Army. The Army has requested two specific enhancements during the year under review, which has delayed our much-anticipated further (large) orders for this important product, causing significant disappointment to us as this was expected to contribute substantial topline and bottomline numbers to your Company during this past year. Nevertheless, the Company has been assured by several officials at the highest levels of the Army, that the *SATHI* continues to be at the focal point of all future plans for the Indian soldier of the future. The Company has therefore already initiated development for the two specific enhancements which will add a significant edge to this state-of-the-art product, and awaits larger production orders from the Army during the coming year, which will help turn the Company significantly profitable.

The Company has also been chosen to productize the *Flosolver*, a high-performance computing cluster developed at the National Aerospace Laboratories (NAL), Bangalore, and has already received an order for ten (10) eight-node clusters. The first of these ten systems has been delivered to NAL for their acceptance, and the balance nine will be delivered during the coming year.

TECHNOLOGY SOLUTIONS

The telecommunications sector continues to boom worldwide, and the use of VoIP on mobile phones, in which your Company has significant proven and robust Intellectual Property, continues to grow because of the continuing trend of dual-mode phones combining GSM (or CDMA) and WiFi functionality. The Company therefore continues to benefit from this sector, and experienced modest but steady growth of revenue during the year under review, adding a few new customers for its IPs.. Your Company's ability to bundle the complete VoIP solution for this rapidly growing market segment, should result in steadily-growing revenues during the coming year. Work on IMS (IP Multimedia Services), another growth area, has been initiated, and we expect to launch a couple of new initiatives in the coming year. This group has also been working on wideband IP phone reference design and ultra low-cost IP phone design for mass markets. These initiatives should serve the Company well during the coming year

RISKS AND CONCERNS

The expected growth in order volumes during the coming year will require large resources for which the Company has already initiated efforts to obtain additional investments. While negotiations with interested parties are progressing satisfactorily, potential delays cannot be predicted. As always, the vagaries of the components market may also impose unplanned or unexpected delays in production. Finally, customer orders could be delayed owing to external factors over which the Company may have no control. Being aware of these risks, the Company's management will do its utmost to minimize such risks and ensure growth in the Company's revenues and profits.

CORPORATE GOVERNANCE

Being constantly committed to good Corporate Governance, your Company consistently follows sound corporate governance practices, including appropriate internal control structures, which ensure strict compliance with legal requirements and reliable financial reporting, and also ensures that management implements and maintains effective business controls, including internal financial controls which are monitored on a self-assessment basis and by audits performed by internal and external auditors. These steps lead to increased transparency and accountability to the Company's shareholders.

A detailed Corporate Governance Report has been provided in Annexure 'B', and the Auditors' Report on Corporate Governance is provided in Annexure 'C'.

PARTICULARS OF EMPLOYEES

There was no employee drawing remuneration in excess of the limits prescribed under Section 217(2A) of the Companies Act, 1956.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956, and the Company's Articles of Association, Dr. S K Gupta, Director, retires by rotation, due to personal reasons does not seek reappointment; Your Board places on record its deep appreciation for the great contribution extended by Dr. S.K. Gupta during the tenure of office.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors have fulfilled their responsibility for the preparation of the accompanying financial statements by taking all reasonable steps to ensure that:

- These statements have been prepared in conformity with generally accepted accounting principles and appropriate accounting standards. Judgments and estimates that are reasonable and prudent have been made where necessary.
- The accounting policies selected and applied consistently give a true and fair view of the financial statements.
- The Company has implemented internal controls to provide reasonable assurance of the reliability of its financial records, proper safeguarding and use of its assets and detection of frauds and irregularities. Such controls are based on established policies and procedures, and are implemented by trained, skilled, and qualified personnel with an appropriate segregation of duties.

The Company's statutory auditors, Messrs. Ishwar & Gopal, Chartered Accountants, have audited the financial statements in accordance with generally accepted auditing standards and practices as indicated in their report.

GOING CONCERN

In view of the initiative taken in development of diversified products, which promise potential business, the Directors consider it appropriate to adopt the financial statements.

AUDITORS

Messrs Ishwar & Gopal, Chartered Accountants, the retiring Auditors of the Company, who hold office until the conclusion of the forthcoming Annual General Meeting, being eligible, offer themselves for re-appointment. The Company has received a certificate from them that their re-appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956.

AUDITORS' REPORT

Attention is drawn to Para 16.11 of the Auditors' Report dated June 22, 2007; suitable explanations have been furnished in the Annexure 'D'.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars of Board of Directors) Rules, 1988, have been set out in Annexure 'A' and form an integral part of this Report.

ACKNOWLEDGEMENTS

The Board expresses its gratitude to the Company's customers, vendors, Bankers, and employees, and other well-wishers, for their continued support.

Appreciation is placed on record for the confidence reposed in the Company by its shareholders.

By order of the Board

Date: August 23, 2007 Vinay L Deshpande
Place: Bangalore Chairman & CEO



ANNEXURE "A" TO THE DIRECTORS' REPORT

PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

A. Conservation of Energy

The operations of the Company are not energy intensive. Adequate measures have been taken to conserve and optimize the use of energy through improved operational methods.

B. Technology Absorption and Research & Development (R&D)

The Company uses the latest technology available in modern technology applications. Indigenous technology available is continuously being upgraded to improve overall performance. The Company has a dedicated team of technically competent personnel who relentlessly work on technology upgradation and development related fields.

Research and Development continues to be given very high priority in Software Technology in the area of telecommunications, and hardware technology in the area of embedded systems.

C. Foreign Exchange Earnings & Outgo

Total Foreign Exchange Earnings during the year was Rs. 27.45 Million as against Rs. 28.12 Million in the previous year.

Total Foreign Exchange Outgo during the year amounted to Rs. 7.43 Million as against Rs. 10.71 Million in the previous year.

ANNEXURE "B" to the Directors' Report

REPORT ON CORPORATE GOVERNANCE

1. PHILOSOPHY ON CORPORATE GOVERNANCE

While the Industry Outlook and the Company's future plans are provided in the main part of the Directors' Report, your Directors wish to share additional information with you.

The Board represents the stakeholders' interests in terms of safety and return on their investments. It is further responsible to the various constituents of business viz. Employees, customers, and vendors and to the society where it operates. Customer satisfaction has been the chief motto of the Company.

2. MEANS OF COMMUNICATION

- a. Quarterly results of your Company are published regularly in The Financial Express and Sanjevani (English and Kannada, respectively).

- b. The quarterly results and the shareholding pattern are displayed on the Company's website: www.ncoretech.com, together with the official news releases, awards and recognition for Company's products.

3. STOCK EXCHANGE LISTING

The transactions with respect to your shares shall be conducted only in Electronic form and are listed on The Bombay Stock Exchange Limited, Mumbai, 25th Floor, P J Towers, Dalal Street Fort, Mumbai – 400 001

The Scrip Code is 531750

4. BOARD OF DIRECTORS

The Company has a well-constituted Board comprising of four Directors, who possess rich corporate experience, the composition being as follows:

Category	Names of Directors	Number of Directors	Composition %	No. of Directorships in other Companies	No. of Chairmans hip of other companies	No. of Memberships in Committees of other companies
i) Promoter Chairman & CEO Executive Director	Vinay L Deshpande Chhanda Deshpande	2	50	02 Nil	Nil Nil	01 Nil
ii) Independent & Non executive Directors	Dr. S K Gupta Prof. V Rajaraman	2	50	12 01	02 00	Nil Nil
Total		4	100			

The Board is primarily responsible for the overall management of the Company's affairs. All the Directors have good understanding of important business aspects, both generic and specific to Encore Software Ltd.

5. PARTICULARS OF BOARD AND GENERAL MEETINGS:

Board meetings are normally held at the registered office of the Company and with sufficient notice along with Agenda and Notes circulated ahead of the Meetings. Four Board meetings were held between April 1, 2006 and March 31, 2007 on the following dates: June 22, 2006; July 24, 2006; October 30, 2006; and January 31, 2007.

The last two Annual General Meetings were held on dates, places, and times as below:

1. 14th Annual General Meeting held at 3.30 pm on September 29, 2006, at Hotel Ajantha, M G Road, Bangalore 560 001.
2. 13th Annual General Meeting held at 4.00 pm on September 22, 2005, at Hotel Ajantha, M.G. Road, Bangalore 560 001.



6. ATTENDANCE OF EACH DIRECTOR AT THE BOARD MEETINGS AND THE LAST ANNUAL GENERAL MEETING:

Director	No. of Board Meetings held	No. of Board Meetings attended in person	No. of Board Meetings participated through teleconference/video conference	Attendance at the 14 th AGM held (Yes/No)
Vinay L Deshpande	4	4	NIL	Yes
Chhanda Deshpande	4	4	NIL	No
Dr. S K Gupta	4	4	NIL	Yes
Prof. V Rajaraman	4	4	NIL	yes

7. REMUNERATION PAID TO INDEPENDENT DIRECTORS

Sitting Fee of Rs. 1,000/- per Director per meeting of the Board or its Committee, is being paid.

None of the Non-Executive Independent Directors of the Company has any pecuniary relationships or transactions with the Company.

8. OTHER DISCLOSURES

- 1 Related-party transactions: Mentioned under Note 16.6 of the Notes to Accounts.
- 2 Non-compliance with Stock Exchange/SEBI requirements - None

9. COMPLIANCES

The Company is equipped with professional skills to ensure compliance with legal requirements. The Secretarial and Legal Department is headed by the Compliance Officer, who is responsible for ensuring compliance with the Companies Act and allied laws, SEBI/Stock Exchange rules and other regulations.

10. POSTAL BALLOT

The concept of Postal Ballot was introduced by the Companies (Amendment) Act, 2000. The Company will comply with the provisions of law, whenever so required.

No resolution was passed through Postal Ballot during the year under review in terms of Section 192A of the Companies Act, 1956 and the Companies (Passing of Resolution by Postal Ballot) Rules, 2001.

11. AUDIT COMMITTEE

The Audit Committee comprises of two Non-Executive independent Directors and a Chairman who is also an Independent Director.

The key functions of the Committee are:

- 1 Reviewing with the management the annual financial statements before submission to the Board and reviewing any activity coming under its reference.