

# SIXTEENTH ANNUAL REPORT - 2007-08



Report  **Encore Software** [www.reportjunction.com](http://www.reportjunction.com)

Encore Software Pvt. Ltd.,



## CORPORATE INFORMATION

### **DIRECTORS**

Mr. Vinay L Deshpande	Chairman & CEO
Mrs. Chhanda Deshpande	Executive Director
Mr. J. Suri	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

### **BANKERS**

Syndicate Bank

### **REGISTERED OFFICE**

Leo Complex, 6th Floor  
# 44 & 45, Residency (Cross)  
Road, Bangalore 560 025  
Web : [www.ncoretech.com](http://www.ncoretech.com)

### **USA OFFICE**

20590 Shady Oak Lane  
Cupertino, CA 95014  
USA

### **SHARE TRANSFER AGENTS**

Alpha Systems Pvt Ltd  
30, Ramana Residency, 4th Cross  
Sampige Road, Malleswaram  
Bangalore 560 003  
Phone : 23460815-818  
Fax : 23460819

**NOTICE**

NOTICE is hereby given that the 16th Annual General Meeting of the members of the Company will be held at 4.00 p.m. on Friday the 19th September, 2008 at Hotel Ajantha, MG 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, 2008, and the Profit and Loss Account for the year ended on that date, together with the Reports of the Directors and Auditors there on.
2. To appoint a Director in place of Prof. V. Rajaraman, who retires by rotation, and is eligible for reappointment
3. To appoint auditors and authorise the Board to fix their remuneration.

By order of the Board

Date : July 29, 2008

Place : Bangalore

Vinay L Deshpande  
Chairman & CEO

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 afore-said transfer agents of the Company.

4. Members are requested to bring their copies of the Annual report to the meeting.

By order of the Board

Date : July 29, 2008

Place : Bangalore

**Vinay L Deshpande**  
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 19, 2008
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-03,



## DIRECTORS' REPORT

Your Directors are pleased to present the Sixteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2008.

### FINANCIAL RESULTS

(Rs. In Million)

Particulars	Year ended March 31, 2008	Year ended March 31, 2007
Operating Income	44.99	35.78
Gross Profit/(Loss) after Interest		
But Before Depreciation and Tax	(27.64)	(48.13)
Less: Depreciation	1.45	2.33
Provision for Tax	0.16	0.21
Profit/(Loss) after Tax	(29.25)	(50.31)
Transfer to Reserve	NIL	NIL

### OPERATIONS AND DIVIDEND

Even though the Company had another loss-making year, the losses have been arrested and reduced to a good extent. The Company is now poised to perform much better during the coming year.

### INDUSTRY OUTLOOK

The focus on mobile computing devices now seems to have been adopted by a few major worldwide players during the year under review, and *ultra-low-cost PCs* and *Mobile Internet Devices (MIDs)* seem to be growing in popularity worldwide. Owing to the affordability in education, healthcare, enterprise and e-Governance applications two global multinationals, Hewlett-Packard and Asus announced their entry into this segment during the past year. This worldwide interest is definitely growing rapidly into a huge market opportunity for which your Company is certainly well positioned.

### MOBILE COMPUTING PRODUCTS

Your Company initiated productionization of the *Mobilis* and *SofComp* during the past year, which resulted in deployment worldwide, mainly in Austria, Brazil, Japan, Malaysia, Portugal, South Africa and the United States, besides India for evaluation trials.

Members may recall that the Ministry of Education, Government of Brazil had shortlisted the Company's *Mobilis* for evaluation in their One-Computer-per-Student project nicknamed "UCA" last year. While tests have continued over the past fifteen months in this prestigious project, it is a matter of deep satisfaction for all that Encore's *Mobilis* devices have been performing very well and have resulted in satisfactory reports by the teachers, students and officials involved in the evaluation. The Brazilian government did announce a tender in December, 2007, in which Encore did not participate as a protest against the specifications which seemed to give an unfair advantage to one of the competitors. The tender has since been cancelled and as of the writing of this Report, a new tender announcement with fairer specifications is imminent. Despite the consequent delay in the procurement by the Brazilian government your Company is confident of winning a significant portion of the order yet. The Ministry of Education is also discussing with your Company a new project using the *Mobilis*, independent of the UCA project.

Consequently, the discussions held with the Brazilian Group, RF-Telavo for the purpose of forming a joint venture with their Group Company, COMSAT, for local manufacturing, marketing and customer support in Brazil. Your Company's *Mobilis*, *Simputer* and *SofComp* have made substantial progress and the proposed joint-venture will start operations very soon, generating significant returns for your Company in the coming year.

As a result of the discussions with the Ministry of Education in Brazil, however, the Company had to initiate certain major design changes to the *Mobilis*, to make it more acceptable in the Brazilian market. These changes include a change in the product design (housing) of the *Mobilis*, to facilitate adjustment to the angle of the LCD display when it is used on a desktop and changing the operating language to Portuguese in place of English. Your Board is pleased to report you that these have been initiated and will soon be completed in time for the procurement of these devices by the Brazilian Government.

The entry last year in the US market, via deployment of the *Mobilis* at Wink Interactive in the healthcare market, has also met with success following grueling tests and the *Mobilis* has received enthusiastic response from Wink's customers. Consequently, Wink Interactive has now proposed a sales agreement that should help your Company get further revenues from the US market in the coming years.

The visit to your Company last year by HE Dató, Mr. Effendi Norwawi, Minister in the Prime Minister's Office in Malaysia and subsequent meetings in Malaysia and Bangalore during the past year, resulted in a technology transfer agreement between your Company and MIMOS, the Malaysian-government company, for the manufacture of a customized design derived from the *Mobilis*, which has already been exhibited in high-profile exhibitions in Malaysia. The Malaysian Government plans to manufacture a very large number of these devices, named Jen -ii, in the coming year, thus generating handsome royalties for your Company.

The development of a Crime-Scene Recording System under a project from Technology Information, Forecasting, and Assessment Council (TIFAC), New Delhi, under the Ministry of Science and Technology, has been completed during the year under review and field trials are expected to start soon with Bangalore Police.

The eBook Reader development for ANURAG, a DRDO laboratory in Hyderabad, which was received during the past year, is still continuing, and is expected to be completed during the coming year.

The past year also saw development of yet another product in the Company's product list of *affordable information appliances* – a *Mobile Ticketing Terminal (MTT)* – in collaboration with SAYCO, a Company from Trichy. A handheld device with a built-in printer has been already successfully tested in bus ticketing and Point-of-Sale applications and will be volume-manufactured, starting in the coming year by SAYCO under a royalty agreement with your Company.

#### **SATHI**

The past year has been disappointing; however, for the *SATHI* battlefield handhelds, as the much-anticipated large orders for this important product, did not materialize during this period, despite the fact that your Company did successfully complete the enhancements requested by the Army. Your Company, nevertheless, continues to be assured by senior Army officials that larger production orders are imminent from the Army.

#### **FLOSOLVER**

Your Company was able to deliver seven eight-node clusters of the *Flosolver*, the high-performance computing cluster developed at the National Aerospace Laboratories (NAL) to seven different laboratories around the country. The balance of the order received from NAL could not be delivered as the recipient laboratories were not identified and will therefore, be delivered during the coming year.

#### **NASDO**

A new project was assigned to your Company during the past year by NASDO (Naval Aircraft Servicing and Development Organization), Goa, for an Aircraft Publication System. The system consists of three sub-systems, viz, Cluster of Servers, Air Publication Network Interface (APNI) and Air Publication Reader Tablet (APRT). The first two subsystems have already been delivered and installed. The APRT which is a custom variant of our *Mobilis*, is under development and is scheduled to be delivered in August 2008. After delivery of the APRT and subsequent field trials, repeat orders for several such systems are expected.

#### **TECHNOLOGY SOLUTIONS**

The Technology Solutions Group continued its focus on the fast expanding market for VOIP products. The solutions developed during the past year include low-cost ATA (Analog Terminal Adapter), Two-channel VOIP gateway, Fax Relay for Blackfin series of processors made by Analog Devices, IP PBX, and so on. Most of these solutions that are embedded into customers' products will get into production during the second half of the coming year, resulting in royalty flow to your Company. In addition, in recent times, there has been considerable interest in video and audio solutions such as streaming media and video conferencing. In response to such requirements your Company has started the related technology development. The solutions are targeted to be ready by the end of the third quarter next year and the last quarter should see licensing revenue from your Company's video and audio solutions. The work on IMS (IP Multimedia Services) which had been initiated last year has been completed to a stage where your Company is now ready for the market to develop.

#### **OVERSEAS OPERATIONS**

The efforts infused during the past year to revitalize your Company's Joint Venture (Encore Technologies Singapore Pte Ltd) in Singapore, have not met with success, and therefore your Company feels that it should now take steps to withdraw from that joint venture. The Wholly-Owned Subsidiary in the United States (NcoreUSA Inc) has still been kept alive in order to have a base when the market for your Company's affordable information appliances starts growing there.

#### **RISKS AND CONCERNS**

In order to leverage the potential business for the affordable information appliances during the coming year, your Company feels that new strategies will need to be worked out. These may include licensing the manufacturing and distribution to like-minded alliance partners. The licensing arrangement with MIMOS of Malaysia is a case in point. Your Company has therefore, initiated discussions with a large group with plans for all-India presence, for licensed manufacturing and distribution of your Company's affordable information appliances worldwide.



## 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, Prof. V Rajaraman, Director, retires by rotation, and is eligible for re-appointment.

The members may recall that Dr. S K Gupta had ceased to be a Director at the last Annual General Meeting. The Board of Directors in their meeting held on 29.1.2008 appointed Mr. J Suri as Director under Casual Vacancy in place of Dr. S K Gupta. Mr. J Suri is a qualified Chartered Accountant and he is also the Chairman of the Audit Committee of your Company.

## 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 on a going concern basis.

## AUDITORS

Messrs Ishwar & Gopal, Chartered Accountants, the retiring Auditors of the Company hold office until the conclusion of the forthcoming Annual General Meeting and are eligible 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.

## 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.

For and on behalf of the Board

**Vinay L Deshpande**  
Chairman & CEO

Place: Bangalore  
Date: July 29, 2008

## 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. 21.43 Million as against Rs. 27.45 Million in the previous year.

Total Foreign Exchange Outgo during the year amounted to Rs. 2.64 Million as against Rs. 7.43 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

- Quarterly results of your Company are published regularly in The Financial Express and Sanjevani (English and Kannada, respectively).
- The quarterly results and the shareholding pattern are displayed on the Company's website: [www.ncoretech.com](http://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 Chairmanship 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	01
				Nil	Nil	Nil
ii) Independent & Non executive Directors	Jagannathan Suri	2	50	01	00	1
	Prof. V Rajaraman			Nil	Nil	1
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. Five Board meetings were held between April 1, 2007 and March 31, 2008 on the following dates: May 9, 2007; June 29, 2007; July 6, 2007; October 26, 2007 and January 29, 2008.

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

- 15<sup>th</sup> Annual General Meeting held at 4.00 pm on September 27, 2007, at Hotel Ajantha, M G. Road, Bangalore- 560 001.
- 14<sup>th</sup> Annual General Meeting held at 3.30 pm on September 29, 2006, at Hotel Ajantha, M.G. Road, Bangalore- 560 001.
- 13<sup>th</sup> 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 15 <sup>th</sup> AGM held (Yes/No)
Vinay L Deshpande Chhanda	5	5	NIL	Yes
Deshpande	5	5	NIL	Yes
Jagannathan Suri**	5	1	NIL	---
Prof. V Rajaraman	5	5	NIL	Yes
Dr. S. K. Gupta*	5	3	NIL	NO

\* The members may recall that Dr. SK Gupta ceased to be a Director at the last Annual General Meeting.

\*\* The members may note that Mr. Jagannathan Suri got appointed on 29.1.2008 by the Board of Directors.

**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 one Non-Executive independent Director 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.
2. Overseeing the Company's financial reporting and public disclosure processes to ensure that financial statements are correct, sufficient, and credible.
3. Recommending the appointment and termination of services of external and internal auditors, making recommendations on fee levels and determining the fees payable for any other services.
4. Reviewing the efficacy of the internal control mechanism and the risk management policies of the Company, including the scope and structure of the internal audit function.

The members of the Committee are senior professionals in the fields of finance, engineering, and administration with significant business expertise. Auditors are invitees to the Meetings hereof.

The Committee met five times during the financial year 2007-2008: on May 9, 2007; June 29, 2007; July 6, 2007; October 26, 2007; and January 29, 2008. Attendance details are set out below:



Members	No. of meetings	No. of meetings attended in person	No. of meetings participated through teleconference/ video conference
Jagannathan Suri*	5	1	NIL
Prof. V Rajaraman	5	5	NIL

\*Mr Jagannathan Suri was inducted into the Board on 29.1.2008.

The Audit Committee invites such additional persons including the Auditors, as may be desired necessary from time to time, to its meetings.

## 12. COMPENSATION COMMITTEE

The Compensation Committee comprises two Non-Executive Directors, including its Chairman, and another Independent Director.

The Committee performs the following key functions:

- 1 Periodically reviewing the compensation and benefits for Executive Directors and senior management.
- 2 Reviewing the Employee Stock Option Plan of the Company and related issues.

The primary objective of the Committee is to attract and retain the best talent and to ensure continuous generation of enthusiasm and motivation in them.

## 13. SHAREHOLDERS' GRIEVANCES COMMITTEE

The Committee comprises of one Non-Executive Independent Director and Executive Director, who belongs to the Promoter Group.

The Committee reviews the redressal of demat issues and grievances such as transfer of shares, non-receipt of shares, non-receipt of Annual Reports and the like.

The Committee met five times during the financial year 2007-2008, from 1st April 2007 to 31st March 2008, on the following dates: May 9, 2007; June 29, 2007; July 06, 2007; October 26, 2007; January 29, 2008. Attendance details are given below:

Members	No. of meetings	No. of meetings attended in person	No. of meetings participated through teleconference/ video conference
Jagannathan Suri*	5	1	NIL
Prof. V Rajaraman	5	5	NIL

\*Mr Jagannathan Suri was inducted into the Board on 29.1.2008.

## 14. GENERAL SHAREHOLDER INFORMATION:

### a. Sixteenth Annual General Meeting:

Date	Time	Venue
September 19, 2008	4.00PM	Hotel Ajanta M.G. Road Bangalore

### b. Financial Calendar:

Financial Year	-	April 2007 to March 2008
First Quarter Results	-	In July 2007
Half Yearly Results	-	In October 2007
Third Quarter Results	-	In January 2008
Results for the year ended 31st March 2008	-	By fourth week of June 2008
Book Closure Date	-	19 <sup>th</sup> September 2008
Scrip Code	-	531750
Stock Exchange	-	The Bombay Stock Exchange Ltd, Mumbai

International Securities Identification Number (ISIN) for National Securities Depository Limited (NSDL) and Central Depositories Services (India) Limited (CDSL):

**INE- INE103B01012**

### c. Share Transfer System.

All the transfers received are processed and approved by the Shareholders Grievance Committee at its meeting or by circular resolutions.