



Encore Software

NINETEENTH ANNUAL REPORT
2010-2011

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. M P Vasuki	Vice President

AUDITORS

Messrs Ishwar & Gopal
Chartered Accountants

BANKERS

Syndicate Bank, Shoolay Branch, Bangalore 560 025

REGISTERED OFFICE

6th Floor, Leo Complex,
#44 & 45, Residency (Cross) Road
Bangalore 560 025
Ph: 080-4080 8080
Fax :080-25587690

USA OFFICE

20590 Shade Oak Lane
Cupertino, CA 95014
USA

SHARE TRANSFER AGENT

Integrated Enterprises (India) Limited
30, Ramana Residency, 4th Cross
Sampige Road, Malleswaram
Bangalore 560 003
Phone: 23460815-818
Fax: 23460819

NOTICE

NOTICE is hereby given that the 19th Annual General Meeting of the members of the Company will be held at 3.30 p.m. on Tuesday, 30th Day of August, 2011 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, 2011, 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 Mr. Jagannathan Suri, who retires by rotation, and is eligible for reappointment.
3. To appoint auditors and authorize the Board to fix their remuneration.

SPECIAL BUSINESS:

4. To consider, and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT subject to all the applicable provisions of the Companies Act, 1956, read with Schedule XIII of the said Act and subject to the approval of the Central Government, approval be and is hereby accorded for the re-appointment of Mr. Vinay L Deshpande, as Chairman & CEO for a period of three years with effect from July 24, 2011, on the following terms and conditions:

- | | | |
|---------------|---|---|
| 1. Salary | : | Rs 2, 50,000/- per month |
| 2. Commission | : | Not exceeding 1% of net profit, subject to overall limits of managerial remuneration under the Companies Act, 1956. |

FURTHER RESOLVED THAT the Board be and is hereby vested with the powers to vary the terms and conditions as per Schedule XIII to the Companies Act, 1956 or the terms and conditions which may be imposed by the Central Government while granting approval for the appointment.

MINIMUM REMUNERATION:

In the event of absence or inadequacy of profits in any financial year during the currency of tenure of the appointment, the entire applicable remuneration by way of salary and perquisites mentioned above shall be paid as minimum remuneration, subject to the provisions under Schedule XIII of the Companies Act, 1956.

PERQUISITES:

The following perquisites shall not be included in the computation of the ceiling on remuneration:

1. Contribution to Provident Fund, Superannuation Fund or Annuity Fund. These will be in accordance with the schemes applicable to Senior Executives of the Company from time to time and will not be included in the computation of ceiling on perquisites mentioned above to the extent they, either singly or put together are not taxable under the Income Tax Act, 1961 and as amended from time to time.
2. Gratuity: In accordance with the Rules and Regulations applicable to Senior Executives of the Company from time to time but not exceeding half month's salary for each completed year or services.
3. Encashment of Leave at the end of tenure: In accordance with the rules and regulations applicable to the Senior Executives of the Company from time to time, the monetary equivalent of such encashed leave shall not be included in the computation of the ceiling on perquisites referred to in paragraph stated above.
4. Leave Travel Concession: For appointee and his family once in a year, while on leave spent in home country, in accordance with the rules and regulations applicable to Senior Managers of the Company from time to time.
5. Children's Educational Allowance: An allowance limited to a maximum of Rs. 5000/- per month per child or actual expenses incurred, whichever is less, subject to maximum of two children.
6. Medical Reimbursement: Expenses incurred for the appointee and his family, subject to, a ceiling of one month's salary in a year or three months salary over a period of three years.
7. Provision of car for the use of Company's business, and telephone at residence, shall not be considered as perquisites. Personal long distance calls and use of car for private purpose shall be billed by the Company to the appointee."

5. To consider, and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT subject to all the applicable provisions of the Companies Act, 1956, read with Schedule XIII of the said Act and subject to approval of the Central Government, the approval be and is hereby accorded for the re-appointment of Mrs. Chhanda Deshpande as Executive Director for a period of three years with effect from July 24, 2011, on the following terms and conditions:

- | | | |
|---------------|---|---|
| 1. Salary | : | Rs.1, 50,000 per month |
| 2. Commission | : | Not exceeding 1% of net profit, subject to overall limits of managerial remuneration under the Companies Act, 1956. |

FURTHER RESOLVED THAT the Board be and is hereby vested with the powers to vary the terms and conditions as per Schedule XIII to the Companies Act, 1956 or the terms and conditions which may be imposed by the Central Government while granting approval for the appointment."

MINIMUM REMUNERATION:

In the event of absence or inadequacy of profits in any financial year during the currency of tenure of the appointment, the entire applicable remuneration by way of salary and perquisites mentioned above shall be paid as minimum remuneration, subject to the provisions under Schedule XIII of the Companies Act, 1956.

PERQUISITES:

The following perquisites shall not be included in the computation of the ceiling on remuneration:

1. Contribution to Provident Fund: Superannuation Fund or Annuity Fund. These will be in accordance with the schemes applicable to Senior Executives of the Company from time to time and will not be included in the computation of ceiling on perquisites mentioned above to the extent they, either singly or put together are not taxable under the Income Tax Act, 1961 and as amended from time to time.
2. Gratuity: In accordance with the Rules and Regulations applicable to Senior Executives of the Company from time to time but not exceeding half month's salary for each completed year or services.
3. Encashment of Leave at the end of tenure: In accordance with the rules and regulations applicable to the Senior Executives of the Company from time to time, the monetary equivalent of such encashed leave shall not be included in the computation of the ceiling on perquisites referred to in paragraph stated above.
4. Leave Travel Concession: For appointee and her family once in a year, while on leave spent in home country, in accordance with the rules and regulations applicable to Senior Managers of the company from time to time.
5. Children's Educational Allowance: An allowance limited to a maximum of Rs. 5000/- per month per child or actual expenses incurred, whichever is less, subject to maximum of two children.
6. Medical Reimbursement: Expenses incurred for the appointee and her family, subject to, a ceiling of one month's salary in a year or three months salary over a period of three years.
7. Provision of car for the use of Company's business, and telephone at residence, shall not be considered as perquisites. Personal long distance calls and use of car for private purpose shall be billed by the Company to the appointee."

Date: 28.07.2011
Place: Bangalore

By order of the Board

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 30th August, 2011.
3. The listing fee has been paid to the Bombay Stock Exchange where the Company's share are listed.
4. 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., Integrated Enterprises (India) Limited, Unit: Encore software Limited, 30, Ramana Residency, Ground Floor, 4th Cross, Sampige Road, Malleswaram, Bangalore – 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.
5. Members are requested to bring their copies of the Annual Report to the Meeting.
6. Pursuant to SEBI notification No. MED / DOP / Circular / 05/2009 dated May 20, 2009, it has become mandatory for the transferee(s) to furnish copy of PAN card to the Company / RTA to enable / effect transfer of Shares in physical form.
7. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of Item nos. 4 and 5 is annexed hereto;

By order of the Board

Date: 28.07.2011
Place: Bangalore

Vinay L. Deshpande
Chairman & CEO

INFORMATION REQUIRED TO BE FURNISHED UNDER THE LISTING AGREEMENT:

As required under the Listing Agreement the particulars of Directors who is proposed to be re-appointed are given below:

1. Name	:	Mr. Jagannathan Suri
Age	:	57 years
Qualification	:	Chartered Accountant
Expertise	:	32 Years
Other Directorships	:	Suri Consultants Pvt Ltd Bizworth India Pvt Ltd East West Hotels Ltd Golden Kitchens Pvt Ltd Pearl Insulations Pvt Ltd Pearl Metal Products Bangalore Pvt Ltd Von Roll India Ltdl
Membership in Committees	:	Nil

Attendance record of Mr. J Suri, Director seeking re-appointment (01.04.2010-31.03.2011)

Name of the Director	No. of Meetings held	No. of Meetings attended
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Mr. J Suri	4	4
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EXPLANATORY STATEMENT
(Pursuant to Section 173(2) of the Companies Act, 1956)

Item No. 4 :

The tenure of Mr. Vinay L Deshpande as Chairman and Chief Executive Officer of the Company ended on 23.7.2011. The Remuneration Committee of your Company considered various factors and recommended to the Board, the re-appointment of Mr. Vinay L Deshpande as Chairman and Chief Executive Officer, from 24.07.2011 to 23.7.2014.

The Board of Directors of the Company at their meeting held on 07.05.2011 re-appointed Mr. Vinay L Deshpande as Chairman and Chief Executive Officer from 24.07.2011 to 23.7.2014 subject to requisite approvals in the next Annual General Meeting and by the Government of India. The Board decided to maintain the current terms and conditions of appointment with remuneration remaining unaltered.

Some of the critical factors considered by the Board in fixing the terms are as follows:

1. Educational background and experience of the appointee
2. Expertise of the appointee
3. Long association with the Company as Promoters
4. Despite slowdown, slide in the IT segment, contribution in ensuring survival and bringing in growth opportunities
5. Relentless R & D efforts infusion leading to creation of high technology new IT Products having varied applications
6. Industry norms of compensation

Mr. Vinay L Deshpande, 64, is a BE (Electronics and Communication) from Osmania University, Hyderabad and MSSE (Digital Systems) from Stanford University, USA.

He was the Co-founder and Managing Director (Technical) of PSI Data Systems Limited, Bangalore, India.

Over the past 38 years of doing business in India, he has had overall responsibility for development of over many hardware and software products ranging from PCs, notebooks (including the world's smallest and lightest multimedia notebook), handheld devices, CNC, SCADA, Compilers, PC-BIOS, PCMCIA, DSP Software, Video set-up boxes and several embedded products.

The many important positions he has held, include Member, R & D Working Group, Prime Minister's Information Technology Task Force, 1998; President, Manufacturer's Association for Information Technology (2000-2002); and Chairman, Karnataka State Council, CII, 2003-2004.

The recipient of several awards, he has been named by the World Economic Forum as one of the 100 Technology Pioneers in the World, for being engaged in the most innovative technology areas in 2001 and 2002.

He is the winner of the First Dewang Mehta Award for Innovation in Information Technology, instituted by the Ministry of Communications and Information Technology, in April 2002.

In October 2004, he received the Sir M Visweshwariah State Senior Scientist Award for the year 2003, instituted by the Government of Karnataka.

The Appointee shall be entitled to reimbursement of all actual expenses including entertainment and travel incurred in the course of business of the Company.

He will not be paid any sitting fees for attending meetings of the Board or Committees thereof.

The appointment as aforesaid may be terminated by either party giving to the other, three calendar months notice in writing.

The appointment shall be subject to approval of shareholders in General Meeting.

MEMORANDUM OF CONCERN OR INTEREST

Apart from Mr. Vinay L Deshpande himself, Mrs. Chhanda Deshpande, Executive Director, being a 'relative' of Mr. Vinay L Deshpande, may be deemed to be concerned/interested in the resolution.

Item Nos. 5:

The tenure of Mrs. Chhanda Deshpande as Executive Director of the Company ended on 23.7.2011. The Remuneration Committee of your Company considered various factors and recommended to the Board, the re-appointment of Mrs. Chhanda Deshpande, for a period of 3 years, with effect from 24.7.2011, on certain terms and conditions.

The Board of Directors of the Company at their meeting held on 07.05.2011, re-appointed Mrs. Chhanda Deshpande as Executive Director of the Company for a period of 3 years from 24.7.2011 to 23.7.2014, subject to requisite approvals next Annual General Meeting and by the Government of India. The Board of Directors decided to maintain the current terms and conditions of appointment, with remuneration remaining unaltered.

Some of the critical factors considered by the Board in fixing the terms are as follows:

1. Educational background and experience of the appointee.
2. Long association with the Company as Promoters.
3. Capabilities on Administration.
4. Industry norms of compensation.

Mrs. Chhanda Deshpande, aged 63 years, is a Post Graduate in Economics from Nagpur University.

The remuneration detailed below, payable to Mrs. Chhanda Deshpande, is within the ceiling specified under Schedule XIII of the Companies Act, 1956.

In terms of Section 302 of the Companies Act, 1956, an abstract of the terms of appointment as well as Memorandum of concern/ interest of the concerned Director as circulated among the members is set out as follows:

The Executive Director shall be entitled to reimbursement of all actual expenses including entertainment and travel incurred in the course of business of the Company.

She will not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof.

The appointment as aforesaid may be terminated by either party giving to the other, three calendar months notice in writing.

Commission, if any, shall be paid in accordance with the provisions of the Companies Act, 1956, and in the manner prescribed thereunder.

The appointment shall be subject to approval of the shareholders in the General Meeting.

MEMORANDUM OF CONCERN OR INTEREST

Apart from Mrs. Chhanda Deshpande herself, Mr. Vinay L Deshpande, Chairman & CEO, being a 'relative' of Mrs. Chhanda Deshpande, may be deemed to be concerned/interested in the resolution.

By order of the Board

Date: 28.07.2011
Place: Bangalore

Vinay L Deshpande
Chairman & CEO

DIRECTORS' REPORT

Your Directors are pleased to present the Eighteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2011.

FINANCIAL RESULTS

(Rs. In Million)

Particulars	Year ended March 31, 2011	Year ended March 31, 2010
Operating Income	34.99	33.56
Gross Profit/(Loss) after Interest ,but before depreciation and tax	(24.12)	6.80
Less: Depreciation	1.63	1.53
Provision for Tax	Nil	Nil
Profit/(Loss) after Tax	(25.75)	5.27
Transfer to Reserve	Nil	NIL

OPERATIONS

Your company's agreement for Licensed Manufacturing and Distribution reached last year with DSK Digital Technologies Pvt Ltd., Pune, has unfortunately not been able to produce any substantial revenue yet. However, we are still strongly positioned in the Brazil project, giving your Company strong hopes of turning out a better performance during 2011-2012

INDUSTRY OUTLOOK

The demand for affordable computing devices for Education continues to grow rapidly worldwide, vindicating your Company's faith in this segment. Further, nationalized banks in India have been asked to aggressively pursue rural and doorstep banking, which should help expand the demand for mobile computing products such as your Company's *Mobilis*. Additionally, the outcry against large-scale pilfering in the public distribution schemes and national schemes such as the Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGS) and the National Rural Health Mission (NRHM), are bound to result in a large demand for such mobile computing products. The initiation of issuance of Unique Identification numbers by Aadhar to citizens, is also widely expected to result in many applications of the UID, consequently further expanding the demand for products such as *Mobilis*

MOBILE COMPUTING PRODUCTS

While your Company continues to be strongly placed in the *One-Computer-per-Student* project of the Ministry of Education, Government of Brazil, the change of government at the national level in Brazil in January, 2011, has resulted in a further delay in placement of purchase orders during this year. Your Company has utilized the interval to identify an appropriate Joint Venture partner to work with us to take this project forward. The Joint Venture may definitely expect the purchase orders from the Brazilian Government to be released during the next fiscal.

Even though there have been no significant revenues yet from our agreement with DSK Digital Technologies, customer field trials have been successfully completed in the Financial Inclusion segment, with two major banks deploying our *Mobilis* in rural banking. Consequently, the domestic India market appears to be warming up to the potential of the *Mobilis*. This should help your Company recover from the rather poor results during the year under review. Additionally, the eGovernance and Enterprise sectors in India still continue to hold promise for our affordable information appliances and will help us get additional revenues during the next fiscal

SATHI

Despite the fact that the Company has not received further orders for the SATHI during this period, your Company remains hopeful of orders from the Army, because of the fact that there has been some effort from the authorities during the past year, leading to interaction with the Company for future procurement of the SATHI.

NASDO

Your Company's custom-developed products (Client Interface Platform -CIP, Air Publication Network Interface — APNI, and Air Publication Reader Tablet – APRT) for NASDO (Naval Aircraft Servicing and Development Organization), for their Aircraft Publication System project, as all are aware, have been enlisted as "single-vendor items" by the Navy. During the year under review, the Company has responded to a request for quote, and further orders will be ensuing during the next financial year.

TECHNOLOGY SOLUTIONS

The Technology Solutions Group continued to support customers with Voice- and Fax-related components and integrated solutions. Towards the end of the year, one of Company's licencees began mass production of their product based on the Company's technology, which should result in decent royalty revenues for the next couple of years. The forthcoming year will see the Group continue its focus on the two-pronged approach of software licences and system integration services based on our IP. It is also planning to significantly increase the manpower resources to cater to the increase in demand for our system integration services.

OVERSEAS OPERATIONS

Ncore USA, the wholly-owned subsidiary in the United States, continues to be kept alive in order to have a base when the market for

your Company's affordable information appliances starts growing there

The investment made in the subsidiary is fully provided for under provision for diminution in the value of investments. Since the subsidiary has no assets or liabilities and has also not carried out any operations during the year under review, Consolidated Accounts have not been prepared.

RISKS AND CONCERNS

Aside from usual ups and downs of any business, the Company does not foresee any special risks or concerns for the coming year

CORPORATE GOVERNANCE

Being constantly committed to good Corporate Governance, your Company continues to follow 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, Mr. J. Suri, Director, who retires by rotation, and being eligible, offer himself for re-appointment

AUDIT COMMITTEE

Audit Committee constituted by the Board of Directors with requisite composition to fall in line with the prevailing laws continued to discharge its functions during the year under report.

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. Your 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

Place: Bangalore
Date: July 28, 2011

Vinay L Deshpande
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 up-gradation 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. 22.52, Millions as against Rs. 16.02 Millions in the previous year.
Total Foreign Exchange Outgo during the year amounted to Rs. 0.84 Millions as against Rs. 1.63 Millions in the previous year.