

PCS

TECHNOLOGY

PCS TECHNOLOGY LIMITED

(Formerly Known as PCS Industries Limited)

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**TWENTY FOURTH
ANNUAL REPORT
2004-2005**

PCS
TECHNOLOGY
PCS TECHNOLOGY LIMITED

BOARD OF DIRECTORS

Mr. G. K. Patni	Joint Managing Director
Mr. A. K. Patni	Joint Managing Director
Mr. D. B. Engineer	Director
Mr. Satish Ajmera	Director
Mr. P. V. Mehta	Director
Mr. G. M. Dave	Director
Mr. K. K. Barjatya	Director
Mr. N. K. Patni	Director
Mr. Amit Kumar Patni	Director
Mr. M. Y. Kulkarni	Director
Mr. H. C. Tandon	Whole-time Director
Mr. B. N. Agrawal	Whole-time Director

ASSISTANT COMPANY SECRETARY

Mr. C. D. Sakaria

AUDITORS

S. C. Bandi & Co.
Chartered Accountants, Mumbai

BANKERS

Canara Bank
Indian Bank
The United Western Bank Limited
Dena Bank
Standard Chartered Bank
Bharat Overseas Bank Limited
Union Bank of India
Central Bank of India

REGISTERED OFFICE

Plot No. 148/151, Alandi Markaal Road,
Village Dhanore, Alandi,
Dist. Pune - 412106

PLANT LOCATIONS

Plant No.1: Plot No. 148/151
Alandi Markaal Road, Village Dhanore,
Alandi, Dist. Pune - 412 106.

Plant No.2: Plot No. 110/1/111, Himalaya Ind. Estate,
Village Amli, Silvassa 396 230

Plant No.3: 44/45, Mapusa Industrial Estate,
Mapusa, Goa 403 507.

REGISTRAR & SHARE TRANSFER AGENT

M/s. Bigshare Services Pvt. Ltd.
E-2/3, Ansa Industrial Estate,
Saki Vihar Road, Saki Naka,
Andheri (E), Mumbai - 400 072.
Tel.: 2847 3474/0652/0653/3747/5693 6291
Fax: 022-2847 5207

24TH ANNUAL GENERAL MEETING

Day, Date & Time	:	Saturday, 10th December, 2005 at 12.00 Noon.
Venue	:	Plot No. 148/151, Alandi Markaal Road, Village Dhanore, Alandi, Dist. Pune - 412106.

MEMBERS ARE REQUESTED TO BRING THEIR COPY OF THE ANNUAL REPORT ALONG WITH THEM AT THE ANNUAL GENERAL MEETING

PCS TECHNOLOGY LIMITED

NOTICE TO MEMBERS

NOTICE is hereby given that the Twenty Fourth Annual General Meeting of the members of PCS Technology Limited will be held at the Registered Office of the Company at 148/151, Alandi Markaal Road, Village Dhanore, Alandi, Dist. Pune 412 106, on Saturday the 10th day of December, 2005 at 12.00 noon to transact the following business:

ORDINARY BUSINESS:

1. To receive, approve and adopt the Directors' Report and Audited Profit and Loss Account for the year ended 31st March 2005 and the Balance Sheet as at that date, together with Auditors' Report thereon.
2. To appoint a Director in place of Mr. D. B. Engineer, who retires by rotation, and is eligible for reappointment.
3. To appoint a Director in place of Mr. Amit Kumar Patni, who retires by rotation, and is eligible for reappointment.
4. To appoint a Director in place of Mr. M. Y. Kulkarni, who retires by rotation, and is eligible for reappointment.
5. To appoint the Auditors and to fix their remuneration.

By Order of the Board

C. D. Sakaria
Asst. Company Secretary

Mumbai, October 29, 2005

Registered Office:

148/151, Alandi Markaal Road,
Village Dhanore,
Alandi, Dist. Pune 412 106

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 A PROXY NEED NOT BE A MEMBER OF THE COMPANY.** Proxies, in order to be effective, must be lodged at the registered office of the company not less than forty-eight hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from November 21, 2005 to December 10, 2005 (both days inclusive).
3. Members are requested to notify immediately any change of address to their Depository Participants (DPs) in respect of their electronic share accounts and if the shares are held in Physical Form to the Office of M/s. Bigshare Services Private Limited, Registrar and Transfer Agents of the Company situated at E-2/3, Ansa Industrial Estate, Saki Vihar Road, Saki Naka, Andheri (East), Mumbai 400 072.
4. The amount of unclaimed dividend for the financial year 1997-98 has already been transferred to the Investor Education & Protection Fund in accordance with Section 205A of the Companies Act, 1956. Please note that as per Section 205C of the Companies Act, 1956 no claims shall lie against the Fund or the Company in respect of Individual amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims. The Members who have not encashed the dividend warrant(s) for the financial year 1998-99 are requested to make their claims to the Company.

5. Information pursuant to Clause 49 (VI)(A) of the Listing Agreement for Re-appointment of Directors:

<i>Name of the Director</i>	<i>Date of Birth</i>	<i>Date of Appointment</i>	<i>Directorships in other companies incorporated in India</i>	<i>Chairman/Member of Other Committees of Companies</i>
Mr. D. B. Engineer	02.05.1933	29.09.1995	<p>Tata Tea Limited</p> <p>Tata Infotech Limited Zuari Industries Limited</p> <p>Atlas Copco Ltd.</p> <p>Forbes Gokak Limited Bayer Diagnostics India Limited Forvol International Services Limited Fiora Services Limited Foods & Inns Limited National Peroxide Limited Nilkamal Plastics Limited Prudential ICICI Asset Management Company Limited India Tyre & Rubber Co. (I) Ltd. Welspun India Limited</p>	<p>Member & Chairman of Shareholders'/Investors' Grievance Committee</p> <p>Member of Remuneration Committee</p> <p>Member of Audit Committee</p> <p>Chairman & Member of Audit Committee</p> <p>Member of Shareholders'/ Investors' Grievance Committee and Share Transfer Committee</p> <p>Chairman and Member of Shareholders'/Investors' Grievance Committee</p> <p>Member of Audit Committee</p> <p>Member of Remuneration Committee</p> <p>Member of Audit Committee</p> <p>Member of Audit Committee</p>
Mr. M. Y. Kulkarni	10.06.1957	29.03.2001	Nil	
Mr. Amit Kumar Patni	28.03.1966	28.04.1986	PCS International Limited	

PCS TECHNOLOGY LIMITED

DIRECTORS' REPORT

To,

The Members,

PCS TECHNOLOGY LIMITED

Your Directors have the pleasure in presenting their Twenty Fourth Annual Report together with Audited Accounts for the year ended 31st March 2005.

FINANCIAL RESULTS

Particulars	Year Ended 31.03.2005 (Rs. in lacs)	Year Ended 31.03.2004 (Rs. in lacs)
Gross Revenue	33970	29778
Gross Profit/(Loss)	779	519
Depreciation	275	288
Profit for the year from Operations	504	230
Bad Debts, Remission & Exceptional Items	265	69
Provisions for Taxation (Net)	(83)	40
Profit/(Loss) for the year	322	122
Net Surplus available for Appropriation	788	466
Balance Carried to Balance Sheet	788	466

YEAR UNDER REVIEW

Computer Division of the Company has achieved turnover of Rs. 329 crores as against Rs. 290 crores during the corresponding period in the previous year showing growth of 14%. The additional production facilities set up at Mapusa, Goa is fully operational during the year. Production activities at the Copper Clad Laminate Division at Pune remain suspended during the year under review.

A fire has occurred in stores Department at our Production Unit at Silvassa in May 2004 and destroyed the Raw Materials. The loss of stocks is fully covered by Insurance Policy and the Company has lodged a claim with the Insurance Company and awaiting for settlement of the Insurance claim.

SOFTWARE & IT SERVICES AND NEW INITIATIVES

The Company has developed and launched new web based application software for the courier industry. This application software provides tracing and logistics support to small and medium sized courier, freight handling and logistics companies. The market response has been encouraging.

Your Company has commenced building a team for providing software services and consultancy in the software security domain.

During the year under review your Company has invested in PCS Technology Inc., USA, a Company incorporated in USA which is 100% subsidiary of the Company.

DIVIDEND

In order to conserve the resources of the Company, your Directors express their inability to recommend any dividend for the financial year ended 31st March 2005.

FINANCE

During the year under review the Company has restructured its debts. As a result of restructuring, there has been substantial decrease in borrowing cost. The interest rates and bank charges on the working capital facilities from Consortium Banks have been renegotiated downwards.

A NEW NAME

The members of the Company has approved the change in name from PCS Industries Limited to PCS Technology Limited at Twenty-third Annual General Meeting held on 30th September 2004. The Registrar of Companies, Maharashtra, Pune has also accorded its consent for change of name in the Company from PCS Industries Limited to PCS Technology Limited with effect from 25th October 2004.

DIRECTORS

As per Article 135 of the Articles of Association of the Company, Mr. D. B. Engineer, Mr. Amit Kumar Patni and Mr. M. Y. Kulkarni retire by rotation and being eligible for appointment, offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to sub-section (2AA) of Section 217 of the Companies Act, 1956, the Board of Directors of the Company hereby confirm that:

1. In the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. Appropriate accounting policies have been selected and applied consistently and have made judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the company as at 31st March, 2005 and of the profit/loss of the company for the said period;
3. Proper and sufficient care has been taken 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;
4. Annual Accounts have been prepared on a going concern basis.

SCHEME OF ARRANGEMENT AND REDUCTION OF SECURITIES PREMIUM AND AMALGAMATION RESERVE ACCOUNT

During the year under review a Scheme of Arrangement and Reduction of Securities Premium and Amalgamation Reserve Account was filed before the Hon'ble High Court of Judicature at Bombay to set off the losses arising from Impairment/ non realisability of certain fixed assets, inventories and sundry debtors relating to the Company's Copper Clad Laminates (CCL) Division; as well as to write off deferred revenue expenses against Securities Premium Account and Amalgamation Reserve Account. The aforesaid scheme has been approved by the Hon'ble High Court vide its order dated August 5, 2005. The net effect of the Scheme as deemed necessary as at 31.3.2005 to the extent of 7.93 crores has been reflected in the Annual Accounts for the year under review. This financial restructuring will enhance long term shareholder value, reflect a true and correct picture of the financial condition of the Company as profit making Company and reflect the true and fair value of its assets and liabilities and help the Company to reflect a better operational position of the Company.

CORPORATE GOVERNANCE

A report on Corporate Governance and Management Discussion Analysis is included as a part of the Annual Report along with a Certificate from the Statutory Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the amended Listing Agreement.

DEPOSITS

Your Company has neither invited nor accepted any deposits from the public so far.

OVERSEAS SUBSIDIARY COMPANY

As required under Section 212(e) of the Companies Act, 1956 the Audited Statement of Accounts for the year ended 31st March 2005 of PCS International Limited, Mauritius and PCS Technology Inc., USA and the Report of the Board of Directors and their Auditors thereon are annexed.

AUDITORS

S. C. Bandi & Co. Chartered Accountants, Mumbai, the present Auditors of the Company retires and are eligible for re-appointment. You are requested to re-appoint auditors and fix their remuneration.

PARTICULARS OF EMPLOYEES

The Company had no employees during the year under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended.

PCS TECHNOLOGY LIMITED

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

The information required under the above heads in accordance with the provision of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, are given in Annexure 'A' to this Report.

ACKNOWLEDGEMENTS

Your Directors express their warm appreciation to all the employees at various units for their diligence and contribution. The Board of Directors place on record their appreciation for the unstinted support provided by the Bankers and Financial Institutions, Central & State Government Bodies and the role played by the Customers, Suppliers and Shareholder at all levels towards the growth and development of the Company.

On behalf of the Board of Directors

A. K. Patni
Chairman

Mumbai, October 29, 2005

ANNEXURE "A" TO THE DIRECTORS' REPORT

Particulars required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rule, 1988.

(A) Conservation of Energy

The Computer Assembly Division of the Company uses only electricity, which is very insignificant in value while considering total volume of operations. The Copper Clad Laminate Division at Pune uses in addition to electricity, Light Diesel Oil, (LDO) which is a Furnace oil for operating the boilers and High Speed Diesel Oil (HSDO) which is a fuel for generation and production of this Division, continued to remain suspended due to adverse conditions.

(B) Technology Absorption

Not applicable

(C) Foreign Exchange Earnings/Outgo

Your Company has earned foreign exchange worth Rs. 303.10 Lacs and has spent foreign exchange worth Rs. 4801.04 Lacs under the following heads :-

Particulars:	(Rs. In Lacs)
(i) Raw Material and Components	3855.85
(ii) Capital Goods	—
(iii) Royalty and Other Expenses	945.19
	<u>4801.04</u>

On behalf of the Board of Directors

A. K. Patni
Chairman

Mumbai, October 29, 2005

TWENTY FOURTH ANNUAL REPORT 2004-2005

MANAGEMENT DISCUSSION AND ANALYSIS



Industry Scenario and Review

During the year under review the Industry has witnessed a substantial growth in the Desktop PC market. With the buoyancy in demand for PC's in 2004-05 and sound macroeconomic condition the industry has positioned itself to comfortably cross the four million mark in PC sales during the current financial year.

The PC sales continued its upward trend in the fiscal year 2004-05 which also witnessed increased market share of branded PC giving a dent in the share of assembled PC's or the grey market.

The increase in demand and sliding prices has ensured top line growth for the Company in the competitive IT Hardware industry. Fierce competition and blatant undercutting has put severe pressure on the margins and bottom lines of all the Hardware Companies. Diversified IT Companies with multiple business verticals are the ones who have survived the bottom line crunch.

A recent study on the buying and usage patterns showed the following trends: -

The buoyancy in PC sales can be attributed to:

- Increased consumption by traditional industry verticals such as Telecom, Banking & Financial Services, Insurance, IT enabled Services and the manufacturing and Government sector. Demand also picked up in sectors like education, retails outlets and self-employed professionals.
- Strong replacement demand
- Penetration in smaller town and cities
- Substantial drop in Desktop PC's and Notebook prices.

Performance & Review

In keeping with its vision to be a leading IT Solutions provider, the Company has adopted a new name i.e. PCS TECHNOLOGY LIMITED and a new logo.

Computer Division

The Company has achieved better performance over the previous year in its core business area of manufacturing and marketing of Personal Computers, Servers and Notebooks. During the year under review your Company recorded a sales turnover of Rs. 330.00 crore inclusive of taxes which shows and increase of 14 % over last year. The Company continued to ship out higher number of Personal Computers, Servers and Notebooks as compared to the last year. Strong business verticals such as Banking and Financial Institution, Insurance, Education and Private Corporates have fuelled the growth of the Company in 2004-05. The other key contributors to the growth have been the Government segment through Rate Contracts with DGS&D, Maharashtra Government and other State Governments and the household segment. The IT Services division has continued its good performance to contribute effectively to the top line growth of the Company

The IT Services Division has continued to perform impressively to register a growth of 40% over last year through renewal of existing Maintenance Contracts.

In addition to the PCS brand of Personal Computers, the Server business also saw an encouraging growth in 2004 -05 and the ratio of generic servers to MNC servers was also reversed.

The Company has also stepped up its network presence and has positioned it self as the second largest Service Network of the country with over 165+ direct service location, 600+ Channel Network 100+ exclusive retail outlets. The Service division also achieved ISO 14001 certification.

Manufacturing Operations

The Company expanded it manufacturing facility in Goa apart from the existing and mainline facility at Silvassa to meet the growth in PC demand. The Company also has started an EOU-Export Oriented Unit to fulfill export orders through the subsidiary companies to overseas clients.

PCS TECHNOLOGY LIMITED

Progress Report from - New Verticals

In an effort to shore up margins your company had diversified into new areas of business namely:

(a) Internet Security Consulting

Your Company had diversified into newer business of internet security consulting, offering IT Security services, security implementation certification programs and Network Audits. The Company has successfully completed many BS 15000 Certification programs for various blue chip companies as also bagged a prestigious order.

(b) ASP Software Solutions for Courier Industry

Track your pack .com - the software solutions to the courier Industry through a ASP model has been a runaway success in the first year of implementation. The company has already bagged contract with a prominent courier and logistics companies.

(c) Enterprise Business Focus

The Enterprise Solutions team through its strategic tie-up with HP, Symantec, SGI saw some handsome gains and implemented mega turnkey projects.

New diversifications

(a) Software Acquisition – PCS Info desk

The company as a part of its acquisition plan has acquired business at Bangalore. The new entity is now named as PCS Infodek Positioning System Pvt Ltd (PIPS). The company would offer locational intelligence and tracking solutions based of GIS, GPS, GPRS and GSM technologies. The company has a well-established and existing customer base. With this acquisition PIPS would be a formidable player in the GIS, GPS solutions space.

(b) Software Services and Solutions

Your company has diversified into the software space and currently offers :

a) Software Products

b) Software Solutions

Under the Solutions space the company offers :

- 1) The company would be offering client server solutions and enterprise wide integrated application solutions
- 2) Corporate/ Enterprise wide websites, portals and web based applications.

Under the Product offering the company offers :

- 1) Health care vertical – PCS Pro Doc (Hospital Management solutions)
- 2) Laboratory Vertical – PCS Lab T (Laboratory Management solutions)
- 3) Business Productivity Suite
 - PCS Cash Control–(Cash flow Management solution)
 - PCS SalesMAN–(Sales Force Management solution)
- 4) Help Desk Vertical – PCS Helpdesk – A Call Management solution.

PCS Technology Inc., USA

You company has commenced operations in US to focus on offering offshore project development mainly in the GIS/ GPS and Courier Segment and onsite consulting for staffing requirements.

Government Policy

On the whole the government policies have been in the recent years benevolent towards the Computer Hardware industry. The last year's interim budget exempting excise duty has benefited the industry tremendously. But also it had created an inverted structure. This budget in February has cleared the inverted structure and also by imposing additional CVD, the government has safeguarded domestic manufacturer like your company ensuring a year of sustained growth for branded players.

Branded Indian Players like your company are now in a position to counter the 48% + assembled market and gain market share, by offering quality branded PC's at attractive price points.

Company's Strengths and Opportunities

PCS Technology Limited today is a multi-activity, multi-operational organization in the global computer hardware business space. Over the years the Company has established the recognized and respected "PCS" brand in the computer hardware business ranging from high-end servers to networking products, desktops and notebooks, support services for hardware & soft ware, network security solutions and integrated IT services. A new logo and an aggressive branding and advertising campaign has ensured increased awareness and brand loyalty towards PCS.

The Company's state-of-the-art computer manufacturing facilities at Silvassa and Mpusa, Goa are the backbone of its current operations. The company through its capability to handle multi-point locations across the country has an advantage over its close competitors.

The company is repositioning itself from a pure Hardware player to complete IT solutions and services Company. This new IT Solutions and Services vision complemented with the new verticals, acquisitions and diversifications will ensure the transformation into an IT Solutions giant and also ensure healthy bottom line for the company. The Company is confident of achieving high end growth in the IT enabled services sector in future.

Threats Risks & Concerns

In order to expand the market the Company has increased its spending on publicity which is putting pressures on the margins of the Company. The rampant undercutting among the domestic manufactures has also added to the pressure on the bottom line of the company. Aggressive marketing and low pricing by the MNC players are also thinning down the margins.

Future Outlook

The Company has adapted well with the changing market scenario, consumer demand and preferences. Your Company looks forward to consolidate its position in the core business as well as entering in a big way into the new business of providing Software Solutions and Products and also becoming a formidable player in the GIS, GPS solutions space. The Core business areas would continue to fuel the growth, while the new verticals would establish the company in the solutions space and position the company as a complete solutions provider from Hardware to Services to Consulting to software. This spread of Product and Service portfolio would ensure better coverage of markets, consolidation of margins and ensure steady growth.

Also rapid expansion to new geographies with the "India Outsource" advantage would ensure organic growth for the Company as also sow the seeds for the global expansion and reach.

Budgetary Control

The Company has sound budgeting system in force. The budgets are prepared and variations in the actual and budgeted performance are reviewed periodically.

Internal Control and Adequacy

Commensurate with its size and operations, your company has adequate internal control systems, which are in place. The Company has undertaken implementation of SAP to enhance productivity and internal control.

Financial Review

During the year under review the Sales & Other Income of the Company was Rs. 339.70 crores as compared to Rs. 297.78 crores in the previous year, showing a rise of 14.08%. The net profit after tax also shot up to Rs. 3.22 crores from Rs. 1.22 crores during the previous year, an increase of 163.93%.

Human Resources

Employee relations continued to be satisfactory. Your Directors acknowledge and thank employees for their continued contribution. The staff strength at the end of fiscal year was approx. 1900 plus adding nearly 600 employees from the last year's base.

Cautionary Statement

Statement in this Management Discussions and Analysis describing company's objective and predictions may be "forward looking statement" within the meaning of applicable laws and regulations. Actual results may differ from those expressed herein. Important factors that could make difference to the operations include Government regulations, tax structures, country's economic development, availability of input and their prices and other incidental factors.