

being there...

ZEN TECHNOLOGIES LIMITED



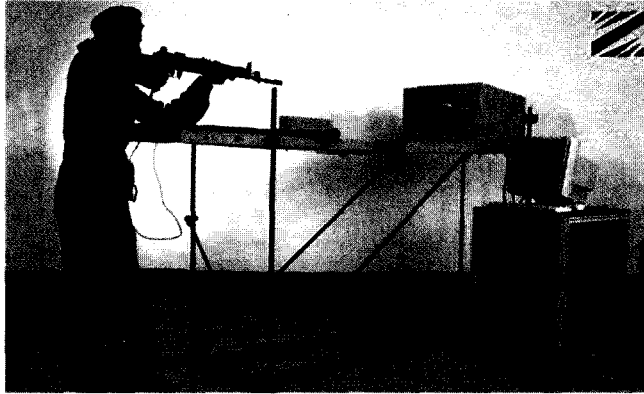
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**ELEVENTH
Annual Report
2003-2004**

ZEN TECHNOLOGIES LIMITED

Regd. Office : 40, Radha Swamy Colony, Sikh Road, Secunderabad-500 009, India

ZEN SMALL ARMS TRAINING SIMULATOR (ZEN-SATS)



ZEN Small Arms Training Simulator (ZEN SATS) - Product Brief

The ZEN SATS has been designed to develop the firing skills of Security Forces enabling cost effective training of recruits and trained soldiers. Users can practice on a variety of small arms including AK-47, 3030 rifle, 7.62mm rifle, 9mm pistol, carbine, LMG and revolver. ZEN SATS Allows the user to choose any firing position i.e. standing, kneeling or lying down. Instructors can correct the mistakes of the trainees on-line. ZEN SATS was the first commercially available PC based simulator in the country and has been installed in various police training institutes and paramilitary organizations.

ZEN ANTI TANK GUIDED MISSILE SIMULATOR (ZEN ATGM)



ZEN KONKURS ATGM SIMULATOR

ZEN Anti Tank Guided Missile Simulator (ZEN ATGM) - Product Brief

The ZEN-BDL Konkurs ATGM Simulator is a state of the art indoor and outdoor simulator to train raw recruits and transform them into skilled missile pilots. The simulator enables the instructor to track the performance of the trainees in real time and configure the training scenario. This helps train gunners in selecting, prioritizing, tracking and engaging different types of static and moving targets. The system allows the instructor to customize scenarios for basic and tactical situations. The system design is modular for easy maintainability and upgradeability. The system can optionally be configured to train personnel in the "Mobile Training Units", where it can be taken to remote areas and fielded for training.

BOARD OF DIRECTORS**CHAIRMAN & MANAGING DIRECTOR**

Ashok Atluri

WHOLE-TIME DIRECTOR

M. Ravi Kumar

DIRECTORS

Satish Atluri

D. V. Rajendra

Y. Venkat Rao (upto 31-12-2003)

D. Satish Babu (from 02-02-2004)

COMPANY SECRETARY

Bhavani. Ch

BANKERS

Indian Bank

Global Trust Bank Limited

Corporation Bank

AUDITORS

Prayaga & Co.,

Chartered Accountants

5-2-392/5, Hyderbasti

R.P. Road, Secunderabad - 500 003

REGISTERED OFFICE

40, Radha Swamy Colony, Sikh Road

Secunderabad - 500 009

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Email id: info@zentechnologies.com

Website: www.zentechnologies.com

LISTINGThe Hyderabad Stock Exchange Limited
Hyderabad**DEPOSITORY REGISTRAR &
SHARE TRANSFER AGENTS**

Ikon Visions Private Limited

33, Sanali Heavens, 8-3-948

Ameerpet, Hyderabad - 500 073

Phone #: +91 40 23744138, 23744356

Fax #: +91 40 55829559

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**NOTICE**

NOTICE is hereby given that the Eleventh Annual General Meeting of the members of Zen Technologies Limited will be held on Thursday, 30 September 2004, 10.00. a.m., at Gayatri Gardens, 26 Part, Near Diamond Point, Sikh Road, Secunderabad 500 009, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as on 31st March, 2004, the Profit and Loss Account for the year ended on that date together with the Schedules, the Auditors' Report and the Report of Directors' thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. Satish Atluri, Director who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Prayaga & Co, Chartered Accountants, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Board to fix their remuneration

SPECIAL BUSINESS:

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

"RESOLVED THAT pursuant to the provisions of Section 257 and all other applicable provisions if any, of the Companies Act, 1956 Mr. D. Satish Babu, who was appointed as an Additional Director in the Board Meeting held on 27th January, 2004 as per Section 260 of the Companies Act, 1956 and who ceases to be a director on the commencement of 11th Annual General Meeting, be and is hereby appointed as a Director of the Company whose office is liable to retire by rotation."

for and on behalf of the Board of Directors

Place: Secunderabad

Date : 11 June 2004

Ashok Atluri
Managing Director

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE THEREAT INSTEAD OF HIMSELF/HERSELF. A PROXY NEED NOT BE A MEMBER.**
2. An instrument appointing proxy to be effective must be lodged at the Registered Office of the Company at least 48 hours before the meeting.
3. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed herewith.
4. Pursuant to Section 154 of the Companies Act, 1956, the Share Transfer Books and the Register of Members of the Company will be closed from Tuesday, 28 September 2004, to Thursday, 30 September 2004 (both days inclusive).
5. Shareholders / proxies should bring duly filled attendance slips sent herewith along with the copies of Annual Reports to attend the Annual General Meeting.
6. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
7. Members who hold shares in dematerialized form are requested to write their Client ID and DP ID numbers and those who hold shares in Physical Form are requested to write their Folio No. in the attendance slip for attending the meeting.
8. Members holding shares in physical form are requested to notify / send any change in their address to the Company's Share Transfer Agents or to the Company at its Registered Office.



9. a) The Company has already notified closure of Register of Members and Transfer Books thereof for the purpose of determining the names of members eligible for dividend, if approved, on equity shares. The members whose name are appearing in the Register of Member as on 28 September 2004 are eligible to receive dividend. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
- b) The dividend on Equity Shares, if declared at the Annual General Meeting, will be paid on or after 3rd October, 2004.

Members who wish to claim dividend, which remain unclaimed, are requested to either correspond with the Company's Registrar and Share Transfer Agent (Ikon Visions Pvt. Ltd) or the Company at its Registered Office. Members are requested to note that dividends not encashed or claimed within seven years from the date they become due for payment as per Section 205A of the Companies Act, 1956, shall be transferred to the Investor Education and Protection Fund.

10. Payment of Dividend through Electronic Clearing Service (ECS)

The Securities Exchange Board of India (SEBI) has advised the Companies to mandatorily use ECS facility wherever available for distributing dividends or other cash benefits etc., to the investors. This facility provides instant credit of dividend amount to your Bank Account electronically at no extra cost. ECS also eliminates the delay in postal transit and fraudulent encashment of warrants. Only individual transactions upto Rs. 5,00,000/- would be covered under the Scheme.

Under this facility the amount of dividend payable to you would be directly credited to your bank account. Your bank's branch will credit your account and indicate the credit entry as 'ECS' in your pass book/statement account. We would be issuing an advice to you directly after the transaction is effected.

In case you wish to have your dividends paid through ECS and are holding the Company's shares in electronic form, you may kindly fill in the enclosed ECS mandate Form and submit it to your Depository Participant. However, in case you are holding the company shares in physical form and wish to have your future dividends paid through ECS, you may kindly return the said ECS mandate form duly completed and signed by you at our registered office mentioned elsewhere in this report.

If you do not wish to opt for ECS facility, we strongly recommend that you provide the details of your Bank's Name, Branch, type of Account and Account Number to your depository participant, in cases where shares are held in electronic form, and to us in cases where shares are held in physical form, for printing the same on the dividend warrants which will be dispatched to you. In the event of any change or correction in the details that might have been provided by you earlier, kindly send revised particulars to your depository participants or to us as the case may be at an early date.

We request the shareholders to kindly submit the ECS / Bank details latest by 25th September 2004 to enable us to include the same for the payment of the current year's dividend.

11. Brief particulars of directors seeking appointment / reappointment

- a) **Mr. Satish Atluri** is a post-graduate in Computer Science from A & T State University, North Carolina. He has about 7 years of experience in Information Technology industry in USA. He worked in SAS Institute as developer (1993-94), Automated Analysis Corporation as Project Manager (1994-95), object design as senior consultant (1996-97), Mercury Interactive Corp., USA, a leading consultant for global companies as a senior consultant. He has been the director of the Company since 20 November 1999.
- b) **Mr. D. Satish Babu** is aged 33 years and is pursuing the PhD programme in Business and Industrial Anthropology from Wayne State University, Detroit. He has over 5 years of experience in SAP R/3 SD and LIS (Logistics Information System) /SIS in USA. He was associated with the Companies like Auto Industry Action Group (AIAG), Michigan and Siemens Energy and Automation.

EXPLANATORY STATEMENT

[Pursuant to Section 173 (2) of the Companies Act, 1956]

Item # 5: Appointment of Mr. D. Satish Babu as a Director of the Company

Mr. D. Satish Babu was appointed as an additional director w. e. f. 2 February 2004 in the Board meeting held on 27 January 2004. He shall cease to be a director of the Company on the commencement of 11th Annual General Meeting by virtue of Section 260 of the Companies Act, 1956. The Company has received a notice in writing from one of the members proposing his candidature to the office of director along with a deposit of Rs. 500. As per Section 257 of the Companies Act, 1956 the appointment of a person other than a retiring director requires the approval of members of the Company. Hence, the Board recommends the above resolution.

None of the directors except Mr. D. Satish Babu is concerned or interested in the above resolution.

for and on behalf of the Board of Directors

Place: Secunderabad

Date : 11 June 2004

Ashok Atluri
Managing Director



DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 11th Annual Report of your Company together with the audited Balance Sheet, Profit & Loss Account and Cash Flow Statement for the financial year ended 31 March 2004.

FINANCIAL HIGHLIGHTS

The financial highlights of the Company in the Financial Year 2003-04 as compared to the previous year are as follows:

Particulars	(Rs.in Lakhs)	
	2003-2004	2002-2003
Total Income	1282.19	697.14
Total Expenditure	574.50	396.70
Operating Profit (PBIDT)	707.69	300.44
Interest	13.41	4.46
Depreciation	7.69	4.79
Profit before tax	686.59	291.19
Provision for Tax	155.20	23.16
Deferred Tax Liability	21.27	97.72
Profit after Tax	510.13	170.31
Appropriations:		
Proposed Dividend	57.23	38.15
Dividend Tax	7.33	4.89
Surplus carried to Balance Sheet	445.57	127.27
EPS (Rs.)	6.69	2.23

FINANCIAL PERFORMANCE

Your Company was able to sustain the growth momentum that was started last year. Your Company has crossed the Rs.100 million mark in revenues. The Company has achieved a total revenue of Rs. 1282.19 lakhs compared to the previous year revenue of Rs. 697.14 lakhs - a growth of 84%. Net Profit after tax is Rs. 510.13 lakhs as against Rs. 170.31 lakhs for the previous year registering a growth of 200 %. In line with the profit, the Earnings Per Share (EPS) has also increased to Rs.6.69, which is 3 times of the previous year's EPS of Rs. 2.23. The growth rate is mainly attributable to the full fledged acceptance of our newly launched product interactive Firearms Training Simulator (Zen iFATS). The product has been very well received domestically and is now poised for foray into international markets.

OPERATIONS

Year 2004 is the second robust year of earnings for the Company. Your Company is successfully enhancing its customer base and building efficient sales and delivery channels. The work for development of new products is going in the right direction.

During the year, there were a number of visits to our office by senior officers who were quite impressed at the amount of innovation that your Company is doing and were keen to do business with the Company.

CORPORATE CULTURE- MAKING IT EFFECTIVE

Your Company has initiated some changes directed towards a better organizational culture-changes that ensure that there are no leaks in the collection process; that the work so collected is processed and the results of the processing are organized appropriately. At all times there is a complete inventory of outstanding work for each and every employee and a moment-to-moment effective choice is made to ensure that work gets done in order of their priority. These changes, based on David Allen's *Getting Things Done*, have laid a strong foundation for organizational effectiveness.

HUMAN RESOURCE MANAGEMENT

The people make the Company. With this in mind, your Company has created a working environment where everyone has a voice and feels very much a part of the Company. The Company has policies which encourage innovation and

reward those taking risks. We actively solicit suggestions from the employees and after discussion, incorporate those which are acceptable. Fortnightly suggestion meeting is a forum where the employees are encouraged to speak without the fear of being victimized.

FUTURE PLANS

The Company has been participating in various exhibitions and was encouraged by the response your products generated in the international market. Subsequent to the participation in exhibitions, your Company is in discussions with a few Governments, directly or through local representatives, to sell our simulators. Your Company expects that some of these enquiries will result in orders in the next two years.

Your Company will be launching new products in the next year and it is expected that a majority of the revenue in the years to come shall be from these new products. The new products that your Company will be commercializing next year include the Driving Training Simulator (DTS) and the Anti-Tank Guided Missile Simulator (ATGM Simulator).

Your Company is planning to enter the solutions space next year. This will enable us to offer customized solutions to end-users designed around our products. In this regard, your Company also plans to combine forces with Indian/foreign companies and bid jointly where the strengths are complementary and meet the requirements of the end-user. The customers are becoming more sophisticated and demanding and asking for comprehensive solutions and that presents a wonderful opportunity for your Company.

What the new customer desires is not just ready made training products but a training program that the organization will support through the life-cycle of the product. What they are looking at are not product pushers, but trusted advisors and strategic partners who will be with them for the long haul. This kind of program realizes the uninterrupted training needs of the customer and simultaneously creates revenue opportunities for your Company. Your Company is fully geared to take advantage of this opportunity.

The process of partnering internationally, started in the year under review with strong international Companies, will gain momentum in the next few years. Your Company feels this is the best approach to gain footholds abroad and do business within Countries. Our experience has taught us that trying to break into foreign markets without any introduction/help will be difficult if not impossible. Taking forward the cue, we will be appointing dealers in strategic regions with strong presence and track record in dealing with the customers.

DIVIDEND

Your Directors are pleased to recommend a final dividend of 7.5% per Equity Share of the Company for the financial year ended 31 March 2004. The total amount of dividend is Rs. 57.23 lakhs (excluding dividend tax of Rs. 7.33 lakhs)

No amount has been transferred to reserves and there are no transactions or material changes and commitments effecting the financial position of the Company after the end of the Balance Sheet.

FIXED DEPOSITS

The Company has not accepted any fixed deposit, therefore the provisions of Section 58A of the Companies Act, 1956, and the rules made thereunder are not applicable to the Company.

DIRECTORS

Mr. Satish Atluri will retire by rotation at the Eleventh Annual General Meeting and being eligible offers himself for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- i) In the preparation of the annual accounts for the year ended 31 March 2004, the applicable accounting standards have been followed and there are no material departures.
- ii) We have selected appropriate accounting policies and applied them consistently and have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the financial year ended 31 March 2004.
- iii) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv) We have prepared the annual accounts for the year ended 31 March 2004, on a going concern basis.

**AUDIT COMMITTEE**

The Board of Directors of the Company has constituted an Audit Committee comprising three non-executive Directors, viz Mr. D.V. Rajendra, Mr. Satish Atluri and Mr. D. Satish Babu.

CORPORATE GOVERNANCE

Your Company has been practicing the principles of sound corporate governance over the years. The Board of Directors supports the broad principles of Corporate Governance. In addition to the basic governance issues, the board lays strong emphasis on transparency, accountability and integrity.

A report on Corporate Governance and Management Discussion and Analysis along with a certificate from the Auditor with regard to the compliances of Corporate Governance as per Clause 49 of the Listing Agreement with the Hyderabad Stock Exchange is annexed to this report.

AUDITORS

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

EMPLOYEE PARTICULARS

There are no employees in receipt of remuneration exceeding the limits prescribed under Section 217 (2A) of the Companies Act, 1956 and hence no information is furnished.

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

The same is given as an Annexure-I enclosed to this report and forms part of the report.

ACKNOWLEDGEMENTS

Your Directors express their gratitude for the consistent co-operation received from the Company's customers, Bharat Dynamics Limited, Suppliers, Dealers, Banks, Financial Institutions, Department of Scientific and Industrial Research, Government Authorities and Shareholders during the financial year under review. Your Directors wish to place their deep sense of appreciation for the committed services of all the Employees of the Company.

for and on behalf of the Board of Directors

Place: Secunderabad

Date: 11 June 2004

Ashok Atluri

Chairman & Managing Director

Annexure - I**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO**

A. Conservation of Energy: The Company does not use energy-intensive equipment for its operations. However, due to significant awareness imbibed by the employees who are very averse to wastage of power the consumption is one of the lowest per employee. The computers, air-conditioners, and other equipment being used by the Company are energy efficient.

B. Technology Absorption:

i. Research and Development (R & D): One of the key strengths of your Company is the innate ability to innovate and realize state of the art products. One thing that is deeply embedded in your Company's DNA is the ability to develop and deliver new products with challenging features in an impossible time frame.

a. Specific areas in which R & D carried out by the Company

It was a challenging year for your Company as we had to battle against odds to develop new technologies. The Company had tight deadlines and tighter budgets under which it had to develop world class solutions for its customers.

In the year under review, your Company has developed a motion platform for Driving Training Simulator (DTS). A trainee can be initiated into driving training simulator without the motion platform but the effectiveness of the simulator is limited. The reason for limited benefits is that only the visuals are effected as the person is 'driving' without any effect on the driver. To amplify further, suppose a person takes the vehicle into a ditch only the

visual shows that the person has driven into a ditch, however there is no physical action on the driver's cabin that proves that the person has fallen in the ditch. With the motion platform, the experience becomes very real as the whole cabin is lifted in correct angles to give a feeling of the actual vehicle.

In collaboration with a partner Company, we have also developed an Anti-tank Guided Missile simulator (ATGM simulator). This simulator has helped us in developing competencies which will be helpful in adapting this technology to other missiles. We feel that the market for this technology is very big.

b. Benefits derived as a result of the R & D

Due to the R&D activities mentioned above we have realized 2 products viz., Driving Training Simulator and ATGM Simulator – products which have great potential. In the years to come, we expect these products to be significant generators of revenue. We expect some of the sub-systems (like motion platform) to have their own markets – we could be OEM suppliers for this sub-system to other manufacturers. In fact, we also see significant opportunities for motion platform in entertainment industry, as it can be incorporated for various simulated joyrides.

c. Future plan of action

Your Company plans to invest significant amount of the revenues in the years to come to keep the technological edge that it enjoys now. The price to be on the forefront of technology is always high, but the alternative is to be left out. Because technological innovation is a road less traveled the risk/reward ratio is high. And we will be taking well calculated risks.

d. Expenditure on R & D

The Company has incurred Rs. 79.12 lakhs as R & D expenditure for the financial year 2003-04 for the development of Tactical Engagement Simulator, Driving Training Simulator, ISATS upgradation and Anti Tank Guided Missile Simulator and the same is 6.17% of total turnover. The entire expenditure on R & D is a capital expenditure.

ii) Efforts made towards Technology absorption, adoption and innovation

1	Efforts, in brief, made towards technology absorption, adoption and innovation.	Company has indigenously developed significant technologies that are useful in various products. As such, since there has been no transfer of technology to the Company from outside sources, there is no question of absorption of such technologies. As to the technology harnessed within the Company, we have incorporated them into various products as outlined above.
2	Benefits derived as a result of the above efforts e.g., product improvement, cost reduction.	The motion platform developed by your Company enhances the realism in training. To illustrate the point, a trainee can be initiated into driving training simulator without the motion platform but the effectiveness of the simulator is limited. The reason for limited benefits is that only the visuals are effected as the person is 'driving' without any effect on the driver. To amplify further, suppose a person takes the vehicle into a ditch only the visual shows that the person has driven into a ditch, however there is no physical action on the driver's cabin that proves that the person has fallen in the ditch. With the motion platform, the experience becomes very real as the whole cabin is lifted in correct angles to give a feeling of the actual vehicle.
3	Information about Technology imported	NA

C. Foreign Exchange Earnings and Outgo:

Particulars	(Rs. in lakhs)	
	2003-04	2002-03
Earned during the year	Nil	Nil
Used during the year	109.07	42.59