

Contech



Translating ideas into
Solutions

Annual Report 1999-2000



Vision

To be globally identified as a quality conscious source for innovative software and telecom solutions; and perpetually align technology towards the individual priorities of each customer.

Rajan Vasa
Managing Director

Contech Software, after a decade of operations, launched itself as a 'Strategic Software Solution Provider' for the global market place. With a focussed zeal, Contech has been absorbing and adopting the latest technologies to provide software solutions to its customer in India and abroad. Contech, with its team of highly motivated professionals, has been identified as a potential development partner by various international and domestic companies.

The build-up and sustenance of goodwill is an uphill task. Yet, in the past decade Contech has built relationships that have been maintained over the years. Satisfied customers in high-technology projects have culminated in a very strong track record. Thanks to the well-qualified people and the knowledge base of Contech's highly motivated team, a matured software development process has evolved over the past few years.

With very keen attention to the development of Human Resources, a very high standard of Quality has been built at Contech. Constant upgradation of knowledge and skills with continuous education have given Contech a very strong platform for the future. With the modern infrastructure, matured quality processes, proven track record and motivated team members, Contech is already on the journey to become a Proud Indian Global Company. Proud - through the commitment and competence, Indian - through the value system and Global- through the quality approach.

CONTECH SOFTWARE LIMITED

BOARD OF DIRECTORS	Rajan Kalyanbhai Vasa	<i>Managing Director</i>
	Dr. Kalyanbhai L. Vasa	<i>Director</i>
	Subhash Chandra Bhatnagar	<i>Director</i>

AUDITORS	Hemant R. Vora & Co. <i>Chartered Accountants</i> Ahmedabad
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BANKERS	Bank of Baroda Sector-21, Gandhinagar
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REGISTERED OFFICE & FACTORY	E/3/1, 2 & 3 GIDC Electronics Estate, Gandhinagar - 382 044, Gujarat, INDIA.
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NOTICE

NOTICE IS HEREBY GIVEN THAT the Seventeenth Annual General Meeting of CONTECH SOFTWARE LIMITED will be held at E/3/1, 2 & 3 GIDC Electronics Estate, Gandhinagar - 382 044 (Gujarat) on 23rd September, 2000 at 11.00 A.M. to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider, approve and adopt the Audited Balance Sheet as at 31st March, 2000, Profit and Loss Account for the year ended on that date and the Auditor's and Director's Report thereon.
2. To note payment of Dividend on shares.
3. To appoint a Director in place of Shri Kalyanbhai Vasa who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and if thought fit to pass the following resolution with or without modification as ordinary resolution:

"RESOLVED THAT Shri Subhash Chandra Bhatnagar who was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 and holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act 1956, in writing, proposing his candidature for the office of director, be and is hereby appointed as a Director of the Company subject to retirement by rotation under the Articles of Association of the Company"

6. To Consider and if thought fit, to pass with or without modification/s, the following resolution as a Special Resolution:-

RESOLVED THAT pursuant to the provisions of Section 81 and all other applicable provisions, if any of the Companies Act 1956, the relevant Articles of the Articles of Association of the Company and the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 ("the Guidelines") (including any statutory modification(s) or re-enactment of the Act or the Guidelines for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee including ESOP Compensation Committee which the Board may constitute to exercise its powers, including the powers, conferred by this resolution), consent of the company be and is hereby accorded to the Board to create, offer, issue and allot at any time to or to the benefit of such person(s) who are in permanent employment of the Company, including any Directors of the Company, whether whole time or otherwise under a scheme titled "Employee Stock Option Plan" (hereinafter referred to as the "ESOP" or "Scheme" or "Plan") such number of equity shares and/or equity linked instruments (including options), equity shares issued through American Depository Receipts ("ADR") and/or Global Depository Receipts ("GDR") if any, and/or any other instruments or securities ("hereinafter collectively referred to as Securities") of the Company which could give rise to issue of equity shares not exceeding 5% of the issued Equity Share Capital as on the date of the notice convening this annual general meeting, at such price, in one or more tranches, and on such terms and conditions as may be fixed or determined by the Board in accordance with the guidelines or other provisions of the law or guidelines issued by the relevant Authority or as may be prevailing at that time.

RESOLVED FURTHER THAT the said securities may be allotted directly to such employees / directors or in accordance with a scheme framed in that behalf through a trust which may be set up by the Board of Directors in any permissible manner and that scheme may also envisage for providing any financial assistance to the trust to enable the employee / trust to acquire purchase or subscribe to the securities of the Company .

RESOLVED FURTHER THAT the new Equity Shares to be issued and allotted by the Company in the manner aforesaid shall rank pari passu, in all respects with the then existing Equity Shares of the Company.

RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue allotment or listing of the securities the Compensation Committee of the Board be and is hereby authorized on behalf of the company to evolve, decide upon and bring in to effect the scheme and make modifications, changes, variations, alterations or revisions in the said scheme from time to time as may be specified by any Board Resolution or with the permission of the Board as the Board may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the members of the Company.

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

RESOLVED THAT pursuant to the provisions of Section 81 and all other applicable provisions, if any of the Companies Act 1956, the relevant Articles of the Articles of Association of the Company and the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 ("the Guidelines") (including any statutory modification(s) or re-enactment of the Act or the Guidelines for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee including ESOP Compensation Committee which the Board may constitute to exercise its powers, including the powers, conferred by this resolution), consent of the company be and is hereby accorded to the Board to extend the benefits of Employee Stock Option Plan proposed in the resolution under Item No. 6 in this notice to the eligible employees/ directors of the holding/subsidiary companies , and or to such other persons , as may from time to time be allowed under prevailing laws, rules and regulations , and or amendments thereto from time to time , on such terms and conditions as may be decided by the Board.

RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue allotment or listing of the securities the Compensation Committee of the Board be and is hereby authorized on behalf of the company to evolve, decide upon and bring in to effect the scheme and make modifications, changes, variations, alterations or revisions in the said scheme from time to time as may be specified by any Board Resolution or with the permission of the Board as the Board may in its absolute discretion deem fit or necessary or desirable for such purpose and for such purpose and with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the members of the Company.

For and on behalf of the Board of Directors

Place : Gandhinagar
Date : June 29, 2000

Rajan Vasa
Managing Director

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NOTE:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 15th September, 2000 to 30th September, 2000 (Both days inclusive) for the purpose of Annual General Meeting.
4. Members are requested to notify the Company immediately the changes, if any, in the address in full with the postal area, pin code number, quoting their folio numbers.
5. The Board of Directors in their meeting held on 30th March, 2000 have declared payment of interim dividend of Rs.1.20 per Equity shares for the year 1999-2000. At the Board meeting held on 29th June, 2000 the Board has decided to treat the Interim Dividend as final dividend.
6. Shareholders are requested to bring their copy of the Annual report to the Meeting.

EXPLANATORY STATEMENT PURSUANT TO Sec.173(2) of the Companies Act, 1956.

Explanatory Statement

Item No. 5

Shri Subhash Chandra Bhatnagar was appointed by the Board of Directors as an Additional Director of the Company at its meeting held on 20th December, 1999. Pursuant to Sec. 260 of the Companies Act, 1956, Shri Subhash Chandra Bhatnagar will hold office as Additional Director upto the date of the ensuing Annual General Meeting. The Company has received notice in writing from a member proposing his candidature for the office of Director of the Company under the provisions of Sec. 257 of the Companies Act, 1956.

Shri Subhash Chandra Bhatnagar (Ph.D.) is an alumnus of Mayo College, Ajmer, Indian Institute of Technology, Madras (B.Tech) and Indian Institute of Management (IIM), Ahmedabad (MBA and Doctoral Programme). He has 26 years of work experience at IIM Ahmedabad. He started his career as System Analyst, IIM Ahmedabad and was involved in setting up IIMA's first computer centre. From 1975 he has been a member of the faculty of Computer and Information Systems Group IIM, Ahmedabad.

He currently holds the CMC Chair Professorship in Information Technology. He is also a member of the board of governors of IIMA. He has chaired many academics committees and was a visiting professor at various universities in India and abroad.

Your Directors recommend the resolution for your approval.

Shri Subhash Chandra Bhatnagar is deemed to be concerned or interested in the resolution as it pertains to his appointment. None of the other Directors of the Company is, in any way, concerned or interested in the said resolution.

Item No. 6

The Company heavily draws on the dedicated and committed contribution of its sincere team of employees in pursuing growth with excellence in performance. The employees of the subsidiary companies also contribute to the growth and prosperity of the group as a whole. To motivate the employees and to enable them to participate in the

long term growth and financial success of the Group, with a common objective of maximising the shareholder value, it is proposed to introduce an Employee Stock Option Plan (ESOP). The ESOP would not only enable the Company to attract and motivate employees by rewarding performance as also to retain best talents but also enable the employees to develop a sense of ownership with the Group.

With greater clarity with regard taxation of the stock options and comprehensive Guidelines for ESOP in place, it is proposed to introduce the stock option scheme for the benefit of the permanent employees and directors of the Company as well as the employees of the subsidiary companies.

ESOP Compensation Committee: The Board of Directors will constitute an ESOP Compensation Committee which will be a Committee of the Board of Directors, and will consist of a majority of independent Directors, for the administration and superintendence of ESOP.

The ESOP Compensation Committee will formulate the detailed terms and conditions of the ESOP.

The ESOP Compensation Committee will, specify ,inter alia, the following :

- Quantum of options to be granted to an employee and in aggregate.
- Conditions under which options vested in employees may lapse.
- Time period within which an employee may exercise vested options in the event of termination or resignation.
- Rights of an employee to exercise all vested options at one time or at various points of time within the exercise period.
- Procedure for making a fair and reasonable adjustment to the number of options and to the exercise period, in case of rights issues, bonus issues, other corporate actions, or otherwise.
- Lock in period for the shares issued pursuant to exercise of options.
- Any other related or incidental matter.

The following is the explanatory statement which sets out various disclosures as required by clause 6 of the Securities & Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 (hereinafter referred to as ESOP Guidelines).

The Salient features of the ESOP are as follows:-

1. **Features of the Scheme:** Two types of ESOP schemes viz; Growth Options and Regular Options are proposed. The eligibility for Growth options and/or Regular Options will be decided solely by the ESOP Compensation Committee.
2. **Total number of options to be granted :** The total number of options that may, in aggregate, be issued under the Scheme will be 5% of the issued equity share capital of the Company as on the date of notice convening this Annual General Meeting i.e. 5% of 55,18,200 equity shares.
3. **Identification of classes of employees entitled to participate in the ESOP :** Persons who are "employees" of the company including Directors whether in employment or not, as defined in ESOP Guidelines (including any statutory modification(s) or re-enactment of the Act or Guidelines, for the time being in force) and as may be decided by the ESOP Compensation Committee, from time to time.

Employees may be granted Stock Option based on performance and such other criteria as the ESOP Compensation Committee in its absolute discretion decide.

The options granted to an employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any manner.

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4. Requirements of vesting and period of vesting : Vesting of options may commence after a period of one year from the date of grant, and may extend upto five years from the date of grant. The vesting may occur in tranches, subject to the terms and conditions of vesting, as may be stipulated by the ESOP Compensation Committee, in its discretion.
5. Exercise Price or Pricing formula: The exercise price for the purpose of the grant of growth options will be computed at a discount of 25% to the average of the weekly high and low closing market price of the shares of the company for the 26 weeks, preceding the week in which growth options are granted, and will be Rs. 25 for the Regular options or such other price as the ESOP Compensation Committee may in its absolute discretion decide.
6. Exercise Period and the process of Exercise: The Exercise period may commence from the date of vesting, and will expire not later than two years from the date of vesting of options, or such other time period as may be decided by the ESOP Compensation Committee, from time to time.

The options will be exercisable by the Employees by a written application to the Company to exercise the options in such manner, and on execution of such documents, as may be prescribed by the ESOP Compensation Committee from time to time.

The options will lapse if not exercised within the specified exercise period.

7. Appraisal Process for determining the eligibility of the employees to ESOP : The appraisal process for determining the eligibility of the employee will be specified by the ESOP Compensation Committee, and will be based on criteria such as seniority of employee, length of service, performance record, merit of the employee, future potential contribution by the employee and/or such other criteria that may be determined by the ESOP Compensation Committee at its sole discretion.
8. Maximum number of options to be issued per employee and in aggregate : The maximum number of options granted per employee will not exceed 1% of the issued and outstanding equity shares of the Company as on the date of notice convening this Annual General Meeting .
9. Disclosure and Accounting Policies : The Company shall comply with the disclosure and the accounting policies prescribed by SEBI and other concerned Authorities.

As the Scheme provides for issue of shares to be offered to persons other than existing shareholders of the company, consent of the members is sought pursuant to Section 81(1A) and all other applicable provisions, if any, of the Act and as per clause 6 of the Guidelines.

None of the Directors of the Company are, in any way, concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the scheme.

Item No. 7

As per the SEBI guidelines, a separate resolution is required to be passed if the benefits of ESOP are to be extended to employees of subsidiary or holding company. This separate Resolution is being proposed accordingly, to cover those employees, and/or such other persons as may be permitted from time to time, under prevailing laws, rules and regulations, and/or amendments thereto from time to time. This may be read with the explanatory statement for item No. 6.

None of the Directors are concerned or interested in the resolution, except to the extent of securities that may be offered to them as director of such holding/subsidiary company.

For and on behalf of the Board of Directors

Place : Gandhinagar
Date : June 29, 2000

Rajan Vasa
Managing Director

DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting the first Annual Report of the millennium to you. During the last financial year, your company has made tremendous progress to mark the beginning of the promising 21st century. The Audited Accounts for the Financial Year ended March 31st, 2000 is presented herewith to you.

FINANCIAL RESULTS

	1999-2000 (Rs.)	1998-99 (Rs.)
A] Profit before Interest, Depreciation and Taxes	2,47,84,654	1,20,27,498
B] Less : Depreciation	59,94,895	37,26,391
Interest	38,39,505	45,84,217
C] Profit before taxes	1,49,50,254	37,16,890
D] Less : Provision for taxes	---	3,75,000
	1,49,50,254	33,41,890
E] Prior Period Adjustments (net)	785	(17,73,960)
	1,49,51,039	15,67,930
F] Add : Balance brought forward from previous year	30,45,988	27,36,022
Profit available for Appropriation	1,79,97,027	43,03,952
Less: Appropriations		
- General Reserves	55,00,000	10,00,000
- Interim Dividend	21,42,955	2,32,400
- Tax on Dividend	2,35,725	25,564
	78,78,680	12,57,964
Balance carried forward to Balance Sheet	1,01,18,347	30,45,988

RESULTS OF OPERATIONS:

At stated earlier, the philosophy of "Strategic Software Solution Provider" has been promoted during the past years as a core value of Contech. During the last Financial Year, there has been a substantial rise in the software turnover of the company. At the same time, due to decreasing margins, the hardware business has been brought down to 30% of total revenue during the year. We expect the hardware revenue to drastically reduce in the coming year.

Since inception, forging ahead into the unknown markets has been a strong forte of your company. During the year, company has successfully forged several new customers relationships and consolidated further on the existing ones by enlarging the scope of services and expanding into newer technology areas. The improving performance of the company serves to reaffirm our belief in the chosen business strategy which is to stress on the offshore software development services in the niche lines of business and in refining the development process towards delivering higher value to the end client.

This approach has resulted in a healthy 32% increase (of the total revenue) in operating profits taking the figure to Rs. 247.85 lacs as compared to Rs. 120.27 lacs (17%) in the previous year. Contech's decision to entirely exit from lower margin hardware business and to concentrate on High End Software Solutions and Consultancy showed its benefits in the last financial year.

Due to your company's concentration on high technology areas such as Telecom, E-Commerce and Real Time Applications, companies from countries like the US, Israel, Italy, UK, Switzerland and Germany have decided to work with Contech on long-term basis. The strength of our business, in the ultimate analysis, lies in the supreme commitment, strong customer focus and impeccable integrity of our workforce. Further, as an organization, we continue our quest for increased transparency and openness in every transaction. This commitment is further enhanced by your company such that after successfully implementing ISO 9001 for the last two years, Contech is now working towards SEI CMM Level 3 for further maturity of its quality systems.

PUBLIC ISSUE OF EQUITY SHARES:

During the year under report, Company had made a Public Issue of 13,80,000 equity shares of Rs. 10 each at a premium of Rs. 50, aggregating to Rs. 828 lacs. The public issue was oversubscribed by 24.55 times. Your directors take these opportunities to thank the investing public for enthusiastically supporting offer.

Company finalised the basis of allotment on 6th April, 2000. The Equity Shares of the Company are listed at Ahmedabad, Hyderabad and Bangalore Stock Exchanges.

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AMALGAMATION:

As per the order of the Hon'ble High Court of Gujarat, Contech Software Private Limited was merged with your company w.e.f. 1st April, 1999. Company allotted 10,00,000 equity shares to the shareholders of Contech Software Private Limited as per the scheme of amalgamation. After the merger, name of your company was changed to "Contech Software Limited", and a fresh certificate of incorporation consequent to change of name was obtained from the Registrar of Companies, Gujarat.

SUBSIDIARY COMPANY:

A firm belief in our professionalism has lead your company to open its first wholly owned subsidiary in USA, "Contech America Inc." As you are aware, for an increase in the export revenue, being close to the customer in their country is very important. In order to increase the reach of our international marketing efforts and to develop closer customer relationships, your company plans to open more wholly owned subsidiary companies in other highly potential international markets as well.

DIRECTORS:

Shri Subhash Chandra Bhatnagar was appointed as an additional director with effect from 20th December, 1999. He holds the office until the conclusion of this Annual General Meeting and is eligible for appointment. Company has received notice under section 257 of the Companies Act, 1956 proposing his appointment as director, subject to retirement by rotation.

Shri Kalyanbhai L. Vasa retires by rotation and being eligible, offers themselves for reappointment.

HUMAN RESOURCES:

The alignment of individual goals or objectives with those of corporate goals or objectives gives the ultimate winning edge. Successful companies worldwide are aware of this reality and hence continue to strive to fulfil employees aspiration. Companies do this by taking various measures to add value to their employees personal and professional lives. At Contech, we fully understand the need of individual career development, continuous training, and policies, which enrich the experience for individuals. Your company continues to take special measures like on-line internet access to everyone, ever-expanding library of international books and magazines, flexible working hours, etc. Regular rewards, acknowledgement of achievements, informal mode of operations, regular social gatherings of all employees, are all part of the effort that Contech takes to boost the morale of its team members and to give them the feeling of belonging.

ESOP:

As mentioned in Company's offer document at the time of Initial Public Offering, company's objective is to share the growth of the company with all its employees by encouraging the ownership of equity by employees on an ongoing basis. This will enhance the commitment to the company as well as build personal wealth of its employees. Initially the company proposes to allot 5% of its paid up share capital for the ESOP scheme. The shares will be allotted to the eligible employees subject to the approval of resolution by shareholders in the Annual General Meeting as per the terms & conditions of ESOP scheme.

DIVIDEND:

During the year company has declared interim dividend of 12% on prorata basis. Your directors recommend this interim dividend to be the final dividend.

DEMAT TRADING:

As per the directives of the Securities Exchange Board of India, Company's shares would be compulsorily traded in the dematerialised form w.e.f. 24th July, 2000.

ENERGY, TECHNOLOGY, FOREIGN EXCHANGE:

Details of energy conservation and research and development activities undertaken by the Company along with the information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure "A" to the Director's Report.

PARTICULARS OF EMPLOYEES:

Information as per section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1988, is given in Annexure "B" to the Directors Report.

AUDITORS:

The auditors, Hemant R. Vora & Co. Chartered Accountants, retire at the ensuing Annual General Meeting. The Company has received letter from them confirming that their re-appointment, if made, would be within the prescribed limits under Section 224 (1-B) of the Companies Act, 1956.