

NINTH

ANNUAL

REPORT

2000-01

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Encore Software

E n c o r e S o f t w a r e L i m i t e d

**DIRECTORS**

Mr. Vinay L Deshpande *Chairman & CEO*
Mrs. Chhanda Deshpande *Executive Director*
Dr. Saibal Kanti Gupta
Prof. V Rajaraman
Dr. Christian Schwarz-Schilling

CHIEF FINANCIAL OFFICER

Mr. S Mohan

BANKERS

Syndicate Bank
Bangalore 560 025

AUDITORS

Ishwar & Gopal
Chartered Accountants

REGISTERED OFFICE

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

US OFFICE

Ncore USA, Inc.
1340 Tully Road, Suite 314
San Jose, CA-95121
USA

SHARE TRANSFER AGENTS

Alpha Systems Pvt Ltd
30, Ramana Residency, 4th Cross
Sampige Road, Malleswaram
Bangalore - 560 003
Phone: 3460815-818 Fax: 3460819

Notice

NOTICE is hereby given that 9th Annual General Meeting of the members of the Company will be held at 3.30 pm on Friday, the 28th day of September 2001 at Hotel Rama, Lavelle 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, 2001 and the Profit and Loss Account for the period ended on that date together with the Reports of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Mrs. Chhanda Deshpande, who retires by rotation and being eligible, offers herself for reappointment.
4. To appoint a Director in place of Dr. Saibal Kanti Gupta, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint auditors and authorise the Board to fix their remuneration.

By order of the Board

Bangalore
July 20, 2001

Chhanda Deshpande
Executive Director

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 be closed from **18.9.2001 to 28.9.2001 (both days inclusive)**.
3. The shares of the Company are compulsorily traded in electronic form. Members are requested to inform the Company's Registrars and Share Transfer Agents viz., Alpha Systems Pvt. Ltd., Unit: Encore Software Limited, 30, Ramana Residency, Ground Floor, 4th Cross, Sampige Road, Malleswaram, Bangalore - 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.
4. Members are requested to bring their copies of the Annual Report to the Meeting.
5. Dividend, if declared at the 9th Annual General Meeting, will be paid on or before 27th October 2001 to those members whose names appear on the register of members as on 28th September 2001.
6. The registered office of the Company has been shifted to Leo Complex 6th Floor, # 44 & 45 Residency (Cross) Road, Bangalore 560 025.

By order of the Board

Bangalore
July 20, 2001

Chhanda Deshpande
Executive Director

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

Directors' Report



Your Directors are pleased to present the 9th Annual Report of the Company together with the Audited Statement of Accounts for the 9 months period ended March 31, 2001.

Financial results

(Rs. In Million)

Particulars	Year ended March 31, 2001	Year ended June 30, 2000
Operating Income	88.13	90.83
Gross Profit after Interest But Before Depreciation and Tax	21.15	44.90
Less: Depreciation	5.12	47.11
Provision for tax	0.00	3.00
Profit after Tax	16.03	37.19

Review of operations

The performance of your Company during the period under review has been similar to that of last year in spite of the industry slowdown. The PAT for the year is lower at 18% compared to 41% for the previous year mainly due to increase in manpower and investments in development. Though your Company has not lost any significant orders to competitors, the postponement of projects by clients has significantly affected the expected growth. Barring unforeseen circumstances, the Directors expect to achieve the budgeted targets for the current year.

New projects and products

Despite a considerable slow-down in the US markets and the aftermath of the dot.coms, the Company has made considerable progress in licensing several of its technologies to prestigious OEM clients worldwide. Some new clients that have been added during this year include FoneFriend Systems (US), InnoMedia Technologies (India), OKI Electric (Japan), SiliconMedia (Japan) and Unidux (Japan). Oki Electric (Japan) was once again a repeat customer.

Once again, DSP based Modem and Speech Coding technologies have been the primary revenue earners during this period. During this year, the

Company ported its H.323 compliant protocol stack to a settop box which is being developed for the Indian market. The Company's Media Gateway Control Protocol (MGCP), whose development was started in the latter part of the last financial year, is in an advanced stage of testing and is, in fact, due for delivery to a large Japanese client shortly.

The Company participated in several trade exhibitions as part of its continuing efforts to increase the Company's visibility and to stay abreast of technology and market developments. The first such conference was "4th Embedded Systems Expo & Conference" in Tokyo and the next was "Voice on Net - Fall 2000" in Atlanta, USA. This was followed by "Communications Design Conference" in October 2000. Finally, the Company was included in a delegation of the Indo-German Chamber of Commerce to CeBit-2001 in March 2001.

These trade shows are an important meeting-place for DSP suppliers and embedded system designers and enable the Company's engineering personnel to benchmark the Company's products against competition as well as to gauge current trends in the marketplace.

The convergence between DSP and Embedded Systems, as well as the convergence of Telecommunications and Computers, continues to drive the Company's vision for the future. Internal DSP capabilities will be deployed in the integration of voice and data services, and expertise in Embedded Systems is being focused towards solutions for mobile computing and Internet appliances.

Towards that end, and to move up the value chain, the Company proposes to start a new Group whose charter will be to focus on products in the mobile computing and Internet appliances space. Residential Gateways, VoIP Gateways and products derived from the Simputer platform and related customization services are expected to lead to additional revenue streams. Tracking solutions for the Logistics Industry are also likely to be included in this initiative. The objective of the Products Group will be to create Reference Designs of complete products that can then be licensed to OEMs for

manufacture. The Company believes that developing full products is a natural evolution and logical progression in the value-chain of intellectual property creation.

Overseas subsidiaries

As part of globalisation of the business activity, your Company has invested in a 100% subsidiary under the name and style of "Ncore USA, Inc" in USA. A very senior Marketing professional heads the US operations and the Company expects good contribution from this market during the year.

Future growth & expansion plans

Your Company plans to invest in new technologies and to enter into Joint Ventures in the areas of its expertise. Some of the discussions with the prospects are under way and decisions in these areas are likely to be taken very shortly.

Corporate Governance

Your Company believes that good Corporate Governance Practices enable the Board to direct and control the affairs of the Company in an efficient manner to achieve its ultimate goal of investor satisfaction and protection.

The Company has evolved a Corporate Philosophy Statement as given below and it will be your Company's constant endeavour to live up to the same :

"THE ORGANIZATION SHALL CONTINUOUSLY STRIVE TO TAKE PROACTIVE MEASURES TO ESTABLISH THE HIGHEST STANDARDS OF INTEGRITY AND TRANSPARENCY IN ITS DEALINGS TO ENSURE CONFORMANCE WITH LEGAL, ETHICAL AND PERFORMANCE STANDARDS, TO BECOME SOCIALLY SENSITIVE AND RESPONSIVE TOWARDS ENHANCEMENT OF THE BEST BALANCED INTEREST OF STAKEHOLDERS AND SHAREHOLDERS".

Particulars of employees

As per the information required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees)

Rules 1975 as amended, the particulars of employees are set out in Annexure 'A' which forms an integral part of this Report.

Directors

Mr. Ashwin Vora and Prof. V U Reddy have ceased to be Directors. Your Directors record their appreciation for the services rendered by them during their tenures as Directors.

In accordance with the provisions of the Companies Act, 1956, and the Company's Articles of Association, Mrs. Chhanda Deshpande and Dr. S K Gupta, Directors, retire by rotation, and being eligible, offer themselves for re-appointment.

Auditors

Messrs Ishwar & Gopal, Chartered Accountants, the retiring Auditors of the Company, who hold office until conclusion of the forthcoming Annual General Meeting, being eligible, offer themselves for re-appointment. The Company has received a certificate from them that their re-appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956.

Conservation of energy, technology absorption, foreign exchange earnings and outgo

The particulars as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars of Board of Directors) Rules, 1988, are set out in Annexure 'B' and form an integral part of this Report.

Acknowledgements

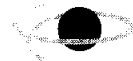
The Board expresses its gratitude to the Company's customers, vendors, bankers and employees and other acquaintances for their continued support.

Appreciation is placed on record for the confidence reposed by the shareholders.

For and on behalf of the Board

Bangalore
May 4, 2001

Vinay L Deshpande
Chairman & CEO



ANNEXURE "A" TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st MARCH, 2001

Name	Designation	Remuneration Rs.	Qualifications	Experience Years	Date of Joining	Age	Last Employment
Mr. Vinay L Deshpande	Chairman & CEO	11,25,000	MSEE	30	19.07.1999	53	Ncore Technology Pvt.Ltd
Mr. Mark Mathias	Vice President - Hardware Development	14,55,671	MSCE	22	01.07.2000	45	Ncore Technology Pvt.Ltd
Mr. Shashank Garg	Vice President - Product Development	11,52,572	ME	22	01.07.2000	49	Ncore Technology Pvt.Ltd
Mr. M P Vasuki	Vice President - Technology	13,74,034	B.Tech	18	31.12.1999	41	Ncore Technology Pvt.Ltd

ANNEXURE "B" 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, Research and 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.

Research and Development continues to be given very high priority in Software Technology in the area of telecommunications.

C. Foreign Exchange Earnings & Outgo

Total Foreign Exchange Earnings during the year was Rs. 743.78 Lakhs as against Rs. 217.27 Lakhs in the previous year.

Total Foreign Exchange Outgo during the year amounted to Rs. 70.08 Lakhs as against Rs. 70.00 Lakhs in the previous year.

For and on behalf of the Board

Place: Bangalore
Date: May 4, 2001

Vinay L Deshpande
Chairman & CEO

Auditors' Report

We have audited the attached Balance Sheet of Encore Software Limited as at 31st March, 2001 and the annexed Profit and Loss Account for the period ended on that date and report that in accordance with the provisions of Companies Act, 1956:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit ;
2. In our opinion, proper books of accounts as required by Law have been kept by the Company so far as appears from our examination of those books;
3. The said Balance Sheet and Profit and Loss Account are in agreement with the Books of Accounts.
4. In our opinion and to the best of our information, the Balance Sheet and Profit and Loss Account complies with the mandatory Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956.
5. As per the information and explanations given to us, none of the directors of the Company is disqualified from being appointed as director under clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
6. We report that, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the significant accounting policies in Schedule 18.1 and the other notes appearing thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view.
 - i. in the case of Balance Sheet of the state of affairs of the Company as at 31st March, 2001 and
 - ii. in the case of the Profit and Loss account, of the profit of the Company for the period ended on that date.
7. As required by the Manufacturing and Other Companies (Auditors' Report) Order 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, in terms of Para 4 & 5 of the Order and on the basis of information and explanations received by us, we report to the extent they are applicable to the Company during the year under review.

- 7.1 The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. According to the information and explanation given to us the fixed assets have been physically verified by the management during the period in a periodical phased manner, which in our opinion is reasonable having regard to the size of the Company and the nature of the assets. According to the information and explanations given to us, no discrepancies were noticed on such verification.
- 7.2 None of the fixed assets have been revalued during the year.
- 7.3 As explained to us, the inventory of components, finished and semi finished materials have been physically verified during the period by the management at reasonable intervals. In our opinion, the frequency of verification is reasonable having regard to the size of the Company and nature of its business.
- 7.4 In our opinion and according to the information and explanations given to us, the procedure of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
- 7.5 As explained to us, the discrepancies noticed on physical verification of stocks as compared to book records were not material and the same have been properly dealt with in the books of account.
- 7.6 In our opinion, the valuation of stocks is fair and proper and in accordance with the normally accepted accounting principles, and is in the same basis as that of previous year.
- 7.7 According to the information given to us, the terms and conditions of the unsecured loans taken from parties listed in the register maintained under Section 301 of the Companies Act, 1956 are prima facie not prejudicial to the interests of the Company. In terms of sub section (6) of Section 370 (1-B) of the Companies Act, 1956, provisions of this section are not applicable to the Company on or after 31st October 1998.
- 7.8 The Company has not given any loans or advances in the nature of loans to any parties listed in the register maintained