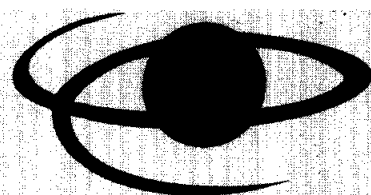


TENTH ANNUAL REPORT 2001-02



**Encore Software**

Report  Junction.com

**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

Prof. Ramaswamy P Aiyar

**CHIEF FINANCIAL OFFICER**

Mr. S Mohan

**BANKERS**

Syndicate Bank

Bangalore 560 025

**AUDITORS**

Ishwar &amp; Gopal

Chartered Accountants

**REGISTERED OFFICE**

Leo Complex, 6th Floor

#44 &amp; 45 Residency (Cross) Road

Bangalore - 560 025

Web : www.ncoretech.com

**US OFFICE**

Ncore USA, Inc.

1460 Tully Road, Suite 314

San Jose, CA-95122

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 10th Annual General Meeting of the members of the Company will be held at 3.30 pm on Friday, the 26th day of July 2002 at Hotel Rama, Lavelle Road, Bangalore to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2002 and the Profit and Loss Account for the year ended on that date together with the Reports of the Directors and Auditors thereon;
2. To appoint a Director in place of Prof. V Rajaraman, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Prof. Ramaswamy P Aiyar, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint auditors and authorise the Board to fix their remuneration.

By order of the Board

Bangalore  
May 02, 2002

**Chhanda Deshpande**  
Executive Director

APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/ HERSELF AND THE PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING PROXY, IN ORDER TO BE EFFECTIVE, SHOULD REACH THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE MEETING.

2. The Register of Members and Share Transfer Books of the Company will be closed from 16.7.2002 to 26.7.2002 (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.

### NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ALSO ENTITLED TO

Bangalore  
May 02, 2002

By order of the Board

**Chhanda Deshpande**  
Executive Director

## Directors' Report



Your Directors are pleased to present the 10th Annual Report of the Company together with the Audited Statements of Accounts for the year ended March 31, 2002.

### FINANCIAL RESULTS

(Rs. In Million)

| Particulars  | Year ended<br>March 31,<br>2002 | 9 months<br>ending<br>March 31,<br>2001 |
|--|---------------------------------|---|
| Operating Income   | 16.87                           | 88.13                                   |
| Gross Profit/(Loss) after<br>Interest But Before<br>Depreciation and Tax | (46.04)                         | 21.15                                   |
| Less: Depreciation   | 5.98                            | 5.12                                    |
| Provision for Tax  | (1.87)                          | 0.00                                    |
| Profit (Loss) after Tax  | (50.15)                         | 16.03                                   |

### Review of Operations

The year under review presumably has been the most challenging and critical year for all the segments of the industry in general and for those in the technology segment in particular. The economic slowdown worldwide, the significant recession in the US business and the September 11 WTC attacks, have all contributed to the phenomenal dip in the business levels of the software industry. There has been sustained reduction or complete withholding of IT spending by the business houses and particularly those in the US and Japan, the two largest markets. Longer cycles in converting a prospect into a serviceable transaction, the tough measures on visa norms and the political instability have all added to the woes of the industry.

All these adverse happenings led to loss of many business opportunities. Your Board regrets to report that two of the valued customers closed their businesses during this year, forcing to provide for the corresponding receivables.

### New Projects and Products

Despite these severe difficulties, your Company continued its focus on DSP and Embedded Systems, and now has a comprehensive set of protocol stacks for the emerging area of Voice over IP, along with the necessary DSP-based speech coders. These include the H.323, MGCP, Megaco, and SIP protocol stacks, which are among the most compact stacks in the industry, and which have all been exhaustively tested for interoperability with stacks from other vendors. These stacks, along with speech coders, including our new GSM-AMR speech coder which is used in 3G wireless telephony, are expected to result in substantial revenues during the new financial year. These will be supplemented by the DSP software for the V.90 modem, for which the Company is beginning to see considerable interest among the customers. Your Directors are happy to report that after the orders drought of the year under review, your Company is now in negotiations with several potential customers for licencing of the IP in speech coders, VoIP stacks, and modems.

In addition to the above, your Company has also entered the arena of complete product design incorporating the existing IPs during the year under review, and have initiated development of a such a product for internet telephony for a prestigious Indian customer. This product development is scheduled for completion during the new financial year, and should further help shore up our revenues.

Another notable development during the year is that of the Simputer, the low-cost handheld computer designed by your Company, in association with the Indian Institute of Science, for applications in e-governance, mobile computing for enterprises, microbanking, education, etc. The product has received tremendous interest from all over the world, and your Company expects to derive substantial revenues from this product during the coming financial year. The Simputer is currently being productionized, and will soon be produced on contract for the Company by contract manufacturers. A pilot trial of Simputers in cooperative banking has been successfully launched

towards the end of the year under review, and other pilots in e-Governance, education, and enterprise applications are expected to be launched shortly.

Your Directors are further pleased to report that towards the end of the year under review, the Simputer received the first ever and prestigious Dewang Mehta Award for Innovation in Information Technology, instituted by the Ministry of Information Technology. Your Company is proud to have played a major role in the development of the Simputer.

Consequent upon to the development of the Simputer, the Company also received, towards the end of the year, a large order from the Government of India, for development of a customized special-purpose handheld computer. This project is scheduled to be completed during the new financial year, and is making swift progress.

The above new developments are expected in the new year to help your Company make up the ground lost during the year under review, and grow further from there.

#### **Subsidiaries**

Although the 100% subsidiary, Ncore USA, Inc., made efforts to make inroads into the US market, the slowdown and the September incidents affected business flow into the Company. Therefore, your Board is now in the process of restructuring the activities of the subsidiary.

Your Company has entered into a JV with Time2Talk, Singapore, and consequently Encore Technologies Singapore Pte Ltd has been formed in Singapore towards the end of the year under review. This JV is expected to contribute significantly to the Singapore marketing efforts and in pursuit of larger business. Encore Software Limited holds 55% of the equity in the Joint Venture, at the time of formation.

Your Company has entered into a JV with Holistic Technologies Private Limited, and consequently has entered into a Joint Venture with Bharath Logistics Pvt. Ltd., during the year under review. The JV is expected to leverage the technological expertise

of ESL and is approaching the VC Communities for funding. The JV is yet to start its commercial operations.

#### **Future Growth & Expansion Plans**

Arising from the new developments of technologies and intellectual property during the year under review, your Company has initiated steps to leverage their potential during the coming year. Discussions are already under way with several potential customers, for licencing of the IP and technologies, as well as for delivering Simputer-based solutions in e-Governance, microbanking, enterprise field-force automation, and education. Your Company has already initiated tie-ups with a few select application software developers in order to complement the expertise in hardware and firmware design.

As indicated above, steps have been initiated to reorganize the US subsidiary, in order to function more effectively as marketing front-end for us to take advantage of the current signs that the US economy may be beginning to get out of the recession of the year under review.

Your Company also expects to substantially gear itself to take advantage of the huge potential that the Simputer seems to hold, by enhancing ability to deliver various solutions in different areas of application, such as microbanking, Point of Sale, e-governance, e-education, and enterprise field-force automation, through strategic alliances and induction of appropriate personnel.

The Company will also continue its focus on Intellectual Property generation by embarking on new development projects in emerging areas such as 3G Wireless and Ipv6. Background work in these areas has already been initiated.

Armed with the sobering effect of the year under review, and the new Intellectual Property and products (including the Simputer) developed during the year under review, your Company is poised to shake off the setbacks during the year and gain substantial new ground in the coming years.



## Corporate Governance

In terms of the listing agreements, compliance with the Corporate Governance Code is required to be made in the ensuing year, however your Board has already implemented good Corporate Governance Practices, which 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 required committees have been functional as per the Code.

Your Company has evolved a Corporate Philosophy Statement as given below and it will be the 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".**

The Company has paid listing fees upto date to the Stock Exchanges.

## Particulars of Employees

There was no employee drawing remuneration in excess of the limit prescribed under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules 1975 as amended, and hence the question of furnishing information hereunder does not arise.

## Directors

Dr. Christian Schwarz-Schilling ceased to be a Director of the Company, during the year. Your Directors record their appreciation for the services rendered by him during his tenure as Director.

Prof. Ramaswamy P Aiyar, former Director of IIM, Kolkata, who is on the Boards of many companies has been inducted into the Board.

In accordance with the provisions of the Companies Act, 1956, and the Company's Articles of Association, Prof. Rajaraman and Prof. Ramaswamy P Aiyar, Directors, retire by rotation, and being eligible, offer themselves for re-appointment.

## Directors' Responsibility Statement

The Directors have fulfilled their responsibility for the preparation of the accompanying financial statements by taking all reasonable steps to ensure that:

- These statements have been prepared in conformity with generally accepted accounting principles and appropriate accounting standards. Judgements and estimates that are reasonable and prudent have been made where necessary.
- The accounting policies selected and applied consistently give a true and fair view of the financial statements.
- The Company has implemented internal controls to provide reasonable assurance of the reliability of its financial records, proper safeguarding and use of its assets and detection of frauds and irregularities. Such controls are based on established policies and procedures, and are implemented by trained, skilled, and qualified personnel with an appropriate segregation of duties.

The Company's statutory auditors, Messrs. Ishwar & Gopal, Chartered Accountants, have audited the financial statements in accordance with generally accepted auditing standards and practices as indicated in their report.

## Going Concern

The Directors are satisfied that the Company has adequate resources to continue its business in the foreseeable future and consequently consider it appropriate to adopt the Going Concern basis in preparing financial statements.

**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.

**Auditors' Report**

Attention is drawn to Para 6 of the Auditors Report dated May 2, 2002; suitable explanations have been furnished in Notes on Accounts.

**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 also placed on record of the confidence reposed by the shareholders.

For and on behalf of the Board

Bangalore  
May 02, 2002

**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 2002

- NIL -

**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 were Rs 412.30 Lakhs as against Rs. 743.78 Lakhs in the previous year.

Total Foreign Exchange Outgo during the year amounted to Rs. 71.38 Lakhs as against Rs. 70.08 Lakhs in the previous year.

For and on behalf of the Board

Bangalore  
May 02, 2002

**Vinay L Deshpande**  
Chairman & CEO



**Auditors' Report****TO THE MEMBERS OF ENCORE SOFTWARE LIMITED**

We have audited the attached Balance Sheet of Encore Software Limited, as at 31st March 2002 and also the Profit & Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the manufacturing and other company's (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclosed in the Annexure a statement on the matters specified in paragraphs 4 & 5 of the said Order.
3. Further to our comments in the Annexure referred to above, we report that;
  - i. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.
  - ii. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books.
  - iii. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the Books of Account.
4. In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the Accounting Standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956.
5. On the basis of the written representations received from the directors as on 31st March, 2002, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2002 from being appointed as director in terms of 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 **subject to note no. 19.1.13 considering deferred tax benefits during the year as per the mandatory Accounting Standards resulting in reduction in loss of Rs. 18,70,568/- for the year and increase in the reserves and surplus to the extent of Rs. 25,92,363/- note no. 19.2.4 regarding non provision of remuneration as per contractual obligations resulting in reduction in loss of Rs. 69,70,326/- and consequent effect on the reserves** and read together with the significant accounting policies in Schedule 19.1 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, 2002 and
  - ii. in the case of the Profit and Loss Account, of the loss for the year ended on that date.

For Ishwar & Gopal,  
Chartered Accountants,

K.V. Gopalakrishnayya.  
Partner.

Bangalore  
May 02, 2002



## Annexure to Auditors' Report

### ANNEXURE REFERRED TO IN PARAGRAPH 2 OF OUR REPORT OF EVEN DATE TO THE MEMBERS OF ENCORE SOFTWARE LIMITED ON THE ACCOUNTS AS AT AND FOR THE YEAR ENDED 31.03.2002

- 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 under Section 301 of the Companies Act, 1956. 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.
- 7.9 The parties (including employees) to whom interest free advances, which are in the nature of loans, have been given by the Company are repaying the principal amounts as stipulated.
- 7.10 In our opinion and according to the information and explanations given to us, there are adequate internal control procedure commensurate with the size of the Company and the nature of its business with regard to the purchase of materials including components, plant and machinery, equipment and other assets and for the sale of software packages and services.
- 7.11 In our opinion and according to the explanations given to us, there were no transactions of purchase of goods and materials and sale of goods, materials and services in pursuance of contracts or arrangements entered in the register maintained Under Section 301 of the Companies Act, 1956 and aggregating during the period to Rs.50,000/- or more in respect of each party.
- 7.12 According to the information and explanations given by us, unserviceable or damaged goods and stores, are determined by the Company and adequate provision has been made in accounts for the loss arising on the items so determined.



- 7.13 The Company has not accepted any deposits during the year from the public.
- 7.14 We have been informed that the Company has no realisable scrap or by products.
- 7.15 In our opinion, the internal audit system of the Company is commensurate with the size of the Company and nature of the business.
- 7.16 As explained to us, the Central Government has not prescribed maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 for any of the products of the Company.
- 7.17 According to the information furnished to us, the Company is generally regular in depositing dues under Employees Provident Fund Act and Employees State Insurance Act to the appropriate authorities.
- 7.18 According to the records of the Company there were no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty outstanding as at the year end for a period of more than six months from the date they become payable.
- 7.19 According to the information and explanation given by us and based on the records examined by us, no personal expenses of Directors or employees have been charged to revenue Account other than those payable under contractual obligation or in accordance with generally accepted business practice.
- 7.20 In our opinion the Company is not a sick industrial Company within the meaning of clause (0) of Section (1) of the Section 3 of the Sick Industrial Companies (Special Provision) Act, 1985.
- 7.21 In respect of service activities, the Company has a reasonable system, which provides for reasonable allocation of man- hours consumed to the relative jobs commensurate with its size and nature of its business. In our opinion there is a reasonable system of authorization at proper levels and adequate system of internal controls commensurate with the size of the Company and the nature of its business, on allocation of man-hours to jobs.

For Ishwar & Gopal,  
Chartered Accountants,

K.V. Gopalakrishnayya.  
Partner.

Bangalore  
May 02, 2002