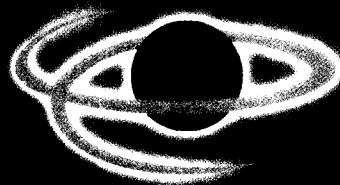


ELEVENTH  
ANNUAL REPORT  
2002-03

Report Junction



**Encore Software**

**Encore Software Limited**



Our CEO Mr. Vinay L. Deshpande receiving the First Dewang Mehta Award for Innovation in IT, on behalf of the Simputer Trust from the Hon'ble Minister of IT, Dept. of Information Technology, Govt. of India.

**DIRECTORS**

Mr. Vinay L Deshpande *Chairman & CEO*

Mrs. Chhanda Deshpande *Executive Director*

Dr. Saibal Kanti Gupta

Prof. V Rajaraman

Prof. Ramaswamy P Aiyar

**COMPANY SECRETARY**

Mr. B S Krishnaswamy

**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](http://www.ncoretech.com)

**US OFFICE**

Ncore USA, Inc.  
1460 Tully Road, Suite 601  
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  
E-mail: [alfint@vsnl.net.in](mailto:alfint@vsnl.net.in)

## Notice

NOTICE is hereby given that the 11th Annual General Meeting of the members of the Company will be held at 3.30 pm on Friday, the 25th day of July 2003 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, 2003 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 Dr. Saibal Kanti Gupta, who retires by rotation and being eligible, offers himself for reappointment.
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 auditors and authorise 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 a Special Resolution:

"RESOLVED THAT subject to the provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the rules framed there under, Listing Agreements, and all other applicable Laws, Rules, Regulations and Guidelines and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modification(s) as may be prescribed or imposed by any authority while granting such approvals, permissions and sanctions, which the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this resolution), be and is hereby authorized to accept, the consent of the Company be and is hereby accorded to the Board to de-list the Equity Shares of the Company from the Stock Exchanges at Chennai, Hyderabad and Bangalore".

By order of the Board

Bangalore  
May 02, 2003

**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 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 16.7.2003 to 25.7.2003 (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 correspondences relating to transfer of shares may be sent directly to the aforesaid Transfer Agents of the company.
4. The Explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 is as under:

The Company's Shares are enlisted on the following Stock Exchanges:

1. Bangalore Stock Exchange Limited
2. Chennai Stock Exchange
3. The Hyderabad Stock Exchange Limited
4. The Stock Exchange, Mumbai

The Listing Regulatory Authorities have recently introduced new guidelines namely the SEBI {Delisting of Securities} Guidelines, 2003 simplifying the procedures for delisting.

Approval of the Members is being sought by way of a Special Resolution to enable the Board to de-list the Company's Equity Shares.

Your Company pays Listing Fees to the tune of Rs. 71,000 annually to the various Stock Exchanges. Delisting from all exchanges other than Mumbai would result in a substantial savings. Furthermore the multiple compliance requirements will be reduced and unnecessary expenses can be avoided. Needless to add, these compliances are in any case, required to be done with respect to listing at Mumbai Stock Exchange.



The Company's Shares will continue to be listed on the Mumbai Stock Exchange, which is a premier Exchange. At the appropriate time in future efforts would be made to list the Shares on the National Stock Exchange of India Limited (NSE) also, subject to the terms and conditions.

The de-listing will take effect after all approvals, permissions and sanctions are received.

The proposed de-listing of the Company's Shares from the aforementioned Stock Exchanges as and when the same takes place, will not cause any hardships to any investors since the wide network facilitates any investor at various locations to access the Mumbai Stock Exchange.

None of the Directors of the Company is in any way concerned or interested in the resolution.

Your Directors recommend the resolution for your approval.

5. Members are requested to bring their copies of the Annual Report to the Meeting.

#### ADDITIONAL INFORMATION ON DIRECTOR SEEKING RE-APPOINTMENT AT THE ELEVENTH ANNUAL GENERAL MEETING.

1. Dr. Saibal Kanti Gupta was born on 18.08.1938. He is a Ph.D. (Tech.), D.Sc. (Tech.), formerly was Prof. & Head of

Metallurgical Engineering, Indian Institute of Technology, Bombay and is currently the Executive Vice Chairman and Director of Jindal Vijayanagar Steel Limited, Chairman and Director of Vesuvius India Limited and Director of Vijayanagar Minerals Private Limited and he is also Chairman of the Audit Committee of your Company.

2. Mrs. Chhanda Deshpande born on 12.03.1948 received her Post Graduate Degree in Economics from Nagpur University. She has been involved with your Company, taking keen interest on the day-to-day affairs of the Company for a long time. She serves your Company as Executive Director discharging the functional responsibilities assigned to her by the Board.

#### Attendance record of Directors seeking re-appointment (1.4.2002 to 31.03.2003)

Name of the Director	No. of Meetings held	No. of Meetings attended in person
Dr. Saibal Kanti Gupta	05	05
Mrs. Chhanda Deshpande	05	05

By order of the Board

Bangalore  
May 02, 2003

**Chhanda Deshpande**  
Executive Director



## Directors' Report

Your Directors are pleased to present the Eleventh Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2003.

### FINANCIAL RESULTS

(Rs. In Million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2002
Operating Income	70.85	16.87
Gross Profit/(Loss) after Interest But Before Depreciation and Tax	8.21	(46.04)
Less: Depreciation	5.68	5.98
Provision for Tax	(0.46)	(1.87)
Profit/(Loss) after Tax	2.99	(50.15)
Transfer to Reserve	Nil	Nil

### Review of Operations

Your Directors are pleased to report that the difficult situation of the previous year is behind now, and the operations during the year under review have enabled the Company to swing back into the black. With the plans that the Company has for the new fiscal, the operations are expected to show further substantial growth and profit.

### Software Products

Your Company's Software Product business, wherein the Company licences its Software Products to its customers worldwide, exhibited significant dynamism during the year, which was one of the factors that helped to overcome the ill-effects of the previous year, when hardly any companies worldwide invested in technology acquisition. Your Company added ten new customers with orders totaling Rs. 2.79 crores during the year, of which orders worth Rs. 1.97 crores have already been executed during the year, leaving an order balance worth Rs. 0.82 crore to be executed in the new fiscal. The Company also procured orders from three existing customers for additional Products worth Rs. 1.52 crores, and executed Rs. 1.28 crores of the same during the year leaving a balance of Rs. 0.24 crore to be executed in the new fiscal.

With telecom companies starting to invest in new technology, your Company expects to experience robust growth in the Software Products business during the coming year. In preparation for that, the Company has already taken the following steps during the year under review:

1. All the existing ITU-T compliant speech coders have been ported to the TI 64x DSP, which is

among the newest and most popular DSPs being sold in the market.

2. Our G.168 Echo Cancellor implementation has been ported to the Motorola StarCore DSP, which is expected to grab a significant share of the DSP market in the future.
3. Acoustic echo cancellation technology, based on DSPs, has been successfully developed.
4. DSP-based Fax Relay technology conforming to the ITU-T T.38 standards, has been successfully developed.

While initial customer deliveries have been completed during the year under review, the new fiscal is expected to bring many new opportunities for these products.

In addition to the above, the Company has initiated new developments in the following areas, to help prepare for further new opportunities in the future:

1. Porting of all the existing ITU-T compliant speech coders, and V.17 and T.37 fax software, to Motorola's StarCore DSP.
2. V.92 server modem.
3. MPEG-IV video and audio algorithms.
4. Selectable Mode Vocoder (SMV), which is expected to be widely deployed in the CDMA-2000 (3G) wireless networks.

In addition to the above, some of the current customers have approached the Company for longer-term product-development relationships. Your Company expects to enter into a few such relationships during the ensuing fiscal.

### Embedded Systems Business

The long awaited enhanced Simputer was launched through the contract manufacturer, TVS Electronics, during the year under review. A few hundred units have been shipped to over seventy different customers around the world, which are now being tried out in pilot trials in several innovative applications. It is expected that on successful completion of these trials, significant sales volumes in the Simputer will be achieved during the new fiscal.

The development of the Simputer has been widely hailed, world over, as a landmark development, with the Government of India awarding it the first ever Dewang Mehta Award for Innovation in Information Technology, in August, 2002. Also in August 2002, Time magazine honoured it by selecting it as one of the "Ten Technologies for You and the Planet," for a sustainable world. In December, 2002, the Far Eastern Economic Review honoured it by "Notable Mention" in its Asian Innovation Awards 2002. The Simputer has also



received wide coverage in the press and television media worldwide, and continues to enjoy the same on an ongoing basis.

Your Company has introduced a range of four configurations of the Encore Simputer, with variations of Colour/Monochrome screens, memory capacity, etc., with all-inclusive prices in the range of Rs. 13,700 to Rs. 26,800. Your Company is now in the process of cost-engineering these to bring the entry-level price (all-inclusive) to around Rs. 10,000/- and to also add advanced features such as wireless capability and latest international styling.

Several new projects are under negotiation with potential customers, especially in Africa and the Far East, for development and supply of new products that leverage our Simputer experience. Some of these projects are expected to be initiated and successfully executed during the new fiscal, thus contributing to further growth in revenue and profits.

Your Company's project for the development of a customized handheld computer for the Government of India, made substantial progress during the year under review, and ten Alpha prototypes have been delivered to the Government. Beta prototypes will be delivered during the new fiscal, as well as about 100 final production units of this device, and your Company does expect substantial volumes for further delivery during the new fiscal.

#### **NMITLI Soft Loan**

Your Company has been awarded a Soft Loan Project of Rs. 3.3 crores by the Council of Scientific and Industrial Research (CSIR) under their New Millennium Indian Technology Leadership Initiative (NMITLI) Scheme for a project to develop a cost-effective simple office computing (Sofcomp) platform. This will be a good opportunity for leveraging and showcasing the Hardware and Software capabilities of your Company.

#### **Overseas Subsidiaries**

During the year under review, the overseas operations have not made much progress, and the overseas market is presently being served by Bangalore operations. In view of the improvements in the overseas market, requisite effective steps will be initiated to strengthen the operations on a need basis.

#### **Corporate Governance**

Your Company is committed to good Corporate Governance, and firmly believes in and consistently follows good corporate governance practices, leading to increasing transparency and accountability to all its shareholders.

The Company has appropriate internal control structures that ensure strict compliance with legal requirements and reliable financial reporting. It ensures that management implements and maintains effective business controls, including internal financial controls. The effectiveness of these controls is monitored by self-assessment and by audits performed by internal and external auditors.

A detailed Corporate Governance Report is provided in Annexure 'B' and the Reports of the Committees of the Board are provided in Annexure 'C'.

#### **Particulars of Employees**

There was no Employee drawing remuneration in excess of limits prescribed under section 217(2A) of the Companies Act, 1956.

#### **Directors**

In accordance with the provisions of the Companies Act, 1956, and the Company's Articles of Association, Dr. S K Gupta and Mrs. Chhanda Deshpande, 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 the 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, 2003; 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 in the report of Board of Directors) Rules, 1988, are set out in Annexure 'A' 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 in the Company by the shareholders.

For and on behalf of the Board

Bangalore  
May 02, 2003

Vinay L Deshpande  
Chairman & CEO

## Annexure "A" 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, and hardware technology in the area of embedded systems.

### c. Foreign Exchange Earnings & Outgo

Total Foreign Exchange Earnings during the year were Rs. 328.96 Lakhs as against Rs. 412.30 Lakhs in the previous year.

Total Foreign Exchange Outgo during the year amounted to Rs. 91.61 Lakhs as against Rs. 71.38 Lakhs in the previous year.

## Annexure "B" to the Directors' Report

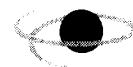
## REPORT ON CORPORATE GOVERNANCE

### 1. BRIEF STATEMENT ON INDUSTRY & COMPANY'S PLANS

Your Company has always believed that there is great worldwide potential for Intellectual Property (IP) and Hardware / Software products developed in India, especially in the field of information technology. Further, contracts for development of specific products or new technologies that leverage the Company's experience and expertise based on such IPs, would be an additional benefit. Unfortunately, owing to the downturn in the IT industry in 2001-2002, most potential customers chose not to acquire any new technology or IPs, thus affecting our revenues very drastically during that year. However, during the year 2002-2003, while the industry continued to be in the throes of the recession, some signs of a slow but definite recovery emerged, with some customers resuming technology purchases, which helped your Company to put up a much better performance during this year. Even though the recession continues in the overall IT industry as we write this, telecom equipment companies, who are among our major customers, do seem to be considering new investments in new technologies, which should augur well for us during the following year. The next couple of years should see a growing trend in this direction, which should enable your Company to grow further, especially through IP-based development services.

Our Simputer continues to make news, and is now well-recognized around the world. Software for several interesting applications in the enterprise





and e-governance areas has been developed by several of our development partners, and many more are under development. This should position the Simputer extremely well in the worldwide market for mobile computing devices, which is expected to be of the order of a few millions annually. With our relationships with Encore Technologies Singapore (our Joint Venture), and Africa Digital Bridges (our Distributor for Africa and the Middle East), we should be well positioned to grab a reasonable share of this market, starting with the year 2003-2004. Of course, we must appreciate that technology moves fast, and we could see the features and power of the Simputer being cloned by others, as the Simputer volumes start growing. Your Company has therefore charted out a well-considered roadmap of enhancements and advanced versions of the Encore Simputer. Since we do not yet have a large number of our Simputers in the field, and consequently do not yet know enough about their field performance and reliability, we will also need to be very alert to any problems that may arise in the field when large numbers of the Encore Simputer do get deployed worldwide, so that we may solve such problems quickly, and learn from them. That will help us build an increasingly reliable product as time passes.

As we grow, we will need to be increasingly aware of the need for a very strong and constantly growing marketing infrastructure, worldwide. As the needs grow, your Company will strive to bring in the appropriate additional personnel. Likewise, growth in our business may call for additional investments to be made, and the Company will take appropriate steps for sourcing the necessary funds when the need arises.

## 2. MEANS OF COMMUNICATION

- Quarterly results of your Company are published regularly in Financial Express & Sanjevani, (English & Kannada respectively).
- The quarterly results and the share holding pattern are displayed in the Company's website, [www.ncoretech.com](http://www.ncoretech.com) together with the official news releases, awards and recognition for Company's products.

## 3. STOCK EXCHANGE LISTINGS

The transactions with respect to your shares shall be conducted only in Electronic form and are listed in the following Stock Exchanges:

Bangalore, Hyderabad, Chennai, Mumbai

The Scrip Code is 531750.

## 4. BOARD OF DIRECTORS

The Company has a well-constituted Board comprising of five Directors, who possess rich corporate experience; the composition is as follows:

Category	Names of Directors	Number of Directors	Composition %
i) Promoter			
Chairman & CEO	Vinay L Deshpande	2	40
Executive Director	Chhanda Deshpande		
ii) Independent & Non-executive Directors	Dr. S K Gupta Prof. V Rajaraman Prof. Ramaswamy P Aiyar	3	60
Total		5	100

The Board is primarily responsible for the overall management of the Company's affairs. All the Directors have good understanding of important business aspects, both generic and specific to Encore Software Ltd.

## 5. PARTICULARS OF BOARD AND GENERAL MEETINGS:

Five Board meetings were held between April 1, 2002 and March 31, 2003 on the following dates:

May 2, 2002, July 26, 2002, October 31, 2002, January 17, 2003 and March 8, 2003.

The last two Annual General Meetings were held as below:

- 10th Annual General Meeting held at 3.30 pm on July 26, 2002, at Hotel Rama, Lavelle Road, Bangalore 560 001.
- 9th Annual General Meeting held at 3.30 pm on 28th September 2001, at Hotel Rama, Lavelle Road, Bangalore 560 001.

## 6. ATTENDANCE OF EACH DIRECTOR AT THE BOARD MEETINGS AND THE LAST ANNUAL GENERAL MEETING:

Director	No. of Board Meetings held	No. of Board Meetings attended in person	No. of Board Meetings participated through teleconference/ video conference	Attendance at the 10th AGM held (Yes/No)
Vinay L Deshpande	5	5		Yes
Chhanda Deshpande	5	5		Yes
Dr. S K Gupta	5	5	Nil	Yes
Prof. V Rajaraman	5	5		Yes
Prof. Ramaswamy P Aiyar	5	3		Yes

## 7. REMUNERATION PAID TO INDEPENDENT DIRECTORS

No remuneration was paid to any independent Directors. However, Sitting Fee of Rs. 1,000 per

meeting of the Board or its Committee is being paid.

None of the Non-Executive Independent Directors of the Company has any pecuniary relationships or transactions with the Company.

## 8. OTHER DISCLOSURES

- ❖ Related party transactions: Mentioned under Note 19.6 of the Notes to Accounts.
- ❖ Non compliance with Stock Exchange/SEBI requirements – None

## 9. COMPLIANCES

The Company is equipped with professional skill to ensure compliance with legal requirements. The Secretarial and Legal Department is headed by the Company Secretary, who is responsible for ensuring compliance with the Companies Act and allied laws, SEBI/Stock Exchange rules and other regulations.

## ANNEXURE "C" TO THE DIRECTORS' REPORT REPORTS OF THE COMMITTEES OF THE BOARD

### 1. AUDIT COMMITTEE

The Audit Committee comprises of two Non-Executive independent Directors and a Chairman.

The key functions of the Committee are:

- ❖ Reviewing with the management the annual financial statements before submission to the Board.
- ❖ Overseeing the Company's financial reporting and public disclosure processes to ensure that financial statements are correct, sufficient, and credible.
- ❖ Recommending the appointment and termination of services of external and internal auditors, making recommendations on fee levels and determining the fees payable for any other services.
- ❖ Reviewing the efficacy of the internal control mechanism and the risk management policies of the Company, including the scope and structure of the internal audit function.

The independent members of the Committee are senior professionals in the fields of finance, engineering, and administration with significant business expertise.

The Committee met four times during the financial year 2002-2003: on May 2, 2002; July 26, 2002; October 31, 2002; and January 17, 2003.

Attendance details are set out below:

Members	No. of meetings	No. of meetings attended in person	No. of meetings participated through teleconference/video conference
Vinay L. Deshpande	4	4	Nil
Dr. S K Gupta	4	4	
Prof. V Rajaraman	4	4	

The Audit Committee invites such persons as may be desired necessary, to its meetings.

### 2. COMPENSATION COMMITTEE

The Compensation Committee comprises of two Non-Executive Directors, including its Chairman, and another independent Director.

The Committee performs the following key functions:

- ❖ Periodical review of the compensation and benefits for Executive Directors and senior management.
- ❖ Consideration of Employee Stock Option Plan of the Company and related issues.

The primary objective of the Committee is to attract and retain the best talent and to ensure continuous generation of enthusiasm and motivation in them.

### 3. SHAREHOLDERS' GRIEVANCES COMMITTEE

The Committee comprises of one Non-Executive independent Director, and the Chairman and Executive Director, who are promoter Directors.

The Committee reviews the redressal of demat issues grievances such as transfer of shares, non-receipt of shares, non-receipt of Annual Reports, and the like.

The Committee met four times during the financial year 2003, from April 1, 2002 to March 31, 2003, on the following dates: May 2, 2002; July 26, 2002; October 31, 2002; and January 17, 2003.

Attendance details are given below:

Members	No. of meetings	No. of meetings attended in person	No. of meetings participated through teleconference/video conference
Prof. V Rajaraman (Chairman)	4	3	Nil
Vinay L. Deshpande (Chairman & CEO)	4	3	
Chhanda Deshpande (Executive Director)	4	3	

For and on behalf of the Board

Bangalore  
May 02, 2003

**Vinay L Deshpande**  
Chairman & CEO