

**THIRTEENTH ANNUAL REPORT 2004 - 05**

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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	<i>Chairman &amp; CEO</i>
Mrs. Chhanda Deshpande	<i>Executive Director</i>
Dr. Saibal Kanti Gupta	<i>Director</i>
Prof. V Rajaraman	<i>Director</i>
Prof. Ramaswamy P Aiyar	<i>Director (till 23.07.05)</i>

**MANAGEMENT TEAM**

Mr. Vinay L Deshpande	<i>Chairman &amp; CEO</i>
Mrs. Chhanda Deshpande	<i>Executive Director</i>
Mr. Mark Mathias	<i>President</i>
Mr. Shashank Garg	<i>Vice President</i>
Mr. M P Vasuki	<i>Vice President</i>
Col. KPM Das	<i>Vice President</i>
Mr. J V Shivaprakash	<i>Company Secretary &amp; CFO</i>
Mr. Kaushik V Shah	<i>General Manager</i>

**AUDITORS**

Ishwar & Gopal  
Chartered Accountants

**BANKERS**

UTI Bank Ltd  
Syndicate Bank

**REGISTERED OFFICE**

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

**USA 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: 23460815-818 Fax: 23460819  
Email: alfint@vsnl.net.in

## Notice

NOTICE is hereby given that the 13th Annual General Meeting of the members of the Company will be held at 4.00 p.m. on Thursday, September 22, 2005 at Hotel Ajantha, Swati Hall, M G 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, 2005, 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. S K Gupta, who retires by rotation, and is eligible for reappointment.
3. To appoint a Director in place of Mrs. Chhanda Deshpande, who retires by rotation, and is eligible 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 an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 (the Act) read with Schedule XIII of the Act, as amended and subject to such permissions, consents and approvals, if any, from authorities, if required and subject to such conditions, if any, that may be imposed by any authority while granting their consents, permissions and approvals and which the Board of Directors is hereby authorized to accept, the Company hereby accords approval to the appointment of Mr. Vinay L Deshpande as Chairman & CEO of the Company for a period of three years with effect from January 1, 2005 on the terms and conditions as to remuneration by way of salary and perquisites as set out in explanatory statement.

FURTHER RESOLVED THAT the Board of Directors of the Company be and is hereby authorized to increase the remuneration and/or perquisites of Mr. Vinay L Deshpande, in its absolute discretion within such guidelines or ceilings subject to such approvals of Central Government or any other authority, wherever applicable, and required and for which consent of the Company as required under various provisions of the Companies Act, 1956, be and is hereby granted.

FURTHER RESOLVED THAT in the event where in any financial year during the currency of

his appointment, the Company has no profit or its profits are inadequate, it may pay remuneration to Chairman & CEO the total of which shall not exceed the ceiling limits as provided in Schedule XIII of the Act, or such other amount as may be specified by the Government from time to time by any amendment to the Act.

FURTHER RESOLVED THAT the Board of Directors be and are hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this Resolution".

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 (the Act) read with Schedule XIII of the Act, as amended and subject to such permissions, consents and approvals, if any, from authorities, if required and subject to such conditions, if any, that may be imposed by any authority while granting their consents, permissions and approvals and which the Board of Directors is hereby authorized to accept, the Company hereby accords approval to the appointment of Mrs. Chhanda Deshpande as Executive Director of the Company for a period of three years with effect from July 24, 2005 on the terms and conditions as to remuneration by way of salary and perquisites as set out in explanatory statement.

FURTHER RESOLVED THAT the Board of Directors of the Company be and is hereby authorized to increase the remuneration and/or perquisites of Mrs. Chhanda Deshpande, in its absolute discretion within such guidelines or ceilings subject to such approvals of Central Government or any other authority, wherever applicable, and required and for which consent of the Company as required under various provisions of the Companies Act, 1956, be and is hereby granted.

FURTHER RESOLVED THAT in the event where in any financial year during the currency of her appointment, the Company has no profit or its profits are inadequate, it may pay remuneration to Executive Director the total of which shall not exceed the ceiling limits as provided in Schedule XIII of the Act, or such other amount as may be specified by the Government from time to time by any amendment to the Act.



FURTHER RESOLVED THAT the Board of Directors be and are hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this Resolution".

By order of the Board

Date : June 28, 2005

Place: Bangalore

**Vinay L Deshpande**  
Chairman & CEO

#### 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. Explanatory Statement on Special Business in terms of Section 173 of the Companies Act, 1956 is annexed.
3. The Register of Members and Share Transfer Books of the Company will remain closed on September 22, 2005.
4. 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.
5. Members are requested to bring their copies of the Annual Report to the Meeting.

#### EXPLANATORY STATEMENT

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

##### Item No.5

The tenure of Mr. Vinay L Deshpande as Chairman and Chief Executive Officer of the Company ended on 31st December 2004. The Compensation Committee of your Company considered various factors and recommended to the Board, the re-appointment of Mr. Vinay L Deshpande as Chairman and Chief Executive Officer, for a period of three years, with effect from 1.1.2005 with certain suggestions on the terms and conditions.

The Board of Directors of the Company at their meeting held on 28th October 2004 re-appointed

Mr. Vinay.L.Deshpande as Chairman and Chief Executive Officer of the Company for a period of 3 years from 1.1.2005 to 31.12.2007 subject to approval in the next General Meeting. The Board of Directors decided to maintain the current terms and conditions of appointment with remuneration remaining unaltered.

Mr. Vinay.L.Deshpande, 58, is a BE (Electronics and Communication) from Osmania University, Hyderabad and MSEE (Digital Systems) from Stanford University, USA.

He was the Co-founder and Managing Director (Technical) of PSI Data Systems Limited, Bangalore, India.

Over the past 31 years of doing business in India, he has had overall responsibility for development of over 60 hardware and software products ranging from PCs, notebooks (including the world's smallest and lightest multimedia notebook), handheld devices, CNC, SCADA, Compilers, PC-BIOS, PCMCIA, DSP Software, Video set-up boxes and several embedded products.

The many important positions he has held, include Member, R & D Working Group, Prime Minister's Information Technology Task Force, 1998; President, Manufacturer's Association for Information Technology (2000-2002); and Chairman, Karnataka State Council, CII, 2003-2004.

The recipient of several awards, he has been named by the World Economic Forum as one of the 100 Technology Pioneers in the World, for being engaged in the most innovative technology areas in 2001 and 2002.

He is the winner of the first Dewang Mehta Award for Innovation in Information Technology, instituted by the Ministry of Communications and Information Technology, in April 2002.

In October 2004, he received the Sir M Visveswariah State Senior Scientist Award for the year 2003, instituted by the Government of Karnataka.

The remuneration, detailed below, payable to Mr. Vinay.L.Deshpande, is within the ceiling specified under Schedule XIII of the Companies Act, 1956.

In terms of Section 302 of the Companies Act, 1956, an abstract of the terms of appointment as well as Memorandum of concern/interest of the concerned Director as circulated among the members is set out as follows:

Tenure: 3 years with effect from January 1, 2005

Basic Salary	: Rs.75,000 per month
House Rent Allowance	: Rs.30,000 per month
Allowances	: Rs.20,000 per month

**Other Benefits:**

1. Provident Fund @ 12% of the basic pay, as per Provident Fund regulations
2. Gratuity in accordance with the rules and regulations applicable to Senior Executives of the Company from time to time, but not exceeding half month's salary for each completed year of service.
3. Encashment of leave at the end of the tenure in accordance with the rules and regulations applicable to the Senior Executives of the Company from time to time, the monetary equivalent of such encashed leave shall not be included in the computation of the ceiling on perquisites.
4. Leave Travel concession for appointee and his family once in a year, while on leave, to be spent in home country, in accordance with the rules and regulations applicable to Senior Managers of the Company from time to time (maximum of one month's basic salary).
5. Children education allowance limited to a maximum of Rs.5000/- per annum per child or actual expenses incurred, whichever is less, subject to a maximum of two children.
6. Reimbursement of medical expenses incurred by the appointee and his family, subject to a ceiling of one month's basic pay in a year or three month's basic pay over a period of three years.
7. Provision of car for the use of Company's business and telephone at residence shall not be considered as perquisites. Personal long distance calls and use of car for private purpose shall be billed by the Company.

The Appointee shall be entitled to reimbursement of all actual expenses including entertainment and travel incurred in the course of business of the Company.

He will not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof.

The appointment as aforesaid may be terminated by either party giving to the other, three calendar months notice in writing.

Commission, if any, shall be paid in accordance with the provisions of the Companies Act, 1956, and in the manner prescribed there under.

The appointment shall be subject to approval of the shareholders in General Meeting.

**MEMORANDUM OF CONCERN OR INTEREST**

Apart from Mr. Vinay.L.Deshpande himself, Mrs. Chhanda Deshpande, Executive Director, being a

relative of Mr. Vinay L Deshpande, may be deemed to be concerned/interested in the resolution.

**Item No. 6**

The tenure of Mrs. Chhanda Deshpande as Executive Director of the Company ended on July 24, 2005. The Compensation Committee of your Company considered various factors and recommended to the Board, the re-appointment of Mrs. Chhanda Deshpande, for a period of three years, with effect from 24.07.2005, on certain terms and conditions.

The Board of Directors of the Company at their meeting held on June 28, 2005, re-appointed Mrs. Chhanda Deshpande as Executive Director of the Company for a period of 3 years from 24.07.2005 to 23.07.2008, subject to the approval of the Shareholders in the next General Meeting. The Board of Directors decided to maintain the current terms and conditions of appointment, with remuneration remaining unaltered, except for commission being fixed at 1%.

Mrs. Chhanda Deshpande, aged 57 years, is a Post Graduate in Economics from Nagpur University.

The remuneration detailed below, payable to Mrs. Chhanda Deshpande, is within the ceiling specified under Schedule XIII of the Companies Act, 1956.

In terms of Section 302 of the Companies Act, 1956, an abstract of the terms of appointment as well as Memorandum of concern/interest of the concerned Director as circulated among the members is set out as follows:

Tenure: 3 years with effect from July 24, 2005.

1. Salary : Rs.75,000 per month
2. Commission : Not exceeding 1% of net profit, subject to overall limits of managerial remuneration under the Companies Act, 1956.

**MINIMUM REMUNERATION:**

In the event of absence or inadequacy of profits in any financial year during the currency of tenure of the appointment, the entire applicable remuneration by way of salary and perquisites mentioned above shall be paid as minimum remuneration, subject to the provisions under schedule XIII of the Companies Act, 1956.

**PERQUISITES:**

The following perquisites shall not be included in the computation of the ceiling on remuneration:

1. Contribution to Provident Fund, Superannuation Fund or Annuity Fund. These





will be in accordance with the schemes applicable to Senior Executives of the Company from time to time and will not be included in the computation of ceiling on perquisites mentioned above to the extent they, either singly or put together, are not taxable under the Income Tax Act, 1961, and as amended from time to time.

2. **Gratuity:** In accordance with the Rules and Regulations applicable to Senior Executives of the Company from time to time, but not exceeding half month's salary for each completed year or services.
3. **Encashment of Leave at the end of tenure:** In accordance with the rules and regulations applicable to the senior executives of the Company from time to time, the monetary equivalent of such encashed leave shall not be included in the computation of the ceiling on perquisites referred to in paragraph stated above.
4. **Leave Travel Concession:** For appointee and her family once in a year, while on leave spent in home country, in accordance with the rules and regulations applicable to senior managers of the company from time to time.
5. **Children's Educational Allowance:** An allowance limited to a maximum of Rs. 5000/- per month per child or actual expenses incurred, whichever is less, subject to a maximum of two children.
6. **Medical Reimbursement:** Expenses incurred for the appointee and her family, subject to a ceiling of one month's salary in a year, or three months salary over a period of three years.
7. **Provision of car for the use of Company's business, and telephone at residence, shall not be considered as perquisites. Personal long distance calls and use of car for private purpose shall be billed by the Company to the appointee.**

The Executive Director shall be entitled to reimbursement of all actual expenses including entertainment and travel incurred in the course of business of the Company.

She will not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof.

The appointment as aforesaid may be terminated by either party giving to the other, three calendar months notice in writing.

Commission, if any, shall be paid in accordance with the provisions of the Companies Act, 1956, and in the manner prescribed thereunder.

The appointment shall be subject to approval of the shareholders in General Meeting.

#### MEMORANDUM OF CONCERN OR INTEREST

Apart from Mrs. Chhanda Deshpande herself, Mr. Vinay L Deshpande, Chairman & CEO, being a relative of Mrs. Chhanda Deshpande, may be deemed to be concerned/interested in the resolution.

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

As per Listing Agreement, particulars of Directors who are proposed to be re-appointed are given below:

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, Mumbai and is currently the Director of Jindal Vijayanagar Steel Ltd and Jindal South West Holdings Ltd, Chairman of Vesuvius India Ltd 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 (1.4.2004 to 31.03.2005)

Name of the Director	No. of Board Meetings held	No. of Board Meetings attended in person
Dr. Saibal Kanti Gupta	04	03
Mrs. Chhanda Deshpande	04	02

By order of the Board

Date : June 28, 2005  
Place: Bangalore

**Vinay L Deshpande**  
Chairman & CEO

## Director's Report

Your Directors are pleased to present the Thirteenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2005.

### FINANCIAL RESULTS

(Rs. In Million)

Particulars	Year ended March 31, 2005	Year ended March 31, 2004
Operating Income	33.59	67.23
Gross Profit/(Loss) after Interest But Before Depreciation and Tax	(46.70)	(11.93)
Less: Depreciation	4.30	4.08
Provision for Tax	-	(0.33)
Deferred tax asset withdrawn	2.90	-
Profit/(Loss) after Tax	(53.90)	(15.68)
Transfer to Reserve	NIL	NIL

### OPERATIONS AND DIVIDEND

Your Company has focused mainly on R&D to complete the ongoing development projects in Mobile Computing and Advanced Projects during the year under review, and therefore did not generate enough sales revenue to result in profits on operations. Consequently, it would not be possible to declare a dividend for the year passed.

Nevertheless, the Company achieved a major milestone by securing an order for production quantities of the *Sathi*, the battlefield handheld computer developed for the Indian Army under the earlier Project Beta. This order would be delivered during the coming fiscal, and will assist the Company to turn profitable during the same year.

### OVERSEAS OPERATIONS

The overseas operations in the United States (NcoreUSA Inc) and Singapore (Encore Technologies Singapore Pte Ltd) continue to be very low-key operations, and have not generated any sales revenue or profit during the year under review.

### INDUSTRY OUTLOOK

Coupled with the booming economy, the increased spending on IT announced in the recent Union Budget, as well as increase in such spending contemplated by the corporate sector, one that the prospects for indigenous hardware product vendors have grown significantly, and the coming year should see your Company benefit from the same. This is also reflected in the considerably heightened activity in terms of enquiries and tenders for handheld devices such as our *Encore Simputer*, which augurs well for the coming year.

The telecommunications sector is also booming worldwide, and the area of Voice-over-IP (VoIP) in which your Company has had a proven and robust set of Intellectual Property, has been especially showing extremely encouraging signs of rapid growth in the year to follow. The Management therefore expects to benefit

from such growth as and when it happens during the coming fiscal.

### MOBILE COMPUTING PRODUCTS

Although the uptake of our *Encore Simputer* during the year under review continued to be far below the expectations, the efforts over the past three years to develop the market for the mobile computing products, the *Encore Simputer* and the *Sathi*, are now beginning to bear fruit. While the Company has already received the first production order for the *Sathi*, several more are expected to be received in the coming year, from different user groups within the Army, with certain modifications to meet different user requirements. The Navy has also now started negotiations for similar products, and the Company expects to receive a significant order for development of a customized mobile computing product from them during the coming year. Likewise, the *Encore Simputer* is beginning to see some extremely interesting applications, such as the order received from Mahindra and Mahindra for 200 *Encore Simputers* for use in running engine diagnostics for their new *Scorpio CRDI* vehicle, in their factory as well as in their service depots and in the field. Several other such interesting applications are currently under discussion with various customers, and are expected to see the light of day during the current year.

### ADVANCED PROJECTS

Your Company's R&D project to develop the *SofComp*, funded by a soft loan from the New Millennium Indian Technology Leadership Initiative (NMITLI) programme of the DSIR, Government of India, was completed during the year under review, with three versions having been developed – the *Mobilis STN*, the *Mobilis TFT*, and the *SofComp*. The first two are mobile desktop computers, and the third an ultra-compact desktop computer for everyday tasks. These products have already been demonstrated to a few potential customers, who have reacted extremely enthusiastically to them, with a US customer having already decided to use the *Mobilis* as a residential gateway for HVAC and Security applications in multi-unit dwellings. Another version has also been adapted into the new *Reva NXG* concept electric car as its built-in electronic dashboard, which has been received extremely enthusiastically by the electric vehicle and automobile industries.

The *Mobilis* and *SofComp* family of products is expected to add substantially to the sales and profits during the year to follow.

### TECHNOLOGY SOLUTIONS

During the year under review, the Company has initiated another exciting new technology development in the area of the new WiMAX standard for wireless networks, and expect to bring out the first product from this effort during the year to follow. This should help us to substantially improve the Company's revenues from licencing of intellectual property, as some of the existing portfolio of intellectual property is now showing signs of commoditization and consequent slowdown of revenue in the Technology Solutions area.



## OPPORTUNITIES

The advent of the new products developed by your Company, as well as the rapidly growing market for VoIP around the world, should open up exciting new opportunities for your Company in the coming year. Discussions have already been initiated with a variety of potential customers for our *Mobilis* and *SofComp* products as well as the new intellectual property in WiMAX. Also, some large-scale licencing opportunities have presented themselves in the VoIP area, with some US customers, which should result in both up-front fees during the coming year as well as substantial royalties in the years to follow. Likewise, it seems that the potential customer base has begun to understand the power and flexibility of our *Encore Simputer*, which in turn is opening up new opportunities for substantial deployment, especially in the areas of e-governance, banking, micro finance, and POS.

## RISKS AND CONCERNS

While the above developments are very exciting, there could be risks associated with their marketing as well as commercial delivery, owing to the fact that the Company has invested large resources in the new developments and will therefore need to garner further resources in order to successfully productionize and deliver the new products to our customers.

## 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, which 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 has been provided in Annexure 'B'.

Auditors' Report on Corporate Governance is provided in Annexure 'C'.

## PARTICULARS OF EMPLOYEES

There was no employee drawing remuneration in excess of the 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 are eligible for re-appointment. Your Board recommends reappointments of Mr. Vinay L Deshpande as Chairman & CEO and Mrs. Chhanda Deshpande as Executive Director for further period of 3 years.

## 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

In view of the initiative taken in development of diversified products, which promise potential business, the Directors consider it appropriate to adopt the 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 June 28, 2005; suitable explanations have been furnished in Annexure 'D'.

## 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, have been 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 well-wishers, for their continued support.

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

For and on behalf of the Board

Place : Bangalore  
Date : June 28, 2005

**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 and Research & 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. The Company has a dedicated team of technically competent personnel who relentlessly work on technology upgradation and development related fields.

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 was Rs. 25.61 Million as against Rs. 46.66 Million in the previous year.

Total Foreign Exchange Outgo during the year amounted to Rs. 14.77 Million as against Rs. 16.17 Million in the previous year.

**Annexure "B" to the Directors' Report****REPORT ON CORPORATE GOVERNANCE****1. PHILOSOPHY ON CORPORATE GOVERNANCE**

While the Industry Outlook and the Company's future plans are provided in the main part of the Directors' Report, your Directors wish to share additional information with you.

The Board represents the stakeholders' interests in terms of safety and return on their investments. It is further responsible to the various constituents of business viz. Employees, customers, and vendors and to the society where it operates. Customer satisfaction has been the chief motto of the Company.

**2. MEANS OF COMMUNICATION**

- a. Quarterly results of your Company are published regularly in The Financial Express

and Sanjevani (English and Kannada, respectively).

- b. The quarterly results and the shareholding pattern are displayed on the Company's website., www.ncoretech.com, together with the official news releases, awards and recognition for Company's products.

**3. STOCK EXCHANGE LISTING**

- a. The transactions with respect to your shares shall be conducted only in Electronic form and are listed on The Stock Exchange, Mumbai, 1st Floor, Rotunda Building, B S Marg Fort, Mumbai - 400 001:

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 being as follows:

Category	Names of Directors	Number of Directors	Composition %	No. of Directorships in other Companies	No. of Chairmanships of other companies	No. of Memberships in Committees of other companies
i) Promoter Chairman & CEO	Vinay L. Deshpande	2	40	07	Nil	01
Executive Director	Chhanda Deshpande					
ii) Independent & Non executive Directors	Dr. S K Gupta Prof. V. Rajaraman Prof. Ramaswamy P. Aiyar	3	60	06 01 03	04 01 Nil	Nil Nil Nil
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:**

Board meetings are normally held at the registered office of the Company and with sufficient notice along with Agenda and Notes circulated ahead of the Meetings. Four Board meetings were held between April 1, 2004 and March 31, 2005 on the following dates: June 11, 2004; July 7, 2004; October 28, 2004; and January 28, 2005.

The last two Annual General Meetings were held on dates, places, and times as below:

1. 12th Annual General Meeting held at 3.00 pm on September 15, 2004, at Hotel Rama, Lavelle Road, Bangalore 560 001.



2. 11th Annual General Meeting held at 3.30 pm on July 25, 2003, 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 12th AGM held (Yes/No)
Vinay L. Deshpande	4	4	Nil	Yes
Chhanda Deshpande	4	2	Nil	Yes
Dr. S K Gupta	4	3	Nil	No
Prof. V Rajaraman	4	4	Nil	Yes
Prof. Ramaswamy P Aiyar	4	3	Nil	No

Dr. S K Gupta and Mrs. Chhanda Deshpande, Directors, retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

#### 7. REMUNERATION PAID TO INDEPENDENT DIRECTORS

Sitting Fee of Rs. 1,000/- per Director 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

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

#### 9. COMPLIANCES

The Company is equipped with professional skills 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.

#### 10. POSTAL BALLOT

The concept of Postal Ballot was introduced by the Companies (Amendment) Act, 2000. The Company will comply with the provisions of law, whenever so required.

No resolution was passed through Postal Ballot during the year under review in terms of Section 192A of the Companies Act, 1956 and the Companies (Passing of Resolution by Postal Ballot) Rules, 2001.

#### 11. AUDIT COMMITTEE

The Audit Committee comprises of two Non-Executive independent Directors and a Chairman who is also an Independent Director.

The key functions of the Committee are:

- 1 Reviewing with the management the annual financial statements before submission to the Board and reviewing any activity coming under its reference.
- 2 Overseeing the Company's financial reporting and public disclosure processes to ensure that financial statements are correct, sufficient, and credible.
- 3 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.
- 4 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. Auditors are invitees to the Meetings hereof.

The Committee met four times during the financial year 2004-2005: on June 11, 2004; July 7, 2004; October 28, 2004; and January 28, 2005. Attendance details are set out below:

Members	No. of meetings	No. of meetings attended in person	No. of meetings participated through teleconference/ video conference
Dr. S K Gupta	3	2	Nil
Prof. V Rajaraman	3	3	Nil
Prof. Ramaswamy P Aiyar	3	3	Nil

The Audit Committee invites such additional persons including the Auditors, as may be desired necessary from time to time, to its meetings.

#### 12. COMPENSATION COMMITTEE

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

The Committee performs the following key functions:

- 1 Periodically reviewing the compensation and benefits for Executive Directors and senior management.
- 2 Reviewing the Employee Stock Option Plan of the Company and related issues.