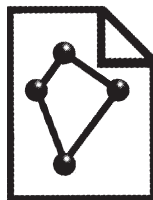

***Fifteenth
Annual Report
2009-2010***



Datanet Systems Limited

DIRECTORS

G H VISWESWARA
Chief Executive Officer and Managing Director

H K NANJUNDA SWAMY

H V GOWTHAMA

SUDHIR PRAKASH

B R GANESH

DR. TEJ SHARMA

SHANKAR JAGANATHAN

CHIEF FINANCIAL OFFICER

Smt Yashoda Srinivas

AUDITORS

M/s. CGS & Co., CHARTERED ACCOUNTANTS, BANGALORE

BANKERS

BANK OF BARODA, BYRASANDRA BRANCH, BANGALORE

REGISTERED OFFICE

NO. 23/57, 2ND FLOOR
41ST CROSS, EAST END 'C' MAIN ROAD
JAYANAGAR 9TH BLOCK
BANGALORE - 560 069

Chairman's Statement

Dear shareholder,

The company started the year with good hopes due to the expected large-scale deployment of our software by Department of Posts, Government of India (DOP). After several negotiations and many meetings, DOP finally signed an agreement with the company for a certain amount of Annual Maintenance Contract (AMC) and for supply of specific number of software licenses.

The company was hopeful that based on this arrangement with DOP and assured income and renewal of AMC on better terms for the fiscal 2010-11 would make the prospects of the company look up. Unfortunately, it was given to understand that DOP suffered an unexpected budget cut due to recession towards the end of the fiscal year 2009-10 and could not fulfill nearly 50% of the agreed terms of the contract. Company's efforts in getting DOP's firm commitments for the year 2010-11 did not yield good results. This created a serious problem for the company with regard to financial and other resources, DOP being company's main customer.

In view of a precarious position being faced by the company, company was constrained urgently to consider other corporate actions to protect shareholders interests and arrest further drain on network. Board of Directors started exploring various options including possibility of merger, acquisition, corporate restructuring etc., on a priority basis.

As you are aware by now, the directors approved a Scheme of Arrangement (SOA) as permitted by the provisions of Companies Act, 1956 with a reputed unlisted public limited company which is presently under scrutiny with statutory authorities. Your directors are hopeful that at the end of this exercise, shareholders will stand to benefit in the long run.

In closing, I would like to record here our gratitude to the investors for your patience and continued support.

Place : Bangalore

Date : 26th August 2010

Chairman

NOTICE

Notice is hereby given that the **Fifteenth Annual General Meeting of Datanet Systems Limited** will be held on Thursday, the 30th day of September 2010 at 4:30 P.M at "Rohini", Hotel Ajantha, No. 22A, M G Road, Bangalore – 560 001 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at 31st March 2010 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a director in place of Sri H K Nanjunda Swamy who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a director in place of Sri H V Gowthama who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Sri B R Ganesh, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint M/S CGS & Co. , Chartered Accountants as Auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the company and to authorize the Board to fix their remuneration.
6. To consider and if thought fit, to pass with or without modification, the following **ORDINARY RESOLUTION :**

"RESOLVED THAT Sri Shankar Jaganathan who was appointed as an Additional Director of the company on 8th May 2010 and who, in terms of Section 260 of the Companies Act, 1956 , holds office upto the date of the Annual General Meeting , and in respect of whom the Company has received notice from a member under Section 257 of the Companies Act, 1956 , signifying his intention to propose him as a candidate for the office of the Director , be and is hereby appointed a Director of the Company".

By Order of the Board

Bangalore
26th August 2010

Mr. G H Visweswara
Managing Director

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.
2. The Register of Members and share transfer books will remain closed from 24.09.2010 to 30.09.2010 (both days inclusive).
3. Members are requested to bring duly filled Attendance Slip and hand over the same at the entrance of the Meeting Hall.

All documents referred to in the accompanying Notice are open for inspection at the registered office of the company during office hours on all working days upto the date of the AGM. The 15th annual report dispatched to the members contains the agenda matters to be taken during the meeting. Full annual report is available at our website and can also be obtained on demand from the Registered Office.
4. Members who hold shares in dematerialised form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
5. Members are requested to notify any change in their address immediately to our Registrars and Share Transfer Agent viz., Cameo Corporate Services Limited, "Subramanian Building" V Floor, No.1, Club House Road, Chennai – 600 002.
6. Members holding shares in physical form are requested to dematerialise the shares to electronic form to facilitate faster transfer and avoid rejections for bad deliveries. The share certificates may be sent directly to our Registrar and Share Transfer Agent, Cameo Corporate Services Limited.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

In conformity with the provisions of Section 173(2) of the Companies Act, 1956, the following Explanatory Statement sets out all the material facts relating to the items of Special Business at item 6.

Item No. 6

The Board of Directors of the Company at its meeting held on 8th May 2010 appointed Sri Shankar Jaganathan as an additional director. The company has received a notice in writing from a member proposing the candidature of Sri Shankar Jaganathan for the office of a director under the provisions of Section 257 of the Companies Act, 1956.

Sri Shankar Jaganathan, aged 50 years, is a Chartered Accountant and Law Graduate. He has varied experience in Corporate, academic and social sectors. He worked with Wipro Limited for 18 years. He was Corporate Treasurer for the period from 1995 to 2003. He also headed the Technology Initiative Program and Academic and Pedagogy function in Azim Premji Foundation from 2003 to 2006.

He is currently practicing as a Management Consultant and focused in research, writing and teaching. He is the author of the book Corporate Disclosures 1553-2007, published by Routledge.

The directors feel that the appointment of Sri Shankar Jaganathan having experience in corporate planning, investor relations, treasury and accounting functions would be in the best interest of the company and therefore recommend the resolution for members' approval. None of the directors of the company other than Sri Shankar Jaganathan is concerned or interested in this resolution.

Additional Information

Sri H K Nanjunda Swamy, aged 81 years, is B.E.(Civil) from Mysore University. He is the promoter director of the company. He has over 59 years of diverse experience in Civil Engineering. He was a visiting professor in Bangalore University from 1978 to 1983. He is the recipient of various awards and distinctions for his contribution in his chosen field. He is also the founder President of Sir M Visvesvaraya Co-operative Bank Ltd. He is Chairman of Mysore Stoneware Pipes and Potteries Ltd. He is a member of Audit Committee, Share Transfer Committee, and Chairman of Investors' Grievance Committee of the company.

Sri H V Gowthama aged 62 years is Chartered Accountant by profession. He is having more than 34 years of experience in his profession. He is Managing Partner of Gowthama & Company, Chartered Accountants. He is a Director in Kamerad News Agencies Pvt. Ltd., Digico India Pvt Ltd., Vertex Electronics Ltd., Koteshwara Co-op bank Ltd. He is the Chairman of the Audit and Share Transfer Committees, member of the Investors' Grievance and Compensation Committees of the Company.

Sri B R Ganesh aged 49 years is an Electronics Engineer and Director of Westech Electronic India Pvt Ltd and Team Tantra Pvt Ltd. He has worked as Director in Analog Device Inc. India Operations. In 1995, he established Electronics Trading Company known as Team Technology, which subsequently had joint collaboration with Singapore based Westech Electronics. In 2000, he established a 100% Export Oriented Electronics Socket assembly unit in collaboration with a Korean Company. He is a member of Audit Committee, Investors' Grievance and Compensation Committees of the company.

DIRECTORS' REPORT

Your Directors present the 15th Annual Report and the audited accounts of your Company for the year ended 31st March 2010.

Financial Highlights

	(Rs. in lakhs)	
	2009-10	2008-09
Sales and Services	34.14	18.84
Other Income	21.47	12.31
Total Income	55.61	31.15
Profit /(Loss) Before Depreciation, Interest & Taxes (PBDIT)	(59.62)	(71.39)
Interest	0.08	0.19
Depreciation	3.91	2.14
Profit / (Loss) Before Tax	(63.61)	(73.72)
Provision for Tax	0.00	0.00
Net profit / (loss) before exceptional item	(63.61)	(73.72)
Profit on sale of investments	0.00	25.00
Net profit/(loss) after exceptional item	(63.61)	(48.72)
Earnings Per Share		
Equity shares, par value Rs. 10/-each		
Basic/Diluted (Rs. per share)		
Before exceptional item	(0.51)	(0.59)
After exceptional item	(0.51)	(0.39)

Performance

During the year under review, income by way of sales and service increased by Rs. 15.31 lakhs. i.e. by 81% as compared to the sale and service income of 2008-09 .

One of customers of the company could not meet the commitments of the order before the end of the fiscal 2009-10. Hence, in spite of company's projections, 2009-10 did not result in a year of profit.

However, every effort was made to cut all possible expenses and the company could survive in spite of its poor financial and other resources.

To arrest further erosion of networth resulting from decline in business of the company, company is considering various options available to it under present circumstances.

Outlook

Matter on senior management's efforts in restructuring your company is available else where in this annual report. With this, directors are of the opinion that further erosion of net worth could be arrested and benefit of the listing status of the company can be enjoyed.

As the shareholders are already aware, the Directors have approved a Scheme of Arrangement, the highlights of which are as below:

1. Reduce existing 12,601,300 equity shares of Rs. 10/- each to new 790,993 equity shares of Rs. 10/- each. i.e. after reduction, one new equity share for every 15 existing shares. This is necessitated due to erosion in networth resulting from accumulated losses of the company.
2. Acquisition of Managed Printing Solutions division of M/S WeP Solutions India Limited, an unlisted public limited company by issue of 10,471,681 new equity shares of the company to the shareholders of the WeP Solutions India Limited
3. April 1, 2010 being the appointed date for the Scheme of Arrangement.

Directors

Dr. A Prabhakar, one of the key promoters and founder of the company resigned as director with effect from 4th March 2010

Sri Shankar Jaganathan, eminent Chartered Accountant was appointed as director with effect from 8th May 2010.

Sri H K Nanjunda Swamy, Sri H V Gowthama and Sri B R Ganesh retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment. A brief profile of these directors is given in the Notice of the Annual General Meeting.

Dividends

The Board has not recommended any dividend for the year ended March 31, 2010.

Corporate Governance

Your company adheres to all the mandatory recommendations laid down by the Stock Exchanges. A report on Corporate Governance is provided in this Report. The Auditors Certificate on compliance with the standards also forms part of this Annual Report.

Depository System

Equity shares of your company are compulsorily tradable in dematerialised form. Your company has signed agreements with National Securities Depository Limited and Central Depository Services (India) Limited for dematerialisation of its equity shares. Your company also offers the provision of transfer cum dematerialisation of shares.

Public Deposits

Your Company has not accepted any deposits from the public during the year under review.

Research & Development

The company has not carried out any research activity during the year under review in view of limited resources available at its disposal.

Subsidiary Company

As on 31st March 2010, company has no subsidiary. Hence requirement of reporting the statement pursuant to Section 212 of the Companies Act, 1956 and other statutory financial statements of a subsidiary does not arise.

Employee Stock Option Plan

As per Clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 the details of the Employees Stock Option Plan during financial year 2009-10 i.e. as on 31st March 2010 are as below :

Options granted (as per Datanet ESOP PH II)	3,00,000 Options, each convertible into an equity share of Rs. 10/- each
The pricing formula	The price fixed for these options is Rs.10/- being the face value of shares and the amount paid by the Trust while purchasing the shares of the company.
Options vested during the year	Nil
Options exercised during the year	Nil
Options lapsed during the year	Nil
Total Number of shares arising out of exercise of options	Nil
Variations of terms of options	Not Applicable
Money realised by exercise of options	Nil
Total number of options in vested and in force	156,000
Employee wise details of options granted to :	
i) Senior Management	Sri. G H Visweswara - 125000 Smt. Yashoda Srinivas - 75000 Sri. Ravichandran - 40000 Smt. Shylaja - 20000
ii) Employees holding 5% or more of the total number of options granted.	Sri. G H Visweswara Smt. Yashoda Srinivas Sri. Ravichandran Smt. Shylaja
iii) Employees who were issued shares equal to or exceeding 1% of the issued capital	Nil

Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33	Not Applicable
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Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to the Directors' Responsibility Statement, it is hereby confirmed that:

- In the preparation of the annual accounts for the financial year ended 31st March 2010, the applicable accounting standards have been followed along with proper examination relating to material departures;
- The directors have selected such accounting policies and applied them consistently except where otherwise stated in the notes on accounts and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profits of the company for the year under review;
- The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- The directors had prepared the accounts for the financial year ended 31st March 2010 on a 'going concern' basis.

Observations and remarks in the Audit report

With regard to observation regarding preparation of accounts on a going concern basis despite the erosion of net worth as at 31st March 2010, the appropriateness of which the auditors are unable to comment on in the absence of significant progress in the performance of the company, your directors are confident that the restructuring of your company will give better benefits to the shareholders in the long run.

With regard to observation about accumulated losses, year's cash losses, delay and irregularity in remittance of statutory dues, the same are statements of facts.

Auditors

Auditors M/s CGS& Co., Chartered Accountants retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Personnel

There are no employees drawing remuneration in excess of limits specified in Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended.

Human Resources

Employee relations remained cordial during the year. Your directors take this opportunity to record their appreciation for the contribution of all employees of your company during the year. As on 31.03.2010, the employee strength of your company stood at 6.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings / Outgo

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 are given in the Annexure to this report.

Acknowledgements

Your directors take this opportunity to thank all the investors, vendors, customers, banks and the governmental authorities for their support. Your Directors wish to place on record their appreciation for the commitment and significant contribution made by the employees at all levels.

For and on behalf of the Board of Directors

Bangalore
26th August 2010

G H Visweswara
Managing Director

Annexure to Directors' Report

Information required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988

A. Conservation of Energy

The company's operations are not energy intensive. Adequate measures have been taken to reduce energy consumption by using energy efficient computers with latest technologies.

The expenditure on account of power amounting to Rs 0.58 lakhs (previous year Rs 0.98 lakhs) is reasonable.

B. Foreign Exchange Earnings and Outgo

During the year earning in foreign exchange is Rs. Nil (previous year Rs. Nil).

Outgo on account of foreign currency during the year was Rs Nil (previous year Rs. Nil)

Management Discussion and Analysis

Industry Structure and Developments

From its inception the company was focused on developing technology platforms and application software products based on in-house Research and Development (R&D). The two key areas it has chosen are Business process management & smart cards, with applications particularly for financial service segment.

India's software industry has largely been services oriented rather than being product based. The company has therefore been one of the few to be working at the high end of value chain. The marketing focus had been predominantly within India. Hence Datanet needs to be compared with Indian companies in pure product development space, selling to Indian customers.

Opportunities and Threats

Due to availability of limited resources during the year, the company had to focus on getting the best out of the technologies, products, customers and resources it already had. This resulted in our focusing on one of our largest customers, viz Department of Posts. The Savings Bank computerization software that we had custom-built for them was deployed by them on a relatively large-scale. Going forward, we had expected this opportunity to bring even bigger revenues.

However, as stated elsewhere in this report, the non-fulfillment of committed purchases by Department of Posts (DOP) due to unexpected budget cuts faced by them in the last quarter completely reversed the situation for the company, causing concern about future business prospects. Accordingly the Board of Directors seriously considered various options including Mergers and acquisition. A Scheme of Arrangement (SOA) has now been approved by the Board and submitted to Bombay Stock Exchange for scrutiny and approval. Through various statutory announcements, shareholders would come to know about the progress in this respect.

Segment wise and Product wise performance

During the year ended 31st March 2010, company's operations were predominantly in updating & supplying the postal banking product, development/tuning of Simputer and smart card based solutions, which is the segment of financial services.

Outlook

With finalisation of a Scheme of Arrangement with a public limited company, Directors believe that the future holds promise for the shareholders.

Internal Control Systems and their adequacy

The company has adequate internal control procedures for the purchase of components, stores, plant and machinery (computer peripherals) equipment and other similar assets and for the sale of goods, commensurate with its current scale of operations.

Discussion of financial performance with respect to operational performance

The company took several measures to cut costs, make best use of available resources, and avoid holding unwanted / unproductive resources. Considering this, the relative performance has been satisfactory.

Developments in human resources / industrial relations front, including number of people employed

During the financial year 2009-10, the available manpower providing the required stability and continuity was commensurate with the operations of the company. Training for the personnel has been provided on a need basis. Relations on the industrial front remained cordial.