



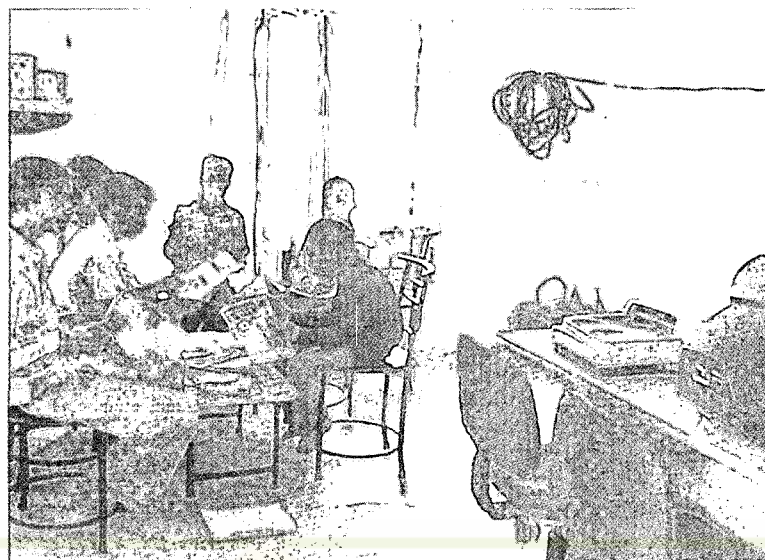
SARK SYSTEMS INDIA LIMITED



9TH ANNUAL REPORT

2006-2007

HARYANA CSC PROJECT



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SHARWA



ISHARWAL

**BOARD OF DIRECTORS :**

Sri J.S.R.Durga Prasad	Chairman
Sri J.Muralikrishna	Managing Director
Sri. P.V. Narasimham	Director
Sri. Guhan Subramaniam	Nominee Director (Sara Fund Turstee Company (P) Ltd managed by IL &FS)
Sri. V.Umapathi	Director
Dr. G.T.Murthy	Director
Sri. D. Visweswara Rao	Director
Sri G.Raghurama Sharma (Alternate to Sri D.Visweswara Rao)	Director

AUDITORS :

Mahesh, Virender and Sriram
Chartered Accountants
6-3-788-36 & 37 A
Durga Nagar Colony
Hyderabad 500 016

BANKERS :

UCO Bank
State Bank of Patiala
ICICI Bank
UTI Bank

REGD. & CORP. OFFICE:

6-3-801, II Floor
Crystal Arcade
Ameerpet
Hyderabad - 500 016

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NOTICE

Notice is hereby given that the 9th Annual General Meeting of the Company will be held on Saturday, the 29th day of September 2007 at 10:00 A.M at ISE Conference Hall, 3rd Floor, Stock Exchange Building, Himayat Nagar, Hyderabad - 500 029 to transact the following business.

ORDINARY BUSINESS :

1. To receive consider and adopt the audited accounts of the company for the year ended 31st March 2007 and reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Dr.G.T. Murthy who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Sri.V.Umapathi who retires by rotation and being eligible offers himself for re-appointment.
4. To consider and if thought fit to pass with or without modification the following resolution, as an ordinary resolution:

“Resolved that M/s. Mahesh, Virender and Sriram, Chartered Accountants, the retiring Auditors, be and are hereby appointed as Auditors of the company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting at a remuneration as may be fixed by the Board of Directors and reimbursement of out of pocket expenses.”

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 Sri. Guhan Subramaniam, who was appointed as an Additional Director of the Company with effect from 21st day April 2007 under Article No.94 of the Articles of Association and who holds office until the date of ensuing Annual General Meeting under Section 260 of the Companies Act, 1956 be and is hereby appointed as Director of the Company liable to retire by rotation.

By Order of the Board of
SARK Systems India Limited,

Place: Hyderabad
Date : 03-09-2007

J. Murali Krishna
Managing Director

**NOTES :**

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for himself. A proxy need not be a member.
Proxies in order to be valid shall be deposited with the corporate office of Company not less than 48 hours before the commencement of the meeting.
2. An explanatory statement pursuant to section 173(2) of the Companies Act, 1956 is annexed herewith.
3. The Register of members and share Transfer Books of the Company will remain closed from 24-09-2007 to 29-09-2007 (both days inclusive).
4. Members / Proxies attending the meeting are requested to bring the attendance slip sent with Annual report and hand over the same at the entrance duly filled and signed.
5. Members who hold their shares in dematerialized form are requested to bring their Client ID and DP numbers for easy identification of attendance at the meeting.
6. Shareholders are requested to intimate immediately any change in their address and bank account details registered with the Company in case of physical holders and in case of demat holders to their DP holders directly.
7. Retirement of Directors by rotation:

Dr.G.T.Murthy holds a Doctorate in Physics and was associated with Research Organizations like, Tata Institute of Fundamental Research, ASA (USA), MIT (USA) and as Project head of ECIL, Semiconductor complex Ltd. He rendered a decade of service for Crompton Greaves Ltd., setting up their Electronic Business. At present he is an Emeritus Professor teaching BPR in I.I.T Mumbai.

Sri. V. Umapathi, a Chartered Accountant, is a partner of M/s. Jawahar & Associates with over two decades of Industry and consulting experience.

Directors commend the reappointment of above persons as Directors of the Company.

8. Details of Director(s) seeking regularization at the forthcoming Annual General Meeting (Pursuant to Clause 49 of the listing agreement).

Name	:	Sri. Guhan Subramaniam
Date of Birth & Age	:	08.05.1954, 53 years
Qualification	:	PGDBM
Experience	:	28 years
Nature of expertise in Specific functional areas	:	Multi functional, multi industry operations experience
Names of other companies in which Directorships held	:	Mindtek (India) Ltd, SI2 Microsystems Ltd., IPF Online Ltd, EBS Wonderwide Ltd., GSS Americal Ltd.,
Number of Shares of Rs. 10/- Held by the Director / His relatives.	:	NIL



Sark Systems India Limited

EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of the Companies Act, 1956 for Item No.5 of the accompanying Notice.)

Item No. 5:

Sri. Guhan Subramaniam was co-opted as Additional Director on the Board of the Company with effect from 21st day of April 2007 pursuant to Section 260 of the Companies Act, 1956 and Sri. Guhan Subramaniam will hold office until the conclusion of the ensuing Annual General Meeting.

Sri. Guhan Subramaniam is a Managing Partner at IL&FS Investment Managers Ltd (IIML). IIML, the private equity affiliate of IL&FS Group, is a leading private equity investment fund manager. Sri. Guhan is an experienced professional and a senior member of the IL&FS private equity team. He has 28 years of multi functional, multi industry operations experience. His experience has predominantly been in Information Technology and Software Solutions, Products & Services business both in India and global markets. He has a successful track record with a consistent management career spanning Sales, Marketing, Business Development, Human Resources Development, Business Planning and eventually as Head of Operations. He has held senior management & leadership positions as COO, Vice President & General Manager with leading corporations in India such as Wipro Infotech Ltd., BPL Innovation Group, ALIT, HCL Ltd., PSI Data Systems Ltd., Modi Xerox Ltd. (a Xerox joint venture), Godrej & Boyce Ltd.

His services will immensely help the Company and hence the Board commends the resolution for the approval of members.

Except Sri. Guhan Subramaniam, no other Director is deemed to be interested or concerned in the above resolution.

By Order of the Board of
SARK Systems India Limited,

Place: Hyderabad
Date : 03-09-2007

J. Murali Krishna
Managing Director

**DIRECTORS' REPORT**

The Directors have pleasure in presenting their 9th Annual Report together with the Audited Accounts for the financial year ended 31st March 2007.

FINANCIAL RESULTS:**Rs. in Lakhs**

Description	2006-2007	2005-2006
Total Income	712.28	540.98
Profit before Interest, Depreciation and Taxation	428.06	307.11
Interest	45.58	34.51
Depreciation	208.75	158.15
Preliminary & Public issue expenses w/off	3.07	3.07
Profit before Taxation	170.66	111.37
Provision for Taxation		
Fringe Benefit Tax	3.09	0.55
Income Tax	19.20	9.37
Deferred Tax	40.93	36.74
Profit after Taxation	107.43	64.71
Balance brought forward	198.88	137.81
Amount available for the appropriations	306.31	202.53
Preference Dividend	8.00	3.20
Corporate Dividend tax	1.36	0.45
Surplus carried forward	296.95	198.88

The company earned gross profit before interest, depreciation and tax of Rs.428.06 lakhs during the year 2006-07. Profits before tax stood at Rs.170.66 lakhs. Net profit after tax was Rs107.43 lakhs.

Business Outlook Review and Management Discussion:

The company is in the space of e-Governance and in particular in e-enabled Citizen Services. As per the nasscom reports the Indian IT market has grown in the year 2006-2007 at the rate of about 29% and expected to reach in the current to a volume of about US\$15.9 Billion. The e-Governance as a market space is expected to grow at rate of about 22 to 25% per annum. Most of central government departments/ministries have been advised to budget 2 to 3% towards IT initiatives implementation.

The national e-governance program launched by Govt. of India and the stated vision

“Make all Government services accessible to the common man in his locality, through common service delivery outlets and ensure efficiency, transparency & reliability of such services at affordable costs to realize the basic needs of the common man” amply speaks for the business opportunity available in the space.



The company has been rendering citizen centric e-governance services such as Bus pass issue, Ration card issue, tax collection and various other services since 2001 and established its name and presence over the period. These projects have been executed across many states in India thus building the competency and width in rendering services in any part of the nation.

Some of the cardinal points now accepted across the board in government that culminated making the national e-governance plan are political ownership, public private partnership, government as more a facilitator and service standards definition and monitoring agency than an implementer, development of infrastructure as data centers, and wide area networks across the states and re-engineering and management of change.

The following exhibit from MITs website gives the future of NeGP to follow.

Towards e-Governance

In line with the Government's commitment to accord priority to improving the quality of governance, an ambitious National e-Governance Plan (NeGP) has been initiated. The National e-Governance Plan aims at:

- Improving delivery of Government services to citizens and businesses
- Making all Government services accessible to the common man in his locality, throughout his life through a one-stop-shop (integrated service delivery) ensuring efficiency, transparency and reliability at affordable costs to meet the basic needs of the common man.
- Creating infrastructure to facilitate webenabled anytime, anywhere access - including high speed, high capacity (minimum 2 Mbps), reliable network connectivity for Government to Government communication up to the village level through State Wide Area Network
- Setting up 100,000 Common Service Centres in rural areas with equitable geographical spread to facilitate delivery of e-Services • Creating National Data Bank and State Data Centres.
- Initiating Mission Mode Citizen Centric Projects at the Central and State levels.
- Creating an institutional framework for Core Policies and Standards to promote Localization, Inter-operability, Security and Building of Scalable Modules.
- Creation of a unified India Portal for accessing information in the State Sector (Executive, udiciary, Legislature and Constitutional Authorities) for electronic delivery of citizen services
- Promotion of e-Governance through a Centralized Initiative and Decentralized Implementation and encouraging Public Private Partnership arrangements to enlarge the resource pool
- Government to spend US\$ 2580 million on e-Governance initiatives over the next 10 years.

SARK Systems has already bagged CSCs projects in the states of Haryana and Bihar and aims to participate in some more states in the coming year also. There are about 2000 Citizen Service centers have to be setup by the company in the next one year across these two states requiring large capital. Few of the pilot centers set up by the company in Haryana have given very encouraging results though the business model has to be redefined to include education and child development as two other initiatives to be combined in the services instead of e-transaction services alone. Based on some of these pilot centers experiences the income that can be garnered from these centers appears to spread from Rs 5000 per month to Rs 20,000 per month based on the population, age mix, crop production and primary and secondary school availability in the villages concerned. These revenues can be scaled over the project duration of four years to any where between Rs 15,000 to Rs 45,000 based on the progressive development that take place in these villages and our ability to innovate goods and services delivery through the Citizen service center medium.



The role for the company is well defined to increase the management bandwidth, strengthen systems and procedures, adopt open source technology platform and build application and services, associate with many strategic service providers in education, agriculture and farm inputs, retail, healthcare and entertainment to make citizen service centers a formidable force in the rural development and there by assured top line and bottom line growth.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

SHARE CAPITAL:

The paid up Equity Share Capital now stands at Rs.9,35,00,000 represented by 93,50,000 Equity Shares of Rs.10/- each after conversion of 15,00,000 share warrants into 15,00,000 Equity Shares of Rs. 10/- each at a premium of Rs. 21/- on 11th day of July 2007.

DIVIDEND ON EQUITY SHARE CAPITAL:

Due to expansion of the projects and continuous requirement of funds your board felt that the funds be conserved and hence the directors do not recommend any dividend for the financial year 2006-07.

RESERVES & SURPLUS:

During the year under review the reserves and surplus stood at Rs721.55 lakhs.

FIXED ASSETS:

The fixed assets of the company stood at Rs.2108.49 lakhs as at the end of the current year as compared to Rs.1809.11 lakhs of previous year.

NET CURRENT ASSETS:

The net current assets of the Company have increased to Rs.606.75 lakhs as on 31st March 2007 from Rs.365.33 lakhs as at 31st March 2006.

FIXED DEPOSITS:

During the year your company has not invited or accepted any deposits from the public for which the provisions of section 58 A of the Companies Act, 1956 apply.

DIRECTORS:

Dr. G.T. Murthy and Mr. V. Umapathi, Directors of the Company retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

AUDITORS:

The Auditors of the Company M/s Mahesh, Virender & Sriram, Hyderabad holds office till the conclusion of the forthcoming Annual General Meeting and is eligible for re-appointment. The Company has received letter from the auditors to the effect that their appointment as Auditors, if made, would be within the limits under Section 224 (1-B) of the Companies Act, 1956.

REPLIES TO AUDITORS REPORT:

1. *Confirmation of balances: It is an ongoing process and re-conciliation is done on regular basis.*
2. *Non-provision of liability on account of employees' benefits: Insurance Policy is being taken.*
3. *Since the company is engaged in infrastructure establishment and maintenance projects, and without adequate bank support, there were certain delays in depositing statutory dues. However, the instances are kept to the minimum and efforts are in place to ensure such instances do not happen in future.*



Sark Systems India Limited

4. *The liability of income tax arose due to a circular on depreciation rates for computer software by Central Board of Direct Taxes with retrospective effect and the company has requested for certain clarification besides waiver of interest which forms substantial component of the demand.*
5. *The company has been negotiating with UCO bank for the re-schedulement of loan as the project is continuing for the current year also.*

LISTING OF SHARES:

The Securities of the Company are listed at Hyderabad & Bangalore Stock Exchanges. The scrip of the Company is under compulsory Demat segment.

DEPOSITORY SYSTEM:

As the members are aware, your Company's Shares are tradable compulsorily in electronic form and your Company has established connectivity with both the depositories, i.e National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd (CDSL). In view of the numerous advantages offered by the Depository System, members are requested to avail of the facility of dematerialisation of the Company shares on either of the Depositories as aforesaid.

3.11

CORPORATE GOVERNANCE:

Pursuant to Clause 49 of the Listing Agreement, your Company has to mandatorily comply with the requirements of Corporate Governance. A separate section on Corporate Governance, and a Certificate from the Auditors of the Company regarding compliance of conditions on Corporate Governance form part of the Annual Report.

CONSERVATION OF ENERGY ETC.,

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board Of Directors) Rules, 1988:

A. Conservation of Energy:

The Business activities require minimum energy consumption. However measures are taken to conserve energy, as far as possible through energy efficient Systems.

B. The Company has not setup a formal R & D unit and is developing the products with in the existing facilities.

C. Technology Absorption: The company has not imported any Technology.

Rs. In Lakhs.

	2006-2007	2005-2006
D. Foreign Exchange Earnings :	93.24	10.16
Foreign Exchange out go :	0.75	0.45

PARTICULARS OF EMPLOYEES:

The particulars of the employees as required in accordance with the provisions of section 217 (2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975 are **NIL**.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES:

The company has seen high turnout of employees in the middle and low end spectrum as the experience gained by the employees in data center management and applications development is seen as a strength that industry majors