

## BOARD OF DIRECTORS

Sri. S V Subba Raju	Chairman
Col. L V Raju (Retd.)	Managing Director
Sri. R Sankaran	Director
Dr. Anji Raju Manthena	Director
Sri. B Murali Mohan	Director - (Technical)
Sri. S Nandakumar	Director
Dr. Jyoti Raju	Director
Sri. M. Gopalakrishna, IAS (Retd.)	Director
Dr. Raju Narasa Mantena	Director
Sri. Kishore Babu Gottimukkala	Director
Dr. Janardhana Reddy Vinta	Director

## Company Secretary

S. Jasminder Singh

## BANKERS

State Bank of Hyderabad,  
Overseas Branch, Somajiguda,  
Hyderabad - 500 082.

Punjab National Bank  
Large Corporate Branch,  
Banjara Hills  
Hyderabad - 500 034

## AUDITORS

GMK Associates,  
Chartered Accountants,  
607, Raghava Ratna Towers,  
Chirag Ali Lane, Abids Hyderabad - 500 001.

## REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd.,  
46, Avenue 4, Street 1, Banjara Hills,  
Hyderabad - 500 034.

## REGISTERED OFFICE

"Thrushna", Plot No.7, Software Units Layout,  
Madhapur, Hyderabad - 500 081.

## DEVELOPMENT CENTRE

Systems Division, "Thrushna", Plot No.7,  
Software Units Layout, Madhapur, Hyderabad - 500 081.

## PROJECTS DIVISION

Plot No. H, Avanthi Colony,  
Main Karkhana Road, Secunderabad.

## OVERSEAS SUBSIDIARY

Avant - Garde Infosystems Inc.,  
#39159, Paseo Padre Parkway,  
#219, Fremont, California, USA - 94538.



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## NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of the members of the company will be held on **Friday the September 24, 2010 at 2.30 p.m.** at Hotel Minerva Grand, Sarojinidevi Road, Secunderabad to transact the following business.

### ORDINARY BUSINESS

- 1) To receive, 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 together with the reports of the Director's and Auditors thereon.
- 2) To appoint a Director in place of Sri S.Nandakumar who retires by rotation and being eligible, offers himself for re-appointment.
- 3) To appoint a Director in place of Dr.Anji Raju who retires by rotation and being eligible, offers himself for re-appointment.
- 4) To appoint a Director in place of Dr. Jyoti Raju who retires by rotation and being eligible, offers herself for re-appointment.
- 5) To appoint Auditors and fix their remuneration.

M/s GMK Associates, Chartered Accountants, Hyderabad retire at the conclusion of this Annual General Meeting and are eligible for re-appointment.

### SPECIAL BUSINESS

- 6) To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution

"RESOLVED that in pursuance of provisions of section 198, 269, 309 and 311, schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications thereof for the time being in force) consent of the Company is hereby accorded for the reappointment of Col.L.V.Raju (Retd), Managing Director of the Company, not liable to retirement by rotation, for a further period of 5 years with effect from 1st July, 2010 as per the terms and conditions set out hereunder".

1. Remuneration:

A) Salary:

Rs. 2,50,000/- per month with authority to

the Board of Directors and/or a Committee of the board, to fix his salary from time to time up to a maximum of Rs. 4,00,000/-. The annual increments will be merit-based and take into account the Company's performance.

B) Perquisites & Allowances:

In addition to the salary payable, Col LV Raju (Retd) shall also be entitled to the following perquisites and allowances

- a) House Rent Allowance @ 40% of the salary.
  - b) Special Monthly allowance @ 60% of the salary.
  - c) Reimbursement of Medical expenses incurred for self and his family not exceeding one month salary in a year or three months salary in a block of three years.
  - d) Leave travel assistance: Expenses incurred for self and family in accordance with company's rules.
  - e) Car: The Company shall provide a car for company's business.
  - f) Phone / cell phone: free except for personal long distance calls which shall be billed.
  - g) Club Fee: Subject to a maximum of two clubs. This will not include admission and life membership.
  - h) Group Medical Insurance and Personal Accident Insurance Premium as per the rules of the Company.
  - i) Such other perquisites and allowances in accordance with the rules of the Company or as may be agreed to by the Board of Directors and/or Committee of the Board and Col. L.V.Raju (Retd.)
1. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per the Income-tax rules, wherever applicable. In the absence of any such rules, perquisites shall be evaluated at actual cost.



- ii. Company's contribution to provident fund and Superannuation Fund or annuity Fund, to the extent these, either singly or together are not taxable under the Income-tax Act, Gratuity payable as per rules of the company and encashment of the leave as per the rules of the Company and shall not be included in the computation of limits for the remuneration or perquisites aforesaid.
- iii. In addition, he shall be entitled to reimbursement of entertainment expenditure actually and properly incurred for the business of the Company.
2. Commission: Such remuneration by way of commission, in addition to the Salary and perquisites and allowance payable, as may be determined by the Board of Directors of the company at the end of each financial year, subject to the overall ceilings stipulated in section 198 and 309 of the Companies Act' 1956, and subject to amendments, therein if any. The specific amount of commission payable to the Managing Director would be between half and twice his annual salary, will be based on certain performance criteria to be laid down by the Board of Directors and/or a Committee of the Board and will be payable annually after the Annual accounts have been approved by the Board of Directors and adopted by the shareholders.
3. Minimum remuneration: Notwithstanding any thing to the contrary herein contained, if in any financial year during the currency of the tenure of Col. L V Raju (Retd.), the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, perquisites and allowance as specified above, subject to the limits specified in Part II in Section II to the Scheduled XIII of the Companies Act' 1956 including amendments made thereto.
4. The terms and conditions of the appointment and / or Agreement may be altered or varied from time to time by the Board of Directors and/or a Committee of the Board as it may, in its discretion, deem fit, within the Maximum amount payable to Col. L V Raju (Retd.) in accordance with Schedule XIII to the Companies Act' 1956, subject to amendments, if any, or any amendments made hereinafter in this regard.

By order of the Board  
For Kernex Microsystems (India) Limited

Place : Hyderabad  
Date : 29th May, 2010

Col. L V Raju (Retd.)  
Managing Director

## NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. The proxy form duly completed and signed should be deposited at the registered office of the company not later than 48 hours before the commencement of the meeting.
2. The Register of members and share transfer Books of the Company will be closed from September 19, 2010 to September 24, 2010 (Both Days inclusive).
3. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of the dividend. The Company or its Registrar cannot act on any request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates, such changes are to be advised only to Depository participant of the shareholders.
4. To avoid the incidence of fraudulent encashment of the warrants, members are requested to intimate the Registrars and Share Transfer Agents of the Company under the signature of the Sole/First joint holder the following information so that the Bank account number and Name and Address of the Bank can be printed on dividend warrants, if and when issued:
  - a. Name of sole/First joint holder and folio number
  - b. Particulars of Bank Account viz.,
    - i) Name of the Bank
    - ii) Name of the Branch
    - iii) Complete address of the Bank with pin code number
    - iv) Account type, whether Savings or Current Account
    - v) Bank Account number allotted by the Bank
5. Shareholders holding shares in physical form are requested to advise any change of address immediately to company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository participants and not to the Company.
6. At the ensuing Annual General Meeting Sri S.Nandakumar, Dr. M. Anji Raju and Dr. Jyoti Raju shall retire by rotation and being eligible, offer themselves for re-appointment.
7. Members seeking any information with regard to accounts are requested to write to the Company at least 10 days in advance of the meeting to enable the management to keep the information ready.

### Details of Directors Seeking Appointment/Reappointment at the 18th Annual General Meeting

Particulars	Sri S.Nandakumar	Dr.M.Anji Raju	Dr. Jyoti Raju
Date of Birth	September 9, 1952	April 3, 1945	January 14, 1974
Date of Appointment	February 2, 2005	May 20, 2005	January 16, 2004
Qualifications	B.Tech, (IIT), PGDBM (XLRI) and DBF (ICFAI)	M.S. (General Surgery) from Andhra University and M.D. (USA)	Bachelor of Engineering in computer science from Birla Institute of Technologies & Science, Pilani, MS in Computer Science with Phd in computer science from University of California, USA
Expertise in specific Functional area	<p>Corporate planning, Business Development &amp; Management Consulting services.</p> <p>He has worked as a Group Vice President of Nagarjuna Fertilizers and Chemicals Ltd and head of Management Consulting Services, TCS, Chennai. He is a Honorary Secretary of Consulting Services and a member of All India Management Association</p>	<p>He has been practicing for the last 33 years in the space centre, NASA region of Houston, Texas and been actively involved in software related activities in Corporate hospitals.</p> <p>He has served as a member of various committees in clear Lake Regional Medical centre as well as managing partner of Anesthesia Associates and president professional corporation</p>	<p>Nine years experience in defining , designing and developing wireless networking products</p> <p>Presently Manager in Cisco System, Santaclara CA, USA</p>
Directorship held in other public companies (excluding foreign companies)	Nil	Nil	Nil
Memberships / Chairmanships of committees of other Public companies (includes only Audit and Shareholders/ Investors Grievance Committee)	Nil	Nil	Nil
Number of shares held in the company	Nil	4,31,578	1,73,329

## EXPLANATORY STATEMENT

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

### Item no. 6:

Col. L.V.Raju(Retd.), at present, is the Managing Director of the Company, joined the Company in 1994 and was appointed as Managing Director, for the period of 5 years with effect from 1st July, 2005. Col. L.V.Raju (Retd.) holds post Graduate Diploma in Industrial Engineering & Information Technologies from NITIE, Bombay, PG Diploma form college of Military Engineering, Pune, B.E. Mechanical Engineering from Sri Venkateswara University, Tirupati. With his rich experience of 42 years in the field, the Company has diversified into Research & Development of new technologies and products and was instrumental in Company's development of Anti colliision devices, electronic Lx system for overseas markets, Multi section Digital axle counter for railways all over the world. The Board, keeping in view, the long and varied experience of Coll.V.Raju (Retd.) in large size project implementations re-appointed him as the Managing Director of the Company for a further period of 5 years with effect from 1st July 2010 on the terms and conditions contained in the notice.

In terms of the provision of Section 269, 309 and Schedule XIII of the Companies Act 1956, the terms of appointment as set out in the resolution are required to be approved by the shareholders. Your Board recommends the resolution for your approval.

None of the Directors of the Company, except Col.L.V.Raju and Dr. Jyoti Raju being related to him may be deemed to be concerned or interested in the resolution.

By order of the Board  
For Kernex Microsystems (India) Limited

Place : Hyderabad  
Date : 29th May, 2010

Col. L V Raju (Retd.)  
Managing Director

## DIRECTORS' REPORT

To  
The Members  
Kernex Microsystems (India) Limited

Your Directors present herewith, the Eighteenth Annual Report together with the audited accounts of the company for the year ending 31 March 2010.

### Financial Results

Rs. in lacs

	2009-10	2008-09
Sales and Other Income	<b>657.30</b>	2427.26
Profit before interest and depreciation	<b>(680.61)</b>	751.51
Interest	<b>236.93</b>	105.96
Depreciation	<b>139.96</b>	181.90
Profit before Tax	<b>(1057.50)</b>	463.65
Provision for Taxation	-	183.74
Profit after Tax	<b>(699.10)</b>	279.91
Add: Balance brought forward from previous year	<b>1997.41</b>	1870.74
Profit available for appropriation	<b>1298.30</b>	2150.64
Earnings Per Share (Rs.)		
- Basic	<b>(5.59)</b>	2.24
- Diluted	<b>(5.59)</b>	2.24
Appropriations:		
Transfer to General Reserve	-	7.00
Proposed Dividend	-	125.00
Income Tax on proposed Dividend	-	21.24
Balance carried to the Balance sheet	<b>1298.30</b>	1997.41

### Dividend

Your Directors have not recommended any dividend for the financial year, as the company has not made any profit.

### Company's Project

1. Your company has exclusive license for manufacturing, installation and commissioning of net worked system 'Raksha Kavach' for which IP rights are held by Konkan Railway Corporation. This system has been installed over 1800 kms and 730 kms in NF Railways and konkan route respectively. This system is being maintained by your company on behalf of Konkan Railways. Railways have taken a decision, according to 2010 budget speech by Honourable railway minister that, deployment of ACD system in the Southern, South Central and South Western Railways, for which ACD survey has been done during 2003-2004, will be taken up shortly. The work is yet to be released, and awaiting for the outcome of new trials ordered. Final report on trials is being submitted by 30th September, 2010, by RDSO to Railway board.
2. You will be happy to learn that the State-of-Art facility is ready at Hardware Technology Park for manufacture of 10,000 ACDs/year has been completed in all respects and is ready to under take design and manufacturing operations at short notice.
3. During the period under consideration some of our last year products like RFID- based track I-D determination device, new type of Goods Guard ACD, Gangman ACD, etc., have been perfected. These are ready for deployment and commercialization. During this year, OMC and AMC on Konkan Route was carried out to the extent ordered. In the NF Route, the agreement for CMC was signed on 21st Jan., 2010. After the preparatory works, on 4th Apr., 2010, CMC has started. This will continue for 2010-2011 and also for 2011 to 2012.
4. Expected CMC contract and manufacturing, supply and deployment of ACD in three zones did not materialize. Company has to maintain adequate manpower for retention, holding and continuation of R&D works and maintenance of ACD technology. This has resulted in incurring a loss of Rs.6.99 crores in the year under review.



## Indigenization and Cross Approvals

You are aware that your company has signed collaboration agreement with M/s. Altpro D.O.O. Zagreb, Croatia for provisioning of MS DAC (Multi Section Digital Axle Counters), and submitted over 95% documents to RDSO for obtaining cross approvals, which is expected shortly.

Your company, which has signed contract for provisioning of 136 Lx Gates in Nov., 2008 with Egyptian National Railways, Egypt has since completed development of Lx Gates, gone through sample gates Site Acceptance Tests (SAT) and started manufacturing of these Gates. First Factory Acceptance test was conducted in July, 2010. Already nearly 40% equipment has since been shipped to Egypt as on 1st September, 2010.

## Certification

Progress on obtaining SIL standards is in progress for Lx Gates being supplied to Egypt and in future to other users in the overseas market from an Indian independent assessor.

## INTERNATIONAL OPERATIONS

### Ongoing Projects

Your company is continuously scouting for markets for Railway Safety Products in Bangladesh, Indonesia, Egypt and Turkey. However, these countries are yet to firm up their specifications and requirements. Your company's, 136 Lx Project in Egypt for 10.6 Million US\$ and 38.6 Million LE is progressing well and is expected to be completed by January 2011.

### Expected Projects including extension of existing projects

The 174 Lx Project in Egypt has been reviewed and accepted and it is likely to be ordered as an extension of the existing project under installation by the Company amounting to around Rs.160.00 crores in a piece meal fashion.

Your company has submitted proposal to supply 40 Auto Lx Gates to a few MNCs for ENR at a cost of Rs.50.00 crores.

Your company is also planning to provide manpower consulting service for Egypt and also to Libyan Railways for execution of railway works.

## RESEARCH & DEVELOPMENT AND STRATEGIC PLANS FOR ACQUIRING NEW TECHNOLOGIES

You are aware that your company's strong point and strength are R&D, acquiring of new technologies that are in demand, diversifications where such opportunities arise.

The following related R&D Projects have been completed:

- a) Development of Hardware of Lx Gates for Electrical Interlocking System with SIL-3 standards.
- b) Development of Hardware for Lx Gates for Mechanical system with SIL-3 Standards.
- c) Universal two out of three logical units that can be used where higher SIL standards are required, for all safety related projects.
- d) Required software internally validation capabilities.
- e) Safety case based certification according to CENELAC standards in progress (50126, 50128 and 50129).
- f) Updated AMSS - ACD System is being made.
- g) Updated ACDRS - for ACD System is being made.
- h) Improving the Track-ID determination technique using DGPS and other advanced techniques.
- i) Using RFID for track identification in the trains.

The Company intends to diversify into Solar Energy, High capacity power invertors, and development of TPWS etc., either on its own or on joint venture basis

### Status of utilization of Initial Public offering proceeds

Out of Rs.99.01 crores, collected through the initial public offering of 39,60,444 equity share of Rs.10/- each, the company has utilized Rs.86.14 crores as on March 31, 2010 for establishing the manufacturing facilities of ACDs and Auto Driving devices for Sky Bus Metro including training and administrative facilities in 10 Acre plot in



Hardware technology Park and acquisition of land and creation of infrastructure for the Intelligent Transportation centre, on Research and Development of number of products ,establishing International Marketing offices in India and Egypt, Project offices for ACD related projects and maintenance services, Balance of funds have been deposited with State Bank of Hyderabad, which is the monitoring authority.

### **Progress achieved on the IPO and expansion projects**

#### **a) Establishment of new manufacturing centre for ACDs, ADDs and Advanced Signal Systems:-**

Construction of various buildings, machinery and external services have been completed, which include R&D centre, manufacturing centre, training centre, etc., are functionally ready.

#### **b) Establishment of Intelligent Transportation Technology Centre**

Land over 530 Acres has been acquired & conversion to Industrial use is in progress. Land for approach roads has been acquired. One Administrative and technical block has been relocated to Hardware technology park. Work is in progress for security fencing, road and track network. Equipment including test equipments & devices required computers, network has been completed. Here we will be testing navigation systems, train position systems, remote controlled operations, radio translation propagations, RFID technology applications, toll gate systems and toll gate audit systems and railway safety equipment.

#### **c) Special R&D Projects: Planning design and evaluation of the following R&D projects are in progress:-**

- i) Upgradation of Collision Avoidance system for trains is in the final stages. Latest TCAS announced by R&D is in the planning and design stage.
- ii) SPAD: This project in the form of Train Protection and Warning System is being developed. Initial planning and designs are in progress.

- iii) TAWD: In this project Multi-section Axle counters has been developed with foreign collaboration.
- iv) Auto & Semi-Auto Lx Gates: Kernex has successfully planned, developed, evaluated, put through live trials and presently deployed in Egypt, through existing contracts.
- v) Train Position / Destination display units: This project in progress is based on GPS based vehicle tracking system earlier developed.
- vi) SMPS mode Battery chargers: These are developed as part of power supply arrangements for the above projects.
- vii) Charge controllers for Solar Power Systems: These are also developed as part of other systems.
- viii) Data Loggers: This project is recently taken up as part of the above systems for development.
- ix) AMSS & ACDRS-MIS: This is being developed as part of collision-avoidance system monitoring tools.
- x) RFID based Track Position Systems: These have been developed as part of the Train Collision Avoidance system

### **International Marketing of KMIL Products**

#### **1. Train Collision Avoidance System**

Your company is fully geared up to provide Train Collision Avoidance System keeping customer requirements in mind as this system is likely to be more reliable and also found having better integrity. The Company will be focusing for marketing of this product in Egyptian Railways, South Africa, Sudan, Turkey, Bangladesh and Indonesia

#### **2. Lx Gate Systems**

- a) **ENR:** Besides the 136 Lx gates KMIL is likely to be awarded an additional 174 Lx protection systems amounting to 185 million LE (approximately Rs. 165 crores)

b) **Supply of Lx System for Modernization of ENR:** ENR had released a tender for modernization of Benha - Alexandria Corridor where approximately 50 fully automatic Lx protection system will be required.

c) **Supply of Lx system to Europe:** Some MNC's during their visit in February 2010 to KMIL have stated that though they are evaluating KMIL Lx protection System for the ENR modernization project and they are also keen to supply the same to European countries.

d) **Supply of Lx system to Essar Hot Metal Rail Transport System at Hazira:** KMIL had offered a quotation for the supply of 11 systems to be used within the plant at Essar Hot Metal factory at Hazira. This is a scaled down model of the Lx protection system being offered to ENR, however supplemented by RFID solution.

### 3. Multi-Section Digital Axle Counter System BO23

a) **Status of cross approval by RDSO:** RDSO in their latest communication have requested for the performance proven ness certificates from the user railways of Croatia, Kosovo, Slovakia, Serbia etc., to accord the cross approval. M/S Altpro has obtained and forwarded the certificate from Kosovo railways to KMIL on 17th May 2010 accounting to 2,30,000 Hours of operations as against 4,32,000 hours as required for cross approval. Balance certificates are being obtained.

b) **Market potential of MSDAC BO23:** Once the cross approval is granted KMIL will be allowed to participate in tenders for provision of MSDAC to various zones. In the current railway budget for 2010 -11 an amount of 131 crores have been allocated for provision of this equipment.

c) **International potential of MSDAC BO23:** As per the cross approval policy KMIL needs to indigenize this product in three years and execute a 50 Lakh bank guarantee for this purpose. Thus KMIL has circulated a draft

technology transfer agreement with M/s. Altpro for 100% indigenization in three years. The agreement for effecting sales in the neighboring countries is to be entered.

### 4. Establishment of Project Centres / Maintenances centers

Project Offices in Guwahati and Goa. Forward Repair Centre in New Jalpaiguri, Guwahati, Burdwan, Mughalsarai, Karwar and Erode were established. New offices will be established in Delhi, Chennai, Guntakal and Hubli based on the release of new orders and also central survey centre at Hyderabad.

### Overseas 100% Owned Subsidiary

Your Company has one Wholly Owned Subsidiary in USA as on 31st March 2010. The members may refer to the statement under section 212 of the Companies Act, 1956 for further information on this subsidiary. The Balance Sheet of the said Company is also attached herewith as required under Section 212 of the Companies Act, 1956.

### Directors' Responsibility Statement:

As required under Section 217 (2AA) of the Companies Act, 1956 it is hereby stated that:

- In the preparation of the Annual Accounts for the year ended March 31, 2010 the applicable Accounting Standards had been followed along with proper explanation relating to material departures
- The directors had selected such Accounting Policies and applied them consistently and made judgments and estimates that are 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 profit or loss of the company for that period.
- The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- The directors had prepared the annual accounts on a going concern basis.

**Audit Committee of Board:**

The Audit Committee of the company comprises three independent Directors and the Chairman of the Audit Committee was present at the previous Annual General Meeting.

Corporate Governance Report and Management Discussions and Analysis Report:

Separate reports on Corporate Governance along with Auditors' Certificate on its compliance as well as Management Discussion and Analysis Report forming part of this report is annexed.

**Fixed Deposits:**

The company has not accepted any deposits from the public and therefore, the provisions of section 58A of the Companies Act, 1956 are not applicable.

**Conservation of Energy, Technology Absorption, etc.:**

The particulars prescribed under 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988, in respect of technology absorption, foreign exchange earnings and outgo are set out in the annexure forming part of this report.

**Employee Relations:**

Relations between the employees and the management continued to be cordial during the year.

**Particulars of Employees:**

Information as per section 217(2A) of the Companies Act, 1956 read with the Companies (particulars of

employees) Rules, 1975 forming part of this Report is enclosed.

**Directors:**

Sri S Nandakumar, Dr M. Anji Raju and Dr. Jyoti Raju, Directors retire by rotation and being eligible, offer themselves for reappointment. Col. S.S Rajan has resigned from the Board due to personal reasons. Your Board records its appreciation for the valuable services rendered by Col.S.S.Rajan during his tenure as Director.

**Auditors:**

M/s. GMK Associates, Chartered Accountants, Hyderabad the Statutory Auditors of the Company retire at the conclusion of this Annual General Meeting and are eligible for re-appointment.

**Acknowledgements:**

The Directors take this opportunity to thank all investors, business partners, clients, and technology partners, Company's Bankers, State Bank of Hyderabad, Punjab National Bank, Central and State Government Authorities for their continued support during the year. Your Directors would like to place on record their appreciation of the contribution made by employees at all levels for their commendable team work, dedicated and whole hearted efforts made during the year.

For Kernex Microsystems (India) Limited

Place : Hyderabad  
Date : May 29, 2010

S V Subba Raju  
Chairman

**ANNEXURE TO THE DIRECTORS' REPORT**

Particulars pursuant to Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988

**A. Conservation of Energy:**

The activities of the company do not result in significant consumption of energy. However the company takes all the necessary steps to conserve energy at the offices and work places on an ongoing basis.

**B. Technology absorption Adaptation and Innovation:**

There is no imported technology involved in the operations of the company. The company continues to focus its attention towards the rapid technological changes in the fields of its activity and train the man power continuously to improve the productivity. The technologies being used are indigenous and the company has evolved a training methodology to measure the extent of adaptation by it's personnel and training needs are identified accordingly.

The Company is, further, in the process of establishing special R&D projects like Up-gradation of Anti-Collision Devices to international standards and implementation of SPAD features in ACD system, Developing of Multi Section Digital Axle Counter and Railway Diagnostic System for Hot bearings, Vibrations and Wobbling of wheels etc. Which will become import substitute at economical prices suitable to Indian Railways and other railways working in developing countries.

**C. Foreign exchange earnings and out go:**

(Rs. In lacs)

Foreign Exchange Earned

0.00

Foreign Exchange Used

249.08

For and on behalf of the Board  
For **Kernex Microsystems (India) Limited**

Place : Hyderabad  
Date : May 29, 2010

**S V Subba Raju**  
Chairman

**Annexure to the Directors' Report**

**Information as per Section 217(2A) of the companies Act, 1956 and the companies (Particulars of employees) Rules, 1975 and forming part of the Director's report for the year ended March 31, 2010**

Name	Designation	Remuneration (Rs. lacs)	Qualification	Date of Joining	Experience	Age (Years)	Previous Employment
Col L V Raju (Retd.)	Managing Director	24.09	M Tech	25.08.94	42 Years	65	Served in army and retired as Colonel

Remuneration includes salary and allowance, commission, company's contribution to provident fund.

## MANAGEMENT DISCUSSION AND ANALYSIS

Year 2009-2010 has been very difficult one for the world. This is so particularly, as the recession cycle has continued over three years and resources and reserves have got exhausted. However, India has got in re-bounce cycle with an impressive growth of 6.7%, taking overall growth rate. Internal economy has done extremely well and shown resilience displaying strong fundamentals. However, on the export front, India has done just below average, due to cancellation of orders and non-materialization of orders due to prevailing recession in most of the Industrialized countries.

Eventhough, Indian economy has been isolated from Global effects, it cannot escape the impact completely. Govt. has come forward and dished out many tax concessions like reduction of 2% pre-shipment export credit interest and reducing of excise and service taxes from 14% to 8% and from 12% to 8% respectively. Special economic zones have done extremely well attracting more capital technologies and generating employment. There has been great incentives for Agriculture growth through credit support to farmers, fertilizer subsidiary, remuneration prices for foods, minimum wages to labours, loan waivers to farmers, etc.

Infrastructure sector has attracted biggest investments like National Highways, Airports, Docks and Harbours, bridges and real estates. PPP business model is the order of the day.

IT sector has grown over 13% to 15% and hardware sector 7% to 9% in the year. This is substantial, compared to developed countries. Automobile related sector has also grown up by 25%. Indian Parliament has announced infrastructure finance company Ltd. with Rs.25,000 crores corpus fund and also National clean Energy fund has been created. Railways have been provided Rs.16,752 cores to modernize and expand the railway network.

Railways have also embarked on dedicated freight corridors from New Delhi to Mumbai and New Delhi to Kolkata, for which planning is in progress.

India needs to improve the availability of power, health services, education both at lower and higher levels,

infrastructure, non-conventional energy, urban and rural development. Road network, modes of urban transportation like Metros, light, mono and trams.

The fields that are open for investments are infrastructure, water and irrigation, roads and highways, power supply, food processing, health, education, water supply, drainage systems, urban transportation like Metro, light, mono or trams.

Your company having over 11,00,000 hours of software and hardware development experience, excellent R&D infrastructure, highly experienced and trained manpower, state-of-art manufacturing facilities, large scale integrated solutions providing capabilities has enormous opportunities in Indian and Overseas market.

Railways announced number of projects for the decade upto 2020. The window of opportunity is wide and open for all technology companies, especially your company in Railways.

### TCAS & TPWS Development

Corporate Safety Plan of 2003-2013 was prepared in August 2003 and presented to Parliament and the plan aims to reduce incidental accidents attributable to human and equipment failure and preventable fatal accidents to an acceptable / tolerable level. Some of the projects through safety plan are TPWS, TMS, TCAS, MTRC, Digital Axle Counters, Electronic Interlocking systems, Data Loggers, etc.

### Period 2009-2010

During this period Honourable Minister for Railways announced during Railway Budget in February 2010, that ACD has worked satisfactory and as a beginning, three Southern zones, namely South Central, Southern and South Western where ACD survey has been completed in 2003-2004, Installation of ACD System would be taken up.

However, Technology Partner of your company, KRCL has to yet finalize the cost of ACDs and submit proposal to Railways. As part of price determination exercise, a Cost Accountant has been nominated to finalize the

costing of ACDs on the basis of 2004-2005 inputs by KRCL. Kernex has submitted all required details and the process of finalization of ACD costs is likely to be completed shortly. However, during this time, Railways wanted the basic model of ACDs that has been deployed, successfully tested, validated, commissioned and approved to be used for three zones under consideration.

Meanwhile, RDSO-Lucknow, IR has come up with new specifications for ACD called TCAS and also a new type of equipment called TPWS (Train Protection and Warning System) to prevent accidents during approach to stations and protect the trains from Red light speed violations. Further to overcome difficulties during the thick fog in the winter in many parts of North India.

Your company's new product Semi & Auto Lx Gates have been approved by Egyptian National Railways and production is in progress and shortly site installation is being taken up. ENR is extremely happy with the technology of Kernex Lx Gates and are in the process of increasing the scope of Lx contract to 310 Gates at cost of Rs.240.00 crores. Further, ENR may buy 400 Gates from your company.

Meanwhile, enquiries have been received from MNCs for supply of Lx Gates and budget proposals are submitted to them for providing Auto Lx Gates in Egypt and also in European countries.

Indian Railways opened the market for Multi-section Digital Axle counters and your company meanwhile has submitted almost all required technical and practical operation details for BO23 MSDAC, being developed in collaboration of M/s Altpro, Croatia.

Your company is exploring to manufacture power supplies in the hardware technology parks like high power invertors, SMS Power supplies, composite power supplies.

Your company is also exploring to establish manpower resourcing company, for providing highly skilled manpower for installation and commissioning of high tech railway safety equipment for overseas markets like Africa.

## **Opportunities, threats, Risks and concerns**

Your company is focusing on R&D, acquiring latest technology and delivering high tech solutions with high value has great opportunities.

Indian Railways need TCAS, TPWS and also very soon ETCS1 and ETCS2 mainly for improving the capacity of existing routes, safety levels, reliability and achieve better safety. Equipment like Multi-section Digital Axle counters, Electronic Interlocking systems, Data loggers, power supplies are immediately required. In the long run India need Indian Train Control System that is Inter-operational, highly reliable, can increase the through put of the lines by using moving block systems, etc.

We also have great opportunities in Railway field in many developing countries like Egypt, Libya, Turkey, Bangladesh, Indonesia and other African countries where Railways infrastructure is being built and also being upgraded.

Further, Kernex has an opportunity to develop manpower services for such countries to take high tech job in field railways technology projects.

Kernex also has equally great opportunities in power Electronics like composite power supplies and invertors in the field of non-conventional energies.

## **Threats**

For every Indian technology, there is a threat of foreign MNC's technologies. Further, change of Govt. policies and priorities have a great impact. In future, high prices, manpower and internal security, etc., can play important part. However, change of technology has to be off-set with continuous upgradation.

In the near future, Kernex need to embark on a high technology that can sustain for a longer time. It needs all its equipment to be certified for international use. Manpower needs to be trained to a highest level of proficiency.

## **Risks**

Kernex should focus on risk of competition, falling prices, loss of key personnel and financial inadequacies, etc. In



order to take on the risks Kernex need to build resilience, with best manpower, infrastructure and reserve funds.

Company need to concentrate on five to six products and constantly upgrade the technology and continuously introduce new technologies and products from time to time based on market demand.

Company's R&D focus, acquisition of new technologies and concentrate on Emerging technologies with high grade manpower should be main goal of the company.

### **Analysis of financial performance of the company**

During the financial year under review, the total revenues of the company, were generated from the operational maintenance and Annual Maintenance of the Konkan Route and to a limited extent on S/W and H/W development in the first quarter. However, there was serious set back on the company operations, when operational and Annual maintenance contract from NF Railways was not renewed after waiting over 4 months time and almost 220 personnel has to be laid off with compensation during July/August/Sept 2009. Further, KRCL has stopped the development of H/W and S/W as they could not finalize the actual requirements and deliverables of S/W for the Users. These include new features to be added over to ACD performance monitoring system. Therefore, Kernex could not get revenues almost worth of Rs.17.00 crores due to absence of above two activities. Further, KRCL has curtailed OMC & AMC activities to 73 KMS stretch against 730 KMS where ACDs are deployed. Thus, a total revenue of over Rs.18.5 crores have to be forgone due to curtailment of ACD related activities.

However, in case of Egyptian National Railways project, whose value is over 17.6 million US\$, progressed normally. All relevant and required developmental works in case of Lx Gates have been completed and the project is fully supported financially, technically and procedurally.

Certain short term and long term measure that are initiated to avoid such losses in the present financial year are as under:-

- a) Trimming of manpower and salaries: Only essential and key staff is retained. Only minimum and

affordable salaries are offered.

- b) Best utilization of infrastructure: If an awaited project does not materialize, use of infrastructure and manpower, on new diversification is being explored including the manpower consulting services.
- c) Diversifications: Company is on constant watch on diversifications and new projects even though they may not be big enough.
- d) Flagship products and cash flow stabilization: Company is planning to come out with 4 to 5 strong products and cash flow is build around them.
- e) Alternative use of Infrastructure: Existing facilities should be utilized so that extra revenues can be generated.
- f) Strengthening marketing setup: Kernex is in the process of strengthening marketing setup and sales group.
- g) Building of International Technological relations and acquiring new technologies: This is continuing.
- h) Speed up existing projects: Existing projects should not slip the target dates.

On the positive side and prospecting look out, Kernex has over Rs.300.00 crores orders that are either ordered, final stages of closing and are in pipeline.

### **Internal control systems and their adequacy**

The company has in place systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of corporate policies. The control systems are regularly under review.

The internal Audit process is designed to review the adequacy of internal control checks in the systems and covers all significant areas of the Company's operations such as Software and Hardware delivery, production,



accounting and finance, procurement, employee engagement. Travel, insurance, Process in the Company. Safeguarding of assets and their protection against unauthorized use are also a part of these exercises.

The company has an Audit Committee, the details of which have been provided in the Corporate governance Report. The Audit Committee reviews Audit Reports submitted by the Internal Auditors. Suggestions for the improvements are considered and the Audit Committee follows up on the implementation of corrective actions. The Committee also meets the Company's statutory auditors and Internal Auditors to ascertain, inter alia, their views on the adequacy of internal control systems in the Company and Keeps the Board of Directors informed of its major observations from time to time.

**Material developments in HR/Industrial relations front including number of people employed**

During the fiscal, the company had a new addition of 86 (previous year 110) and the total number of employees as on March, 2010 is 253 as against 419 of March 31, 2009.

The Company has created a favourable work environment that encourages innovation and meritocracy besides having a vibrant work atmosphere that provides its

employees with an opportunity to work on new technologies, which enables to leverage talents. As a future focused organization, the Company has continuously rejuvenated competence through training, cross training and skill up-gradation.

The Company enjoys cordial employee relations and there were no significant labour issues outstanding or remaining un-resolved during the year. The Board of Directors and the management wish to place on record their appreciation of the efforts put in by all employees of the Company.

**Cautionary Statement**

Statements in the Management's Discussion & Analysis Report, which seek to describe the Company's objectives, projections, estimates, expectations or predictions may be considered to be "forward looking statements" and are stated as required by applicable laws and regulations. Actual results could differ from those expressed or implied. Many factors including global and domestic demand-supply conditions, prices, raw-materials availability, technological changes, changes in Government Regulations and policies, tax laws and other statutes may effect the actual results, which can be different from what the Director's envisages in terms of future performance and outlook.

## CORPORATE GOVERNANCE REPORT

(As required under Clause 49 of the Listing Agreements entered into with Stock Exchanges)

### 1. Company's Philosophy on Code of Governance

The Company believes that good corporate governance practices enable the management to direct and control the affairs of the Company in an efficient manner and to achieve the Company's goal of maximizing value for all its stake holders.

The board considers itself as a trustee of its shareholders and acknowledges its responsibilities to the Shareholders for creation and safeguarding shareholders wealth, while upholding the core values of transparency, integrity, honesty and accountability.

The Company's code of conduct serves as a guide to the employees on the values, ethics and business principles expected of them.

### 2. Board of Directors

- The Company has a Non-Executive Chairman. The Board of Directors of the Company consists of eminent persons with professional expertise. The Board comprises of two Executive Directors and Nine Non-executive Directors, of whom four are independent Directors as on March 31, 2010. Accordingly, the Composition of the Board is in conformity with Clause 49 of the listing agreement entered with Stock Exchanges.
- None of the Directors on the Board is a member on more than 10 committees or Chairman of more than 5 committees as specified in clause 49, across all the Companies in which he is a Director. Necessary disclosures regarding Committee positions have been made by the Directors.
- The names and categories of the Directors on the Board, their attendance at Board meetings held during the year and the number of Directorships and Committee memberships held by them in other companies is given below. Other directorships do not include alternate directorships, directorships of private limited Companies and companies incorporated outside India. Chairmanship/membership of Board committees includes membership of Audit and Shareholders/Investor Grievance Committee.

Name	Category	No. of Board Meetings during the year 2009-10		Whether Attended AGM held on 15.09.09	No. of Directorships in other public companies		No. of committee positions held in other public companies	
		Held	Attended		Chairman	Member	Chairman	Member
Sri. S.V. Subba Raju, Chairman	Independent Non-Executive	6	6	Yes	-	-	-	-
Col. L V Raju (Retd.)	Non-Independent Executive	6	6	Yes	-	-	-	-
Sri. B Murali Mohan	Non-Independent Executive	6	5	-	-	-	-	-
Dr. M Anji Raju	Non-Independent Non-Executive	6	3	-	-	-	-	-
Sri. R Sankaran	Independent Non-Executive	6	5	Yes	-	1	1	1
Col S S Rajan (Retd)*	Independent Non-Executive	6	3	Yes	-	-	-	-
Sri. S Nandakumar	Independent Non-Executive	6	6	Yes	-	-	-	-
Dr. Jyoti Raju	Non-Independent Non-Executive	6	-	-	-	-	-	-
Sri. M. Gopalakrishna, IAS (Retd),	Independent Non-Executive	6	5	Yes	-	7	-	3
Sri Kishore B Gottimukkala	Non-Independent Non-Executive	6	2	-	-	-	-	-
Dr Raju Narasa Mantena	Non-Independent Non-Executive	6	3	-	-	-	-	-
Dr Janaradhana Reddy Vinta.	Non-Independent Non-Executive	6	2	-	-	-	-	-

\*Col S S Rajan has resigned from the Board with effect from 30th October, 2010

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- iv) 6 Board Meetings were held during the year ended March 31, 2010 and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows.  
June 18, 2009; July 31, 2009; August 27, 2009; September 12, 2009; October 30, 2009 and January 30, 2010.
  - v) None of the Non-Executive Directors have any material pecuniary relationship or transaction with the Company.
  - vi) Necessary information as mentioned in Annexure 1A to clause 49 of the listing agreement has been placed before the Board for their consideration.

### 3. Audit Committee:

- i. The Audit Committee of the Company during the year under review consists of four Directors, all of whom are independent Directors and the Chairman is a fellow member of the Institute of Chartered Accountants of India and the member of the institute of internal Auditors, UK. All the members of the committee are financially literate. Accordingly the composition of the Audit committee is in conformity with clause 49 of the listing Agreement entered with stock exchanges.
- ii. The terms of reference of the Audit Committee are broadly as under:
  - A. Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement reflects a true and fair position and that sufficient and credible information is disclosed.
  - B. Recommending the appointment and removal of the statutory auditors, fixation of audit fees and also approval for payment for any other services.
  - C. Discussion with external auditors before the audit commences, of the nature and scope of audit as well as post audit discussion to ascertain any area of concern.
  - D. Reviewing, with the management, the annual financial statements before submission to the board, focusing primarily on :
    - a) Matters required to be included in the Director's Responsibility statement to be incorporated in terms of Section 217(2AA) of the Companies Act, 1956
    - b) Any changes in accounting policies and practices
    - c) Major accounting entries based on the exercise of judgment by management
    - d) Significant adjustments arising out of audit ;
    - e) Compliance with listing and other legal requirements relating to financial statements
    - f) Disclosure of any related party transactions
    - g) Qualifications in the draft audit report.
    - h) Compliance with accounting standards;
    - i) Management discussion and analysis of financial condition and result of operations
  - E. Reviewing the Quarterly Financial Results before submitting the same to the Board's approval
  - F. Reviewing, with the management, the performance of external and internal auditors and adequacy of the internal control systems.
  - G. Reviewing the adequacy of internal audit function and frequency of internal audit.
  - H. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
  - I. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

- iii. The Audit Committee Meetings are usually held at the Registered office of the Company and are usually attended by the Managing Director, Finance head, Statutory Auditors and representatives of the internal auditors.,
- iv. The last Annual General Meeting of the Company was held on September 15, 2009 and the Chairman of the Audit Committee has attended the AGM.
- v. The composition of the Audit Committee as on March 31, 2010 and particulars of meetings attended by the members are as follows:

Name	Category	No. of Meetings during the year 2009-10	
		Held	Attended
Sri. R Sankaran, Chairman	Independent Non-Executive	5	5
Sri S V Subba Raju	Independent Non-Executive	5	5
Sri. M. Gopalakrishna, IAS (Retd)*	Independent Non-Executive	5	5
Col S S Rajan (Retd.)*	Independent Non-Executive	5	3

\*Col S S Rajan resigned from the Committee due to personal reasons

Five Audit Committee Meetings were held during the year ended March 31, 2010 i.e. May 28, 2009, June 17, 2009; July 30, 2009; October 30, 2009; and January 29, 2010.

- vi. The necessary quorum was present at all meetings.

#### 4. Remuneration Committee

1. The Remuneration Committee of the Company consists of three directors, all of whom are independent directors.
2. The broad terms of reference of the remuneration Committee are as under:
  - a. To review the remuneration and commission / other incentives payable to the Managing and other executive Directors for each financial year.
  - b. Such other matters as the Board may from time to time request the Remuneration Committee to examine and recommend/approve.

Name	Category
Sri. R Sankaran, Chairman	Independent Non-Executive
Sri. S. Nandakumar	Independent Non-Executive
Sri. M. Gopalakrishna, IAS (Retd)	Independent Non-Executive

3. The Company does not have any Employee Stock Option Scheme.
4. Remuneration Policy:

The Company's remuneration policy is driven by the success and performance of the individual employees. The Company follows a compensation of fixed pay. Performance of the individuals is measured through the annual appraisal process.

5. Details of Remuneration and other terms of appointment of Directors: for 2009-2010

The Company's remuneration policy is driven by the success and performance of the individual employees. The Company follows a compensation of fixed pay. Performance of the individuals is measured through the annual appraisal process.

**A) Managing/Whole-time Directors:**

The company pays remuneration by way of salary, perquisites and allowance (Fixed component) to its Managing Director / Whole time Directors. They, apart from the fixed component, also eligible for commission as may be determined by Board of directors of the company at the end of each financial year, subject to the overall ceiling limits, stipulated under Section 198 and 309 of the company Act 1956. Annual increments are decided by the remuneration committee within the salary scale approved by the members and are effective April 1, each year.

Compensation paid to Managing Director and Whole time Director during the financial year 2009-10 is follows.

Name	Designation	REMUNERATION (Rs. Lacs)		
		Salary & Benefits	Commission	Total
Col. L. V. Raju (Retd.)	Managing Director	24.09	0.00	24.09
Mr. B. Murali Mohan	Whole time Director	22.89	0.00	22.89

Besides above, the Managing and Whole time Director of the Company are also entitled to Company's contribution to provident Fund and Superannuation Fund or Annuity Fund to the extent, not taxable under the Income Tax Act 1961, Gratuity and encashment of earned leave, as per the rules of the Company. The terms of appointment of the above Directors are for a period of 5 years from their respective date of appointments.

**B. Non- Executive Directors:**

The Non-Executive Directors (NEDs) are paid sitting fee at the rate of Rs.10000/-For each meeting of the Board and Rs. 10000/-for attending each of committee meetings. The Company also reimburses the out of pocket expenses incurred by the Directors for attending meetings.

Sitting fee paid to non executive Directors during Financial Year 2009-10, is as follows.

Name	Sitting fee (Amount in Rs)	Total (Amount in Rs.)
Sri. S V Subba Raju	1,10,000	1,10,000
Sri. R Sankaran	1,00,000	1,00,000
Col. S S Rajan	60,000	60,000
Sri. S Nandakumar	60,000	60,000
Dr. M Anji Raju	30,000	30,000
Dr. Jyoti Raju	-	-
Sri. M. Gopalakrishna, IAS (Retd)	1,00,000	1,00,000
Sri. Kishore B Gottimukkala	20,000	20,000
Dr. Raju Narasa Mantena	30,000	30,000
Dr. Janaradhana Reddy Vinta	20,000	20,000

6. Share holding of the Directors in the Company as on March 31, 2010.

<b>Name</b>	<b>No. of Shares of Rs.10/- each</b>
Sri S V Subba Raju, Chairman	1158
Col. L V Raju (Retd.)	2,25,863
Sri. B Murali Mohan	29,426
Dr. M Anji Raju	4,31,578
Dr. Jyoti Raju	1,73,329
Sri Kishore B Gottimukkala	5,13,701
Dr Raju Narasa Mantena	8,54,633
Dr Janardhana Reddy Vinta	1,44,445

**5. Shareholders/Investors Grievance Committee:**

- i. The Shareholders/investors Grievance Committee of Company consists of three directors, all are independent Directors.
- ii. The Composition of the shareholder/investors Grievance Committee is given below.

<b>Name</b>	<b>Category</b>
Sri S V Subba Raju, Chairman	Independent Non-Executive
Sri. S.Nandakumar	Independent Non-Executive
Sri. M. Gopalakrishna, IAS (Retd)	Independent Non-Executive

- iii. S. Jasminder Singh, Company Secretary is the Compliance Officer.
- iv. Details of complaints received and redressed:

<b>Opening Balance</b>	<b>Received during the period 01.04.2009 to 31.03.2010</b>	<b>Resolved during the period 01.04.2009 to 31.03.2010</b>	<b>Closing Balance</b>
Nil	6	6	Nil

**6. General Body Meetings**

- i. Details of Last three Annual General Meeting are as follows.

<b>Year</b>	<b>Meeting</b>	<b>Day, Date and Time of the Meeting</b>	<b>Venue</b>
2008-09	17th AGM	Tuesday, September, 15, 2009 at 2.30 P.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003
2007-08	16th AGM	Friday, September, 19, 2008 at 3.30 P.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003
2006-07	15th AGM	Tuesday, September, 06, 2007 at 11.00 A.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003

- ii. During the last three Annual General Meetings of the Company, the members have passed the following Special resolutions.

No. of AGM	Item on which special resolution passed
17th AGM	1. Appointment of sole selling agents for Egypt
16th AGM	Nil
15th AGM	1. Appointment of sole selling agents for Egypt 2. Appointment of sole selling agent for Brazil & Venezuela 3. Approval for issue of Bonus shares.

All the above resolutions were passed with requisite majority

## 7. Disclosures:

- i. There are no materially significant related party transactions of the Company with Promoters, directors or the Management or their relatives or the Subsidiary Company which have potential conflict with the interest of Company at large. Transactions with related parties as per requirements of Accounting Standards - (AS-18) - "Related Party Disclosures" issued by the Institute of Chartered Accountants of India are disclosed in Note 12 of Schedule: S to the accounts in the Annual Report.
- ii. There were no cases of non-compliance by the Company, penalties, strictures imposed on the Company by stock exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the year ended March 31, 2010.
- iii. The Company is in compliance with all the mandatory requirements and has fulfilled the non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreement with Stock Exchanges to the extent of setting up a remuneration committee. Please see the para on Remuneration Committee for details.
- iv. **Code of conduct:** The code of conduct as adopted by the Board of Directors is applicable to all directors, senior management and employees in above officers' level. The prime purpose of the code is to create an environment wherein all the Board Members and Senior Management of the Company maintain ethical standards and to ensure compliance to the laid down ethical standards. The code is available on the Company's website: [www.kernex.in](http://www.kernex.in)

### Declaration as required under Clause 49 of the Listing Agreement:

All the directors and senior management of the Company have affirmed compliance with the Company's code of conduct for the financial year ended March 31, 2010

Place : Hyderabad

Date : May 29, 2010

**Col. L V Raju (Retd.)**

Managing Director

- v. Compliance: At every Board Meeting a Statement of Compliance with all Laws and Regulations as certified by the Managing Director is placed for review by the Board. The Board reviews the compliance of all the applicable laws and gives appropriate directions wherever necessary.
- vi. Risk Management: The Board regularly discusses the significant business risks identified by the management and the mitigation process being taken up.
- vii. Public issue proceeds: The utilization of Public issue proceeds are regularly placed before the Audit committee for review.

- viii. CEO certificates: The Managing Director has given a Certificate as contemplated in Clause 49 of the listing agreement.
- ix. Secretarial Audit: A practicing Company Secretary carried out a secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository services (India) Limited (CDSL) and the total issued and listed capital. The audit confirms that the total issued / paid-up capital of the Company is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

### iii) Means of Communication:

The quarterly, half-yearly and annual results of the Company are published in leading newspapers in India which include, the Financial Express, Prajashakti and Andhrabhoomi. The results are also displayed on the Company's web site [www.kernex.in](http://www.kernex.in). Official press releases made by the Company from time to time are also displayed on the website. Presentations made to the institutional investors and analysts after the declaration of quarterly, half-year and annual results are displayed on the Company's website. The Management's Discussion and Analysis is a part of the Company's annual report.

### iv) General Shareholders information

#### i) Annual General Meeting

Date	: 24th September 2010
Time	: 2.30 P.M.
Venue	: Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003.

#### ii) Financial Calendar

Year ending	: March 31, 2010
AGM	: September 24, 2010

iii) **Date of Book Closure** : September 19, 2010 to September, 24 2010  
(Both days inclusive)

iv) **Listing on Stock Exchange** : Bombay Stock Exchange Limited  
The National Stock Exchange of India Limited

#### v) Stock Code/Symbol

Bombay Stock Exchange Limited (Physical & Demat)	: 532686
The National Stock Exchange of India Limited	: Kernex

vi) International Securities Identification  
Number (ISIN) allotted to the  
Company's Shares : INE202H01019.



- vii) Market Price Data: High, Low (Based on the closing prices) and number of shares traded during each month in the last financial year on the National Stock Exchange of India Limited and the Stock Exchange, Mumbai:

Month	Bombay Stock Exchange Limited			National Stock Exchange Limited		
	High (Rs.)	Low (Rs.)	Total No. of Shares Traded	High (Rs.)	Low (Rs.)	Total No. of Shares Traded
Apr-09	72.95	62.20	101069	73.45	61.40	88727
May-09	94.30	61.65	128875	94.30	61.00	137263
June-09	123.75	94.05	279964	124.05	93.25	288306
July-09	131.70	85.85	281981	131.85	85.30	358972
Aug-09	91.75	74.95	180606	91.20	75.50	141739
Sep-09	90.75	80.90	343266	90.40	81.00	360488
Oct-09	86.20	69.50	298227	86.45	69.60	293236
Nov-09	83.55	66.50	595815	83.25	66.35	720749
Dec-09	149.30	82.95	5683911	148.90	82.65	12694700
Jan -10	203.65	156.75	1067882	203.85	156.35	1445436
Feb -10	186.50	137.00	1404998	187.90	136.95	2816072
March -10	131.30	102.70	1328744	131.15	102.35	2278839

- viii) Performance of the company in comparison to the BSE Sensex

### Historic Graphs



- ix) Registrar and Transfer Agents : Karvy Computershare Pvt Ltd.,  
Name & Address : 46, Avenue 4, Street 1,  
Banjara Hills  
Hyderabad-500 034  
Tel: 91 40 44655000  
Fax: 91 40 23420814,  
E-mail: einward.ris@karvy.com  
Contact Person: Mr. K S Reddy  
(Asst. General Manager)

x) Share Transfer System:

The Company's shares are traded in the stock exchanges compulsorily in Demat form. The Company's Registrar and Transfer agent is the common agency to look after physical and demat share work. The shares lodged for transfer at the registrar are processed and returned to shareholders within the stipulated time.

xi) Shareholding (as on March 31,2010):

a) Distribution of shareholding as on March 31, 2010.

No. of Shares	Holding	% to Capital	No. of accounts	% to Total Accounts
1 - 5000	17119310	13.70	20998	94.06
5001 - 10000	5141720	4.11	680	3.05
10001 - 20000	4488340	3.59	315	1.41
20001 - 30000	2517920	2.01	101	0.45
30001 - 40000	1581820	1.27	44	0.20
40001 - 50000	1745250	1.40	38	0.17
50001 -100000	4072860	3.26	57	0.26
100001 & above	88329330	70.67	91	0.41
<b>GRAND TOTAL</b>	<b>124996550</b>	<b>100.00</b>	<b>22324</b>	<b>100.00</b>

b) Categories of Shareholders as on March 31, 2010

Category	No.of shareholders	No. of shares	Percentage
Indian Promoters	1	225863	1.81
Foreign Promoters	6	2545947	20.37
Persons acting in Concert			
- Indian	3	118085	0.94
- Foreign	10	3726553	29.81
Mutual Funds and UTI	0	0	0.00
Banks, Financial Institutions, Insurance Companies (Central / State Gov. Institutions / Non-government Institutions)	2	1050	0.01
Foreign Institutional Investors	0	0	0.00
Private Corporate Bodies	636	1422721	11.38
Indian Public	21310	2915353	23.32
NRIs / OCBs	226	969166	7.75
Individual Shareholders excess 1 Lakh	15	515692	4.13
Foreign Trust	2	24331	0.19
Clearing Members	103	34894	0.28
<b>TOTAL</b>	<b>22314</b>	<b>1,24,99,655</b>	<b>100</b>

xii) Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 86.68% of the company's share capital are dematerialized as on March 31, 2010.

The Company's shares are regularly traded on The National Stock Exchange of India Limited and The Stock Exchange, Mumbai, in electronic form.

xiii) As on March 31, 2010 the company did not have any outstanding GDRs /ADRs / Warrants or any convertible instruments

xiv) Manufacture facility Locations : Kernex Microsystem (India) Ltd.  
THRUSHNA" Plot No.7, Software Units Layout  
Infocity, Madhapur  
Hyderabad-500 081

xv) Address for Correspondence : Kernex Microsystem (India) Ltd.  
THRUSHNA" Plot No.7,  
Software Units Layout  
Infocity, Madhapur  
Hyderabad-500081



**AUDITORS' CERTIFICATE REGARDING CORPORATE GOVERNANCE**

To the Members of Kernex Microsystems (India) Limited,  
Hyderabad.

We have examined the compliance of condition of Corporate Governance by Kernex Microsystems (India) Ltd., for the year ended 31st March 2010, as stipulated in Clause 49 of the Listing Agreement of the Company with the stock exchanges.

The Compliance of conditions of corporate governance is the responsibility of the management. Our examination has been limited to review of the procedures and implementation there of, adopted by the company for ensuring the compliance with the conditions of Corporate governance. It is neither an audit nor an expression of opinion on the financial statement of the Company.

In our opinion and to the best of our information and according to the explanation given to us, and based on the representation made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **GMK ASSOCIATES.**,  
Chartered Accountants  
(Registration No.006945S)

Place : Hyderabad  
Date : 29th May, 2010

**G. Satyanarayana Murty**  
Partner  
Membership No.: 29919

## AUDITOR'S REPORT

### To the members of Kernex Microsystems (India) Limited

We have audited the attached Balance Sheet of Kernex Microsystems (India) Limited, as at March,31, 2010 and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order,2003,( the Order ) issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act,1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations, which to the best of our Knowledge and belief were necessary for the purpose of our audit;
- (ii) In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;

- (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
- (iv) In our opinion , the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act,1956;
- (v) On the basis of written representations received from the directors as on March 31,2010 and taken on record by the Board of Directors , we report that none of the directors is disqualified as on March 31 , 2010 from being appointed as a director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act,1956;
- (vi) In our opinion and to the best of our information and according to the explanations given to us , the said accounts give the information required by the Companies Act,1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India ;
  - (a) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2010;
  - (b) In the case of Profit and Loss Account, of the Profit for the year ended on that date; and
  - (c) In the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **GMK ASSOCIATES.**,  
Chartered Accountants  
(Registration No.006945S)

**G Satyanarayana Murty**  
Partner  
Membership No.:29919

Place: Hyderabad  
Date : 29th May, 2010



**Annexure to the Auditor's report of even date to the Members of Kernex Microsystems (India) Limited**

- (I) (a) *The Company is in the process of updating the records showing full particulars including Quantitative details and the situation of its fixed assets.*
- (b) The fixed Assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- (c) None of the major fixed assets of the Company are disposed off during the year.
- (II) (a) The Inventory has been physically verified by the management at reasonable intervals;
- (b) In our opinion and according to the information and explanations given to us, the procedures for physical verification of inventory followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business;
- (c) On the basis of our examination of the inventory records, in our opinion, the company has maintained proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- (III) (a) During the year, the Company has not granted any loans, secured or unsecured, to the companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence Clauses (iii) (b), (c) & (d) of the Order are not applicable.
- (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under
- Section 301 of the Companies Act, 1956. Hence Clauses (iii) (f) & (g) of the Order are not applicable.
- (IV) In our opinion and according to the information and explanations provided to us there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control.
- (V) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 have been entered and the transactions are made at prices which are reasonable with regard to the prevailing market prices at the relevant time;
- (VI) The Company has not accepted any deposits from the public during the year under review which falls under section 58A and 58AA of the Companies Act 1956;
- (VII) The Company has an internal audit conducted by external auditors , which, in our opinion is commensurate with the size and nature of the business of the company;
- (VIII) We have broadly reviewed the books of account maintained by the Company in respect of the products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- (IX) (a) According to the records, information and explanations provided to us, the Company is generally regular in depositing with appropriate

authorities undisputed amount of Provident Fund, Investor Education and Protection Fund, Employee's State Insurance, Income-Tax, Sales-Tax, Wealth-Tax, Service Tax, Customs Duty, Excise Duty, Cess and other statutory dues applicable to it and no undisputed amounts payable were outstanding as at 31st March, 2010 for a period of more than six months from the date they became payable ;

- (b) According to the information and explanations provided to us, particulars of out standing dues of Income tax have not been deposited on account of any dispute are given below:

Name of Statute	Nature of the Dues	Period to which the amount relates	Amount (Rupees in Lakhs)	Forum where dispute is pending
Income Tax Act	Income Tax	A.Y 1998-99	8.00	High Court

- (X) The Company has no accumulated losses at the end of the financial year and has incurred a cash loss of Rs. 9.18 Crores during the financial year covered by our audit, and no cash losses incurred in the immediately preceding financial year ;
- (XI) Based on our audit procedures and on the information and explanations given by the management, the Company has not defaulted in repayment of dues to any financial institution or bank;
- (XII) Based on our examination and according to the information and explanations given to us , the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities ;
- (XIII) In our opinion, the Company is not a Chit Fund / Nidhi / Mutual Benefit Fund/ Society and Clause 4 (xiii) of the Order are not applicable to this company.
- (XIV) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of Clause 4(xiv) of the Order not applicable to the Company.
- (XV) On the basis of our examination of the books of accounts and the information and explanation given to us the Company has not given any guarantee for loans taken by others from bank or financial institutions ;
- (XVI) According to the information and explanations given to us, the company has not availed any term loans during the year under review.
- (XVII) On the basis of our examinations of the books of accounts and the information and explanation given to us, in our opinion, the funds raised on short-term basis have not been used for long-term investment.
- (XVIII) During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Act ;
- (XIX) The Company has not made any issue of debentures during the year;
- (XX) During the year covered by our audit report the Company has not raised any money by way of Public Issue.
- (XXI) Based on the audit procedures performed and information and explanations given to us by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **GMK ASSOCIATES.,**  
Chartered Accountants  
(Registration No.006945S)

**G Satyanarayana Murty**  
Partner  
Membership No.:29919

Place: Hyderabad  
Date : 29th May, 2010

**Balance Sheet as at March 31, 2010**

(Amount in Rupees)

	Schedule Reference	AS AT 31.03.2010	AS AT 31.03.2009
<b>I. SOURCES OF FUNDS</b>			
(1) Shareholders' funds :			
(a) Capital	A	<b>124,996,550</b>	124,996,550
(b) Reserves and surplus	B	<b>1,108,263,287</b>	1,178,173,778
(2) Deferred Tax Liability		-	-
(3) Loan funds :			
(a) Secured Loans	C	<b>190,323,062</b>	110,557,749
<b>TOTAL</b>		<b><u>1,423,582,899</u></b>	<b><u>1,413,728,077</u></b>
<b>II. APPLICATION OF FUNDS</b>			
(1) Fixed Assets :	D		
(a) Gross block		<b>402,335,415</b>	393,248,065
(b) Less : Depreciation		<b>128,220,064</b>	114,223,693
(c) Net block		<b>274,115,351</b>	279,024,372
(d) Capital Work-in-progress (Including advances)		<b>505,937,268</b>	476,128,914
(2) Investments :	E	<b>11,830,950</b>	11,830,950
(3) Current Assets, Loans and advances			
(a) Inventories	F	<b>207,050,575</b>	170,583,182
(b) Sundry Debtors	G	<b>200,258,081</b>	203,306,522
(c) Cash and bank balances	H	<b>216,961,989</b>	352,589,059
(d) Loans and advances	I	<b>117,441,251</b>	78,207,434
		<b>741,711,896</b>	804,686,196
Less :			
<b>Current Liabilities and Provisions</b>	J		
(a) Current Liabilities		<b>146,132,925</b>	143,598,382
(b) Provisions		-	14,623,971
Net current assets		<b>595,578,971</b>	646,463,844
(4) Deferred Tax Asset		<b>36,120,360</b>	279,997
<b>TOTAL</b>		<b><u>1,423,582,899</u></b>	<b><u>1,413,728,077</u></b>
Notes on Accounts	S		

Schedules form part of the Accounts

As per our report of even date

 for **GMK ASSOCIATES,**

Chartered Accountants

For and on behalf of the Board

**(G. Satyanarayana Murty)**

Partner

Membership No. 29919

**S.V. Subba Raju**

Chairman

**Col. L.V. Raju (Retd.)**

Managing Director

Place : Hyderabad

Date : 29th May, 2010

**S. Jasminder Singh**

Company Secretary



**Profit and Loss Account for the year ended March 31, 2010**

	Schedule Reference	For the Year ended 31.03.2010	(Amount in Rupees) For the Year ended 31.03.2009
<b>INCOME</b>			
Sales and Services	K	43,732,837	231,165,524
Less: Duties and Taxes	M	3,762,337	25,128,607
Net Sales and Services		39,970,500	206,036,917
Other Income	L	25,760,103	36,689,313
<b>TOTAL</b>		<b>65,730,603</b>	<b>242,726,230</b>
<b>EXPENDITURE</b>			
Cost of Materials and Services	N	53,474,828	37,077,142
(Increase)/Decrease in Stocks	O	(34,382,866)	(4,543,750)
Personnel Expenses	P	67,381,446	83,139,731
Operating, Admn and Selling Expenses	Q	47,318,375	51,901,938
Finance Charges	R	23,693,304	10,596,474
Depreciation	D	13,996,371	18,189,853
<b>TOTAL</b>		<b>171,481,457</b>	<b>196,361,388</b>
<b>Profit before Tax</b>		<b>(105,750,854)</b>	46,364,842
<b>Less : Provision for Taxation :</b>			
(a) Current Year		-	19,000,000
(b) Fringe Benefit Tax		-	775,000
(c) Deferred Tax		(35,840,363)	(1,401,056)
<b>Profit after Tax</b>		<b>(69,910,491)</b>	27,990,898
Add : Profit brought forward from Previous Year		199,740,602	187,073,675
Profit Available for Appropriation		129,830,111	215,064,573
Less : Provision for Dividend		-	12,499,655
Less : Tax on distributed Profits		-	2,124,316
Less : Transfer to General Reserve		-	700,000
<b>Balance Carried to Balance Sheet</b>		<b>129,830,111</b>	199,740,602
Earning Per Share - Basic		(5.59)	2.24
Diluted		(5.59)	2.24
Notes on Accounts	S		

Schedules form part of the Accounts

As per our report of even date

for **GMK ASSOCIATES,**

Chartered Accountants

For and on behalf of the Board

**(G. Satyanarayana Murty)**

Partner

Membership No. 29919

**S.V. Subba Raju**

Chairman

**Col. L.V. Raju (Retd.)**

Managing Director

Place : Hyderabad

Date : 29th May, 2010

**S. Jasminder Singh**

Company Secretary

**Schedules to the Balance Sheet**

(Amount in Rupees)

	As at 31.03.2010	As at 31.03.2009
<b>SCHEDULE - A</b>		
<b>SHARE CAPITAL</b>		
<b>AUTHORISED CAPITAL</b>		
1,50,00,000 Equity Shares of Rs.10/- each	<b>150,000,000</b>	150,000,000
<b>ISSUED SUBSCRIBED AND PAID UP CAPITAL</b>		
12,499,655 EQUITY SHARES OF Rs.10/- each	<b>124,996,550</b>	<b>124,996,550</b>
(Of the above shares 55,22,177 number of Equity Shares of Rs 10/- each were allotted by way of bonus shares by capitalizing free reserves of the company)	<b>124,996,550</b>	<b>124,996,550</b>
<b>SCHEDULE - B</b>		
<b>RESERVES AND SURPLUS</b>		
<b>Securities Premium</b>		
As at the commencement of the year	<b>917,219,545</b>	917,219,545
Add: received during the year	-	-
	<b>917,219,545</b>	917,219,545
<b>General Reserve</b>		
At the commencement of the year	<b>61,213,631</b>	60,513,631
Add: Transfer from the profit & Loss account	-	700,000
	<b>61,213,631</b>	61,213,631
Balance in Profit & Loss A/c	<b>129,830,111</b>	199,740,602
	<b>1,108,263,287</b>	1,178,173,778
<b>SCHEDULE - C</b>		
<b>SECURED LOANS</b>		
Short Term Corporate loan	-	50,000,000
Interest Accrued and due.	-	552,250
Working Capital Facilities from Banks	<b>125,321,063</b>	-
Short Term Loans against Deposits	<b>63,637,743</b>	57,938,822
Vehicle loans	<b>1,364,256</b>	2,066,677
	<b>190,323,062</b>	110,557,749

## Schedules to the Balance Sheet

## SCHEDULE "D"

## FIXED ASSETS

(Amount in Rupees)

Name of the Asset	Gross Block			Depreciation			Net Block			
	As on 01-04-09	Additions during the Year	Deductions /Deletions	As on 31-03-10	Upto 31-03-09	During the year	Adjustments	Upto 31-03-10	As on 31-03-10	As on 31-03-09
Land & Land development	207,206,627	8,638,020	-	215,844,647	-	-	-	-	215,844,647	207,206,627
Building	43,671,920	-	-	43,671,920	18,277,421	2,539,450	-	20,816,871	22,855,049	25,394,499
Plant & Machinery including Computers	113,740,774	262,700	-	114,003,474	79,192,018	9,198,206	-	88,390,224	25,613,250	34,548,756
Office Equipment	9,043,052	56,364	-	9,099,416	4,593,296	622,795	-	5,216,091	3,883,325	4,449,756
Furniture	11,439,235	130,266	-	11,569,501	7,592,059	709,690	-	8,301,749	3,267,752	3,847,176
Vehicles	8,146,457	-	-	8,146,457	4,568,899	926,230	-	5,495,129	2,651,328	3,577,558
Total	393,248,065	9,087,350	-	402,335,415	114,223,693	13,996,371	-	128,220,064	274,115,351	279,024,372
As On 31-03-09	314,424,630	78,823,435	-	393,248,065	96,033,841	18,189,852	-	114,223,693	279,024,372	218,390,789
Capital Work-in-Progress	476,128,914	29,808,354	-	505,937,268	-	-	-	-	505,937,268	476,128,914

**Schedules to the Balance Sheet**

(Amount in Rupees)

	As at <b>31.03.2010</b>	As at 31.03.2009
<b>SCHEDULE - E</b>		
<b>INVESTMENTS (At Cost)</b>		
Long Term, Trade (Unquoted)		
35,80,000 equity shares of US\$0.02 and	<b>11,830,950</b>	11,830,950
17,99,240 equity shares of Us\$0.10 in		
Avant-Garde Infosystems inc.USA (Fully Paid)		
100% subsidiary	<u>11,830,950</u>	<u>11,830,950</u>
<b>SCHEDULE - F</b>		
<b>INVENTORIES (As certified by Management)</b>		
Work in progress	<b>113,912,918</b>	113,912,918
ACD	<b>34,382,866</b>	-
ENR	<b>52,001,913</b>	56,670,264
Closing Stock of Materials	<b>6,752,878</b>	-
ACD	<u>207,050,575</u>	<u>170,583,182</u>
ENR		
<b>SCHEDULE - G</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured and considered good)		
Outstanding for a period exceeding Six months	<b>191,724,884</b>	155,859,082
Other Debts	<b>8,533,197</b>	47,447,440
	<u>200,258,081</u>	<u>203,306,522</u>
<b>SCHEDULE - H</b>		
<b>CASH AND BANK BALANCES</b>		
Cash on Hand	<b>262,949</b>	47,195
Cheques on hand	-	30,530,411
Cash at Bank :		
in current Account with scheduled Banks	<b>6,703,972</b>	55,422,601
in Fixed Deposits	<b>209,995,068</b>	266,588,852
	<u>216,961,989</u>	<u>352,589,059</u>
<b>SCHEDULE - I</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured and Considered good)		
Advances to Suppliers & Services	<b>7,046,898</b>	11,925,260
Advances to Suppliers-ENR	<b>38,948,413</b>	-
Deposits	<b>40,882,904</b>	30,441,316
Deferred Interest	<b>208,146</b>	380,365
Loan to Avant-Garde Infosystems inc. (USA 100% WOS )	<b>20,706,495</b>	19,165,345
Other Current Assets	<b>9,648,397</b>	16,295,148
	<u>117,441,253</u>	<u>78,207,434</u>

## Schedules to the Balance Sheet

(Amount in Rupees)

	As at 31.03.2010	As at 31.03.2009
<b>SCHEDULE - J</b>		
<b>CURRENT LIABILITIES AND PROVISIONS</b>		
<b>(A) CURRENT LIABILITIES</b>		
Creditors for Supplies	6,489,639	4,865,300
Creditors for Expenses	37,058,919	38,698,063
Creditors for Capital Goods	28,334,672	20,930,783
Advances Received from Customers	73,715,268	78,564,171
Share Application Money unpaid refund	362,050	418,300
Unclaimed Dividend	172,377	121,765
	<u>146,132,925</u>	<u>143,598,382</u>
<b>(B) PROVISIONS</b>		
Income Tax (Net)	-	-
Dividend	-	12,499,655
Dividend Distribution Tax	-	2,124,316
	<u>-</u>	<u>14,623,971</u>

**Schedules to the Profit and Loss Account**

	For the Year ended 31.03.2010	Amount in Rupees. For the Year ended 31.03.2009
<b>SCHEDULE - K</b>		
<b>SALES AND SERVICES</b>		
(A) Sales Domestic	51,144	2,116,257
(B) Sales Export	8,519,336	3,139,895
(C) Service income	35,162,357	225,909,372
	<u>43,732,837</u>	<u>231,165,524</u>
<b>SCHEDULE - L</b>		
<b>OTHER INCOME</b>		
Interest Received : Banks	18,788,819	27,981,007
Others (Subsidiary)	1,541,150	1,492,075
Miscellaneous Income	5,430,134	7,216,231
	<u>25,760,103</u>	<u>36,689,313</u>
<b>SCHEDULE - M</b>		
<b>DUTIES AND TAXES</b>		
Central Excise Duty	3,461	180,106
Service Tax	3,741,141	24,896,925
Sales Tax	17,735	51,576
	<u>3,762,337</u>	<u>25,128,607</u>
<b>SCHEDULE - N</b>		
<b>COST OF MATERIALS &amp; SERVICES</b>		
<b>Consumption of raw materials and bought-out items</b>		
Opening Stock of raw materials	56,670,264	33,275,563
Add : Purchases	17,139,285	29,485,281
Less: Closing Stock	58,754,791	56,670,264
<b>Material consumed</b>	<u>15,054,758</u>	6,090,580
Accessories purchased	58,880	848,516
Project Execution Expenses	16,464,103	30,138,046
Direct Expenses-ENR	650,624	-
Project Execution Expenses-ENR	21,246,462	-
<b>Net Cost of Materials &amp; Services</b>	<u>53,474,828</u>	<u>37,077,142</u>
<b>SCHEDULE - O</b>		
<b>(INCREASE) / DECREASE IN STOCKS</b>		
<b>Opening Stocks</b>		
Opening Work in progress ACD	113,912,918	109,369,168
Opening work in progress ENR	-	-
Total-A	<u>113,912,918</u>	<u>109,369,168</u>
<b>Closing Stocks</b>		
Closing work in Progress ACD	113,912,918	113,912,918
Closing work in progress ENR	34,382,866	-
Total-B	<u>148,295,784</u>	<u>113,912,918</u>
Total-A-B	<u>(34,382,866)</u>	<u>(4,543,750)</u>

## Schedules to the Profit And Loss Account

	Amount in Rupees.	
	For the Year ended 31.03.2010	For the Year ended 31.03.2009
<b>SCHEDULE - P</b>		
<b>PERSONNEL EXPENSES</b>		
Salaries and Other Benefits	62,913,283	75,205,713
Contribution to PF & Other funds	2,991,173	3,908,542
Staff Welfare	1,476,990	4,025,476
	<u>67,381,446</u>	<u>83,139,731</u>
<b>SCHEDULE - Q</b>		
<b>OPERATING, ADMINISTRATIVE AND SELLING EXPENSES</b>		
Rent	3,115,350	2,874,251
Rates and Taxes	2,058,895	2,648,247
Printing & Stationery	537,740	735,948
Directors Remuneration	4,680,000	5,672,948
Bad Debts Written off	8,751,111	-
Directors sitting fees	550,000	472,500
Communication Expenses	1,543,956	2,357,859
Repairs and Maintenance	3,556,086	3,236,073
Electricity Charges	1,753,258	2,168,899
Professional & Consultancy Fees	3,994,813	1,729,536
Security Charges	940,029	915,849
Books and Periodicals	14,295	19,437
Traveling & Conveyance Expenses	4,712,753	8,122,588
Insurance	380,665	661,391
General Expenses	859,411	578,175
Auditors remuneration	770,480	602,270
Business Promotion	912,974	838,226
Research and Development expenses	7,414,290	18,211,689
Freight	238,649	56,052
Branch Administration Expenses-ENR	533,620	-
	<u>47,318,375</u>	<u>51,901,938</u>
<b>SCHEDULE - R</b>		
<b>FINANCE CHARGES</b>		
Interest on term Loan	3,040,752	3,522,267
Interest on Working Capital	12,401,023	2,925,558
Bank Commission & Other Financial Charges	8,251,529	4,148,650
	<u>23,693,304</u>	<u>10,596,475</u>

**SCHEDULE 'S': Notes forming part of the Accounts for the year ended March 31, 2010****Significant Accounting Policies and notes on accounts:****Company Overview:**

Kernex Microsystems (India) Limited is engaged in the Manufacture and sale of Safety Systems for Railways and Software Services.

**A Significant Accounting Policies:****1. Accounting Convention**

The Financial statements are prepared under historical cost convention, on an accrual basis and in accordance with the generally accepted accounting principles in india, the applicable mandatory Accounting Standards as notified by the Companies (Accounting Standard) Rules, 2006 and the relevant provisions of the Companies Act, 1956

**2. Revenue Recognition:**

Revenue from contracts priced on a time and materials basis are recognized when services are rendered and related costs are incurred.

Revenue from product sales is stated exclusive of returns, and applicable trade discounts but inclusive of Duties and Taxes collected on the same.

Service Income is recognized as per the terms of Contracts with the Customer, when the related services are performed.

**3. Retirement Benefits to Employees:****i) Defined Contribution plan**

In respect of retirement benefits in the form of provident fund, the contribution payable by the company for a year is charged to the Profit and Loss account.

**ii) Defined Benefit Plan****General Description of Plans:-**

**Leave encashment:** The Company does not have any scheme for Leave encashment.

**Gratuity:** Gratuity benefit is applicable to all permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes into account each completed year of service or part thereof in excess of 6 months. Annual contribution to the employees's Gratuity fund, Established with LIC of India (LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

**4. Foreign Currency Transactions:**

Income and Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure/income is incurred/arised. The exchange difference arising on foreign currency transactions are recognized as income or Expenses in the period in which the payment is made/income received.

**5. Income Tax:****5.1 Current Tax:**

Provision for current tax is made and retained in the Accounts on the basis of estimated tax liability as per the applicable provisions of the income-tax Act, 1961.

**5.2 Deferred Tax:**

Deferred tax has been accounted in accordance with Accounting Standard - 22 "Accounting for Taxes on Income" issued by the ICAI , under the liability method.

A provision is made for Income tax annually based on the Tax Liability computed. The difference that result between the profit offered for income taxes and the Profit as per the Financial Statements are identified and thereafter a deferred tax asset or deferred tax liability for timing differences, namely the difference that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered.

The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted regulations.

Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.



**6. Fixed Assets**

Fixed assets are valued at original cost including incidental expenditures, taxes and duties net of CENVAT and VAT credit availed.

Capital expenditure incurred on Expansion Project at Hardware Technology Park (HTP) is under advanced stage of completion and shown under capital Work In Progress.

**7. Research and Development Expenditure:**

Revenue expenditure incurred on Research and Development is charged to Profit and Loss Account in the year it is incurred.

**8. Depreciation**

Depreciation has been charged on fixed assets on WDV method as per the rates specified in Schedule XIV of the Companies Act, 1956.

**9. Inventories**

Inventories of Components are valued at cost or realizable value which ever is less. Work in progress is valued at cost of materials and services used.

**10. Warranty Expenses**

Anticipated product warranty costs for the period of warranty are provided for in the year of sale.

**11. Segment Reporting :**

Since the Company has no Reportable segment to report , "Segment Reporting " under "Accounting Standard 17" issued by the "ICAI" is not applicable.

**12. Related Party Disclosures:**

- a) There are no related parties where control exists other than 100% Wholly Owned subsidiary.
- b) Other related parties with whom transactions have taken place during the year are :
  - Cova Technologies Inc, USA Enterprise owned by relative of Managing Director;
    - Consultancy services on Procurement & Inspection of goods in USA.
    - (No. Transactions during the year, Rs.9.65 Lakhs during the Previous Year)
    - (Outstanding at the year end Mar,10 is Rs 2.53 Lakhs)
    - Outstanding at the year end Mar,09 is Rs 6.23 Lakhs)
- c) The Company entered into related party transactions with Avant-Garde Infosystems Inc, USA. a 100 % Wholly owned Subsidiary with regard to :

(Amt Rs. in lacs)

Particulars	Year ended March 31	
	2010	2009
<b>1. Capital Transactions :</b> Working Capital Loan	Nil	Nil
<b>2. Revenue Transactions :</b> Interest receivable	<b>15.41</b>	14.92
<b>3. Sale of Services :</b>	<b>Nil</b>	Nil

(Amt Rs. in lacs)

**d) Key Management Personnel :**

				2009-10	2008-09
Col. L.V.Raju ( Retd )	-	Managing Director	Remuneration	<b>24.09</b>	31.67
B. Murali Mohan	-	Whole-time Director	Remuneration	<b>22.89</b>	20.04

### 13. Impairment Of Assets :

An Assets is treated as impaired when the carrying cost of the asset exceeds its recoverable value being higher of value in use and net selling price. Value in use is computed at net present value of cash flow expected over the balance useful life of the assets. An impairment loss is recognised as an expense in the profit and loss account in the year in which an asset is identified as impaired. The impairment loss in prior accounting period is reversed if there has been an improvement in recoverable amount.

The Management of the Company is of the opinion that there are no Fixed Assets to be impaired for the period, as identified by the sources of Information, mentioned in the Accounting Standard -28 "Impairment of Assets" issued by the ICAI.

### B. Notes to Accounts :

- All Amounts in the financial statements are presented in Rupees. The Previous Year's figures have been regrouped / reclassified, wherever necessary to confirm to the current year's presentation.

Figures are rounded off to the nearest rupee.

- Sundry Debtors and Creditors are Subject to Reconciliation and Confirmation.

#### 3. Contingent Liabilities in respect of :-

- Claims against the Company not acknowledged as debt Rs. 8 Lakhs in respect of Income Tax for the Assessment Year 1998-99 for which the companies appeal is Pending before the High Court of Andhra Pradesh and Rs.4.13 Lakhs in respect of Sales Tax for the year 2002-03 for which the company appeal is pending before STAT
- Bank guarantees outstanding Rs.1209.79 Lakhs as on 31st March, 2010 (2009: Rs.1633.58 Lakhs)
- Estimated amount of contracts remaining to be executed on capital account and not accounted are Rs.5.60 crores (Previous Year:Rs.5.48crores)

#### 4. Term Loans and Cash Credits:

- Cash credit facility from SBH is primarily secured by hypothecation of current assets of the company and collaterally secured by first charge on fixed assets of the company and equitable mortgage of land & buildings situated at Madhapur.
- Other Short term Loans are secured by Fixed and Term Deposits
- Vehicle Loans are secured by Hypothecation of Vehicles.
- Export Packing Credit facility is Primarily Secured by Hypothecation of Raw Materials, Stock in Process, Finished Goods in transit, stores spares, accessories of Anti Collision Devices ranking pari passu with other banks under multiple banking agreement and collaterally secured by all Fixed Assets Land & Buildings under construction

		(Amt Rs. in lacs)	
		2009-10	2008-09
<b>5. Auditors remuneration relates to</b>			
Statutory, Tax Audits including quarterly audits	:	6.00	6.00
Other Services	:	1.55	0.60
Reimbursement of Out of Pocket expenses	:	0.15	0.02
<b>6. Directors remuneration relates to Managing Director</b>	:		
Salary including PF Contribution*	:	24.09	31.67
Commission	:	0.00	0.00
<b>Whole Time Director</b>			
Salary including PF Contribution	:	22.89	20.04
Commission	:	0.00	0.00
<b>Non-Whole Time Directors</b>			
Sitting Fees	:	5.50	4.73
Commission	:	0.00	5.20

7. The Company is in the process of obtaining information with respect to parties covered, If any, under the Micro, Small and Medium Enterprises Development Act, 2006 (or the "Act"). The Company would account for significant interest obligations in this regard, If any, subsequently. Accordingly required disclosures in this regard have not been given in the current year.

**8. Loans and Advances :**

Loans and advances include Rs. 2,07,06,495 /- (Previous year Rs.1,91,65,345/-) including interest on working capital loan to Avant-Garde Infosystems Inc, a 100% subsidiary in USA.

**9. Earning Per Share :**

Earning / Diluted Earning Per Share of the Company has been calculated as per the Accounting Standard 20 "Earning Per Share" Issued by ICAI.

(Amount in Rupees)

	2009-10	2008-09
Earning Per Share	(5.59)	2.24
Diluted Earning Per Share	(5.59)	2.24

**10. Disclosure required by Clause 32 of the Listing Agreement**

Amount of Loans and advances in nature of loans outstanding from subsidiaries in the year ended March 31, 2010.

Name of Subsidiary Company	Outstanding as at March 31, 2010 (Rs. In Lacs)	Maximum Amt Outstanding during the year (Rs. In Lacs)	Investment in shares of the Company (No. of shares)	Investment in shares of subsidiaries of the Company (No. of shares)
Avant-Garde Info systems Inc	207.06	207.06	0	5379240

**11. Additional Information pursuant to paragraphs 3,4(c) and 4(d) of Part II of Schedule VI of the Companies Act,1956.**

**(I) Installed Capacity**

4200 ACD's p.a.\*

(\*as certified by the management as on date)

**(II) Production and Sales :**

Item Description	For The Year 2009-10				For The Year 2008-09			
	Production		Sales		Production		Sales	
	Unit	Qty.	Qty.	Amount Rs.in lacs	Unit	Qty.	Qty.	Amount Rs.in lacs
Acid Test Units	No's	-	-	-	No's	6	6	14.00
ECM	No's	4	4	17.41	No's	-	-	-
Flashing Lights	No's	37	37	12.89	No's	-	-	-
Control Panels	No's	7	7	17.41	No's	-	-	-
Interlocking	No's	1	1	1.62	No's	-	-	-
Bells	No's	8	8	0.47				
Others*		-	-	-	No's	LS	LS	7.00

\* It is not practicable to give quantitative information in the absence of common expressible unit.

<b>(III) Traded Goods (Exports)</b>								
LCD	<b>Sets</b>	-	<b>6</b>	<b>13.22</b>	-	-	-	-
Wheel Sensors	<b>Sets</b>	-	<b>3</b>	<b>3.74</b>	-	-	-	-
DVD & Camera	<b>Sets</b>	-	<b>5</b>	<b>18.42</b>	-	-	-	-
Barriers	<b>No's</b>	-	-	-	No's	6	6	31

Item Description*	For The Year 2009-2010			For The Year 2008-2009		
	Unit	Qty.	Amount Rs.in lacs	Unit	Qty.	Amount Rs.in lacs
Battery	No's	-	-	No's	46	4.63
Planar Antenna	No's	-	-	No's	31	1.69
PVC Cables	Mtrs	-	<b>0.37</b>	Mtrs	-	1.99
Others *	No's	*	<b>0.22</b>	No's	*	0.17

\* It is not practicable to give quantitative information in the absence of common expressible unit.

**(IV) Raw material Consumed :**

Item Description	For The Year 2009-10			For The Year 2008-09		
	Unit	Qty.	Amount Rs.in lacs	Unit	Qty.	Amount Rs.in lacs
Radio Modems	No's	<b>58</b>	<b>25.74</b>	No's	120	55.21
GPS Receivers	No's	<b>9</b>	<b>0.47</b>	No's	12	0.63
GPS Antennae	No's	-	-	No's	33	0.37
Disk On chip	No's	-	-	No's	92	1.01
CPU Boards	No's	-	-	No's	54	2.52
Push Button Switches	No's	<b>41</b>	<b>0.26</b>	No's	-	-
Noise Filters	No's	<b>105</b>	<b>3.67</b>	No's	-	-
SMD-Relays	No's	<b>12,639</b>	<b>14.49</b>	No's	-	-
Convertors	No's	<b>210</b>	<b>7.35</b>	No's	-	-
Connectors	No's	<b>9,733</b>	<b>12.19</b>	No's	-	-
Control Boards	No's	<b>12,963</b>	<b>10.09</b>	No's	-	-
Fabricated Boxes	No's	<b>959</b>	<b>19.69</b>	No's	-	-
Others*	*		<b>56.60</b>	*		1.18

\* It is not practicable to give quantitative information in the absence of common expressible unit.

**(V) Value of Imported and Indigenous materials consumed :**

Item Description	For The Year 2009-10		For The Year 2008-09	
	%	Rs.in lakhs	%	Rs.in lakhs
Raw Material				
Imported	<b>27.22%</b>	<b>40.97</b>	99.47%	60.59
Indigenous	<b>72.80%</b>	<b>109.58</b>	0.53%	0.32

(Amount/Value in Rs. lacs)

Item Description	2009-10	2008-09
<b>(VI) Opening Stock :- *</b>		
Work-in-progress	1139.13	1093.69
Components	566.70	332.75
<b>(VII) Closing Stock :- *</b>		
Work-in-progress	1482.96	1139.13
Components	587.55	566.70
*Inventory values at the year end are as certified by the Management of the Company.		
<b>(VIII) CIF value of Imports :</b>		
Raw materials/Components:	44.67	213.41
Consumables :	0.00	0.00
Capital Goods :	0.00	73.97
<b>(IX) Foreign Exchange :</b>		
<b>a) Earnings in Foreign Exchange :</b>		
(On receipt basis )	-	407.93
<b>b) Expenditure in Foreign Exchange : (On payment basis)</b>		
Traveling & Other Expn	12.81	45.96
Capital Goods	0.00	75.12
Components/Materials	46.78	163.38
Dividends	21.36	19.97
Egypt Branch	164.43	0.00
Consultancy Fees	3.70	8.64

**(X) Deferred Taxation :**

(Amount Rs. in lacs)

Particulars	As on 31.03.10	As on 31.03.10
Payments under 43B	5,781,970	6,786,996
Unabsorbed Business Loss (2009-10)	34,782,444	-
Total Deferred Tax Asset	40,564,414	6,786,996
Deferred Tax Liability		
Difference in Block of Assets	4,444,053	6,506,999
Total Deferred tax liability	4,444,053	6,506,999
Net Deferred tax (Asset)/Liability	(36,120,361)	(279,997)

**Note:** As per the Accounting Standard-22 "Accounting for Taxes on Income" issued by ICAI, The Net deferred tax Asset for the year Rs. 35,840,364 is credited to P&L Account.

Signatories to Schedule A to S  
As per our report of even date  
for **GMK ASSOCIATES**,  
Chartered Accountants

For and on behalf of the Board

**(G. Satyanarayana Murty)**  
Partner  
Membership No. 29919

**S.V. Subba Raju**  
Chairman

**Col. L.V. Raju (Retd.)**  
Managing Director

Place : Hyderabad  
Date : 29th May, 2010

**S. Jasminder Singh**  
Company Secretary

**Cash Flow Statement for the year ended March 31, 2010**

(Amount in Rupees)

Particulars	March 31, 2010	March 31, 2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before tax	(105,750,854)	46,364,842
<b>Adjustments for:</b>		
Depreciation and amortisation	13,996,371	18,189,852
Interest and other financial charges	23,693,304	10,596,475
Interest Income	(20,329,969)	(29,473,082)
<b>Operating Profit Before Working Capital Changes</b>	<b>(88,391,148)</b>	<b>45,678,087</b>
Sundry debtors	3,048,441	29,869,894
Inventories	(36,467,393)	(27,938,451)
Loans and Advances	(30,535,666)	(20,809,054)
Current liabilities and provisions	2,534,544	78,144,452
Income-taxes paid during the year	(8,698,152)	(20,039,103)
<b>Net cash generated by operating activities</b>	<b>(158,509,375)</b>	<b>84,905,825</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets and change in capital work-in-progress	(38,895,704)	(181,622,347)
Interest income	20,329,969	29,473,082
<b>Net cash used in investing activities</b>	<b>(18,565,735)</b>	<b>(152,149,265)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Secured Loans Received/ (Repayment)	79,765,313	65,765,723
Interest and other financial charges	(23,693,304)	(10,596,475)
Dividends paid during the year, including dividend tax	(14,623,971)	(14,623,971)
<b>Net cash used in financing activities</b>	<b>41,448,038</b>	<b>40,545,277</b>
<b>Net (decrease)/increase in cash and cash equivalents during the year</b>	<b>(135,627,070)</b>	<b>(26,698,164)</b>
Cash and cash equivalents at the beginning of the period/year	352,589,059	379,287,222
<b>Cash and cash equivalents at the end of the year</b>	<b>216,961,989</b>	<b>352,589,059</b>

 As per our report of even date  
 for **GMK ASSOCIATES,**  
 Chartered Accountants

For and on behalf of the Board

**(G. Satyanarayana Murty)**  
 Partner  
 Membership No. 29919

**S.V. Subba Raju**  
 Chairman

**Col. L.V. Raju (Retd.)**  
 Managing Director

 Place : Hyderabad  
 Date : 29th May, 2010

**S. Jasminder Singh**  
 Company Secretary

**Balance Sheet Abstract and Company's General Business Profile**Registration No.   -      /     -  State Code:  Balance sheet Date:        **Capital raised during the year****(Amount in Rs. Thousands)**Public Issue   N I L  Bonus Issue   N I L  Rights Issue   N I L  Private Placement   N I L  Sweat Equity   N I L  **Position of Mobilization and Deployment of Funds:**Total Liabilities       Total Assets       **Sources of Funds:**Paid up Capital       Reserves & Surplus       Secured Loan       Unsecured Loans   N I L  Deferred Tax Liability   N I L  **Application of Funds:**Net Fixed Assets       Investments       Capital Work in Progress      Misc. Expenditure   N I L  Net Current Assets       Deferred Tax Asset       **Performance of Company:**Total Revenues       Total Expenditure       Profit Before Tax   (1)     Profit after Tax   (6)    Earning Per Share  s . (5 . 5 9)Dividend   N I L  **Generic Names of three Principal Products / Services of Company**Item Code         .  

Product Description Computer Software

Item Code —

Product Description Electronic Safety Devices for Indian Railways

For and on behalf of the Board

**S.V. Subba Raju**  
Chairman**Col. L.V. Raju (Retd.)**  
Managing DirectorPlace : Hyderabad  
Date : 29th May, 2010**S. Jasminder Singh**  
Company Secretary

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**AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS****To the Board of Directors on the Consolidated Financial Statements of****KERNEX MICROSYSTEMS (INDIA) LIMITED AND ITS SUBSIDIARY.**

We have audited the attached Consolidated Balance Sheet of Kernex Microsystems (India ) Limited,( the Company ) and Avant-garde Info systems inc , USA ( subsidiary) as at March,31, 2010 and also the Consolidated Profit and Loss Account and Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of 100% wholly owned overseas subsidiary, whose financial statements reflect total assets of US \$ 4, 98,696/- as at 31st March 2010, the total Loss before tax of US \$ 42,677/- for the year ended on that date. These financial statements and other financial information have been compiled by

other auditors whose compilation report has been furnished to us, and our opinion is based solely on the compilation report of other auditors.

We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) In the case of the consolidated Balance Sheet, the state of affairs of the Kernex Microsystems (India) Limited group as at 31st March,2010.
- (ii) In the case of the consolidated Profit and Loss account, of the profit of the Kernex Microsystems (India) Limited group for the Year ended 31st March, 2010.
- (iii) In the case of the consolidated cash flow statement of the Kernex Micro Systems (India) Limited group.

For **GMK ASSOCIATES.,**  
Chartered Accountants  
(Registration No.006945S)

**G. Satyanarayana Murty**  
Partner  
Membership No.: 29919

Place : Hyderabad  
Date : 29th May, 2010



**Consolidated Balance Sheet as at March 31, 2010**

(Amount in Rupees.)

	Schedule Reference	AS AT 31.03.2010	AS AT 31.03.2009
<b>I. SOURCES OF FUNDS</b>			
(1) Shareholders' funds :			
(a) Capital	A	<b>124,996,550</b>	124,996,550
(b) Reserves and surplus	B	<b>1,096,280,149</b>	1,168,095,456
(2) Deferred Tax Liability		—	—
(3) Loan funds :			
(a) Secured Loans	C	<b>190,323,062</b>	110,557,748
<b>TOTAL</b>		<b>1,411,599,761</b>	1,403,649,754
<b>II. APPLICATION OF FUNDS</b>			
(1) Fixed Assets :	D		
(a) Gross block		<b>403,478,463</b>	394,391,113
(b) Less : Depreciation		<b>129,363,112</b>	115,366,742
(c) Net block		<b>274,115,351</b>	279,024,371
(d) Capital Work-in-progress		<b>505,937,268</b>	476,128,914
(2) Investments :	E	—	—
(3) Current Assets, Loans and advances :			
(a) Inventories	F	<b>207,050,575</b>	170,583,182
(b) Sundry Debtors	G	<b>200,258,081</b>	203,306,522
(c) Cash and bank balances	H	<b>216,962,396</b>	352,593,084
(d) Loans and advances	I	<b>96,734,757</b>	59,042,089
Less :		<b>721,005,809</b>	785,524,877
Current Liabilities and Provisions :	J		
(a) Current Liabilities		<b>146,487,726</b>	143,598,382
(b) Provisions		—	14,623,971
<b>Net current assets</b>		<b>574,518,083</b>	627,302,524
(4) (a) Miscellaneous expenditure to the extent not written off or adjusted	K	<b>73,571</b>	78,820
(b) Product Development Expenses		<b>20,835,128</b>	20,835,128
(c) Deferred Tax Asset		<b>36,120,360</b>	279,997
<b>TOTAL</b>		<b>1,411,599,761</b>	1,403,649,754
Notes on Accounts	T	—	—

Schedules referred above and notes thereon form part of Consolidated balance sheet.

This is the consolidated Balance sheet referred to in our report of even date

for **GMK ASSOCIATES,**  
Chartered Accountants

For and on behalf of the Board

**(G. Satyanarayana Murty)**  
Partner  
Membership No. 29919**S.V. Subba Raju**  
Chairman**Col. L.V. Raju (Retd.)**  
Managing DirectorPlace : Hyderabad  
Date : 29th May, 2010**S. Jasminder Singh**  
Company Secretary

**Consolidated Profit and Loss Account for the year ended March 31,2010**

(Amount in Rupees)

	Schedule Reference	For the Year ended 31.03.2010	For the Year ended 31.03.2009
<b>INCOME</b>			
Sales and Services	L	<b>43,898,917</b>	231,305,274
Less: Duties and Taxes	N	<b>3,762,337</b>	25,128,607
Net Sales and Services		<b>40,136,580</b>	206,176,667
Other Income	M	<b>25,058,419</b>	33,807,339
<b>TOTAL</b>		<b>65,194,999</b>	239,984,006
<b>EXPENDITURE</b>			
Cost of Materials and Services	O	<b>53,474,828</b>	37,077,142
(Increase) / Decrease in Stocks	P	<b>(34,382,866)</b>	(4,543,750)
Personnel Expenses	Q	<b>67,381,446</b>	83,139,731
Operating, Admn and Selling Expenses	R	<b>47,847,815</b>	52,046,556
Finance Charges	S	<b>23,710,584</b>	10,611,625
Depreciation & Amortization	D	<b>14,001,619</b>	18,195,100
<b>TOTAL</b>		<b>172,033,425</b>	196,526,403
Profit before Tax		<b>(106,838,426)</b>	43,457,603
Less : Provision for Taxation :			
(a) Current Year		-	19,000,000
(b) Fringe Benefit Tax		-	775,000
(c) Deferred Tax		<b>(35,840,363)</b>	(1,401,056)
<b>Profit after Tax</b>		<b>(70,998,063)</b>	25,083,659
Add : Profit brought forward from Previous year		<b>190,692,147</b>	180,932,460
Profit Available for Appropriation		<b>119,694,084</b>	206,016,119
Less : Provision for Dividend		-	12,499,655
Less : Tax on distributed Profits		-	2,124,316
Less : Transfer to General Reserve		-	700,000
<b>Balance Carried to Balance Sheet</b>		<b>119,694,084</b>	190,692,147
Earning Per Share:-Basic		<b>(5.68)</b>	2.01
Diluted		<b>(5.68)</b>	2.01
Notes on Accounts	T		

Schedules referred above and notes thereon form part of Consolidated Profit and Loss Account.  
This is the consolidated Profit and Loss Account referred to in our report of even date

for **GMK ASSOCIATES,**  
Chartered Accountants

For and on behalf of the Board

**(G. Satyanarayana Murty)**  
Partner  
Membership No. 29919

**S.V. Subba Raju**  
Chairman

**Col. L.V. Raju (Retd.)**  
Managing Director

Place : Hyderabad  
Date : 29th May, 2010

**S. Jasminder Singh**  
Company Secretary

## Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	AS AT 31.03.2010	AS AT 31.03.2009
<b>SCHEDULE - A</b>		
<b>SHARE CAPITAL</b>		
<b>AUTHORISED CAPITAL</b>		
1,50,00,000 Equity Shares of Rs.10/- each	<u>150,000,000</u>	<u>150,000,000</u>
<b>ISSUED SUBSCRIBED AND PAID UP CAPITAL</b>		
12,499,655 EQUITY SHARES OF RS.10/- each (Of the above shares 55,22,177 number of Equity Shares of Rs 10/- each were allotted by way of bonus shares by capitalizing free reserves of the company)	<u>124,996,550</u>	<u>124,996,550</u>
<b>TOTAL</b>	<u>124,996,550</u>	<u>124,996,550</u>
 <b>SCHEDULE - B</b>		
<b>RESERVES AND SURPLUS</b>		
<b>Securities Premium</b>		
As at the commencement of the year	917,219,545	917,219,545
Add : received during the year	-	-
	<u>917,219,545</u>	<u>917,219,545</u>
<b>General Reserve</b>		
At the commencement of the year	60,183,762	60,513,631
Add: Transfer from the profit & Loss account	-	700,000
Less: Foreign Currency Translation Adjustment	817,242	1,029,869
	<u>59,366,520</u>	<u>60,183,762</u>
Balance in Profit & Loss A/c	<u>119,694,084</u>	<u>190,692,149</u>
<b>TOTAL</b>	<u>1,096,280,149</u>	<u>1,168,095,456</u>
 <b>SCHEDULE - C</b>		
<b>SECURED LOANS</b>		
Short Term Corporate loan	-	50,000,000
Interest Accrued and due	-	552,250
Working Capital Facilities from Banks	125,321,063	-
Short Term Loans against Deposits	63,637,743	57,938,822
Vehicle loans	1,364,256	2,066,676
	<u>190,323,062</u>	<u>110,557,748</u>



## Schedules To The Consolidated Balance Sheet

## SSCHEDULE "D"

## FIXED ASSETS

(Amount in Rupees)

Name of the Asset	Gross Block			Depreciation			Net Block			
	As on 1-Apr-09	Additions during the Year	Deductions /Deletions	As on 31-Mar-10	Upto 1-Apr-09	During The year	Adjustments	Upto 31-03-10	As on 31-Mar-09	As on 31-03-10
Land & Land development	207,206,627	8,638,020	-	215,844,647	-	-	-	-	207,206,627	215,844,647
Building	43,671,920	-	-	43,671,920	18,277,421	2,539,450	-	20,816,871	25,394,499	22,855,049
Plant & Machinery including Computers	114,158,530	262,700	-	114,421,230	79,572,620	9,198,206	-	88,770,826	34,585,910	25,650,404
Office Equipment	9,337,587	56,364	-	9,393,951	5,012,888	622,795	-	5,635,683	4,324,699	3,758,268
Furniture	11,869,992	130,266	-	12,000,258	7,934,913	709,690	-	8,644,603	3,935,079	3,355,655
Vehicles	8,146,457	-	-	8,146,457	4,568,899	926,230	-	5,495,129	3,577,558	2,651,328
Total	394,391,113	9,087,350	-	403,478,463	115,366,741	13,996,371	-	129,363,112	279,024,372	274,115,351
As On 31-03-09	315,567,678	78,823,435	-	394,391,113	97,176,890	18,189,852	-	115,366,742	218,390,788	279,024,371
Capital Work-in-Progress	476,128,914	29,808,354	-	505,937,268	-	-	-	-	476,128,914	505,937,268

## Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	AS AT 31.03.2010	AS AT 31.03.2009
<b>SCHEDULE - E</b>		
<b>INVESTMENTS :</b>	<b>NIL</b>	<b>NIL</b>
	-	-
<b>SCHEDULE - F</b>		
<b>INVENTORIES (As certified by Management)</b>		
Work in progress	ACD 113,912,918	113,912,918
	ENR 34,382,866	-
Closing Stock of Materials	ACD 52,001,913	56,670,264
	ENR 6,752,878	-
	<b>207,050,575</b>	<b>170,583,182</b>
<b>SCHEDULE - G</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured and considered good)		
Outstanding for a period exceeding Six months	<b>191,724,884</b>	155,859,082
Other Debts	<b>8,533,197</b>	47,447,440
	<b>200,258,081</b>	<b>203,306,522</b>
<b>SCHEDULE - H</b>		
<b>CASH AND BANK BALANCES</b>		
Cash on Hand	<b>263,355</b>	47,195
Cheques on hand	-	30,530,411
Cash at Bank :		
in current Account with scheduled Banks	<b>6,703,972</b>	55,426,626
in Fixed Deposits	<b>209,995,068</b>	266,588,852
	<b>216,962,396</b>	<b>352,593,084</b>
<b>SCHEDULE - I</b>		
<b>LOANS AND ADVANCES</b>		
(Unsecured Considered good)		
Advances to Suppliers & Services	<b>7,046,898</b>	11,925,260
Advances to Suppliers-ENR	<b>38,948,413</b>	-
Deposits	<b>40,882,904</b>	30,441,316
Deferred Interest	<b>208,146</b>	380,365
Other Current Assets	<b>9,648,397</b>	16,295,148
	<b>96,734,757</b>	<b>59,042,089</b>

**Schedules to the Consolidated Balance Sheet**

(Amount in Rupees)

	AS AT 31.03.2010	AS AT 31.03.2009
<b>SCHEDULE - J</b>		
<b>CURRENT LIABILITIES AND PROVISIONS</b>		
<b>(A) CURRENT LIABILITIES</b>		
Creditors for Supplies	6,489,639	4,865,300
Creditors for Expenses	37,413,720	38,698,063
Creditors for Capital Goods	28,334,672	20,930,783
Advances Received from Customers	73,715,268	78,564,171
Share Application Money unpaid refund A/c	362,050	418,300
Unclaimed Dividend	172,377	121,765
	<b>146,487,726</b>	<b>143,598,382</b>
<b>(B) PROVISIONS</b>		
Income Tax (Net)	-	-
Dividend	-	12,499,655
Dividend Distribution Tax	-	2,124,316
	-	<b>14,623,971</b>
<b>SCHEDULE - K</b>		
<b>Miscellaneous expenditure to the extent not written off or adjusted</b>		
a) Organisational Costs	143,039	143,039
Start-up Costs	244,872	244,872
Computer Software	71,488	71,488
	<b>459,399</b>	459,399
Less: Amortized During the year	5,248	5,248
Less: already Amortized	380,580	375,331
	<b>73,571</b>	78,820
b) Product Development Expenses	<b>20,835,128</b>	20,835,128

## Schedules to Consolidated Profit and Loss Account

(Amount in Rupees)

	For the Year ended 31.03.2010	For the Year ended 31.03.2009
<b>SCHEDULE - L</b>		
<b>SALES AND SERVICES</b>		
(A) Sales Domestic	217,224	2,256,007
(B) Sales Export	8,519,336	3,139,895
(C) Service income	35,162,357	225,909,372
	<u>43,898,917</u>	<u>231,305,274</u>
<b>SCHEDULE - M</b>		
<b>OTHER INCOME</b>		
Interest Received : Banks	18,788,819	27,981,007
Miscellaneous Income	6,269,600	5,826,332
	<u>25,058,419</u>	<u>33,807,339</u>
<b>SCHEDULE - N</b>		
<b>DUTIES AND TAXES</b>		
Central Excise Duty	3,461	180,106
Service Tax	3,741,141	24,896,925
Sales Tax	17,735	51,576
	<u>3,762,337</u>	<u>25,128,607</u>
<b>SCHEDULE - O</b>		
<b>Cost of Materials &amp; Services</b>		
<b>Consumption of raw materials and bought-out items</b>		
Opening Stock of raw materials	56,670,264	33,275,563
Add : Purchases	17,139,285	29,485,281
Less: Closing Stock	58,754,791	56,670,264
Material consumed	15,054,758	6,090,580
Accessories purchased	58,880	848,516
Project Execution Expenses	16,464,103	30,138,046
Direct Expenses-ENR	650,624	-
Project Execution Expenses-ENR	21,246,462	-
Net Cost of Materials & Services	<u>53,474,828</u>	<u>37,077,142</u>
<b>SCHEDULE - P</b>		
<b>(INCREASE)/DECREASE IN STOCKS</b>		
<b>Opening Stocks</b>		
Opening Work in progress	ACD	113,912,918
Opening work in progress	ENR	-
Total (A)		<u>113,912,918</u>
<b>Closing Stocks</b>		
Closing work in Progress	ACD	113,912,918
Closing work in progress	ENR	34,382,866
Total (B)		<u>148,295,784</u>
Total (A-B)		<u>(34,382,866)</u>

**Schedules to Consolidated Profit and Loss Account**

(Amount in Rupees)

	For the Year ended 31.03.2010	For the Year ended 31.03.2009
<b>SCHEDULE - Q</b>		
<b>PERSONNEL EXPENSES</b>		
Salaries and Other Benefits	<b>62,913,283</b>	75,205,713
Contribution to PF & Other funds	<b>2,991,173</b>	3,908,542
Staff Welfare	<b>1,476,990</b>	4,025,476
	<b><u>67,381,446</u></b>	<u>83,139,731</u>
<b>SCHEDULE - R</b>		
<b>OPERATING, ADMINISTRATIVE AND SELLING EXPENSES</b>		
Rent	<b>3,507,030</b>	2,874,251
Rates and Taxes	<b>2,103,055</b>	2,694,157
Printing & Stationery	<b>537,740</b>	735,948
Directors Remuneration	<b>4,680,000</b>	5,672,948
Bad Debts Written off	<b>8,751,111</b>	-
Directors sitting fees	<b>550,000</b>	472,500
Communication Expenses	<b>1,543,956</b>	2,357,859
Repairs and Maintenance	<b>3,556,086</b>	3,236,073
Electricity Charges	<b>1,753,258</b>	2,168,899
Professional & Consultancy Fees	<b>4,088,413</b>	1,828,243
Security Charges	<b>940,029</b>	915,849
Books and Periodicals	<b>14,295</b>	19,437
Traveling & Conveyance Expenses	<b>4,712,753</b>	8,122,588
Insurance	<b>380,665</b>	661,391
General Expenses	<b>859,411</b>	578,175
Auditors remuneration	<b>770,480</b>	602,270
Business Promotion	<b>912,974</b>	838,226
Research and Development expenses	<b>7,414,290</b>	18,211,689
Freight	<b>238,649</b>	56,052
Branch Administration Expenses-ENR	<b>533,620</b>	-
	<b><u>47,847,815</u></b>	<u>52,046,556</u>
<b>SCHEDULE - S</b>		
<b>FINANCE CHARGES</b>		
Interest on term Loan	<b>3,040,752</b>	3,522,267
Interest on Working Capital	<b>12,401,023</b>	2,925,558
Bank Commission & Other Financial Charges	<b>8,268,809</b>	4,163,800
	<b><u>23,710,584</u></b>	<u>10,611,625</u>



**SCHEDULE 'T' : Notes forming part of the Accounts for the year ended March 31, 2010****Significant Accounting Policies and notes on accounts :****Company Overview :**

Kernex Microsystems (India) Limited is engaged in the Manufacture and sale of Safety Systems for Railways and Software Services.

**A. Significant accounting policies :****1. Accounting Convention:**

The Financial statements are prepared under historical cost convention, on an accrual basis and in accordance with the generally accepted accounting principles in india, the applicable mandatory Accounting Standards as notified by the Companies (Accounting Standard) Rules, 2006 and the relevant provisions of the Companies Act,1956. The Accounting policies have been consistently applied by the Company unless otherwise stated.

- a. The Consolidated Financial statements have been prepared on the following basis : The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standards on consolidated financial statements issued by the ICAI. The financial statements of the Parent Company Kernex Microsystems ( India ) Limited ,have been combined with 100% WOS Avant-Garde Infosystems Inc, USA on a line -by-line basis by adding together book values of like items of assets,liabilities,income and expenses after eliminating intra-group balances and transactions and resulting un-realized gain / loss.
- b. The excess/deficit of cost to the parent company of its investment in the subsidiary over its portion of equity in the subsidiary at the respective dates on which investment in such subsidiary was made is recognized in the financial statements as goodwill/capital reserve.
- c. The Parent company's portion of equity In such subsidiary is determined on the basis of the Investment made as on the date of transaction as per the financial statements of the subsidiary.
- d. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.
- e. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

**2. Fixed Assets, Depreciation and Amortization**

Fixed assets are carried at the cost of acquisition less accumulated depreciation. Fixed assets are valued at original cost including incidental expenditures, taxes and duties net of cenvat credit availed.

Depreciation has been charged on fixed assets on WDV method as per the rates specified in Schedule XIV of the Companies Act,1956.

Depreciation is calculated on the computer Equipment, Office Equipment and Furniture and Fixtures over their estimated useful lives for the Subsidiary.

Start-up and Organisational Costs and Computer Software are Amortized over a period of its useful life.

Capital Expenditure incurred on expansion oriject at Hardware Technology Park(HTP) is under advanced stage of completion and shown under Capital Work in progress.

**3. Revenue Recognition :**

Revenue from contracts priced on a time and materials basis are recognized when services are rendered and related costs are incurred.

Revenue from product sales is stated exclusive of returns, and applicable trade discounts but inclusive of Duties and Taxes collected on the same.

Service Income is recognized as per the terms of Contracts with the Customer, when the related services are performed.



#### 4. Retirement Benefits to Employees :

##### i) Defined Contribution plan

In respect of retirement benefits in the form of provident fund, the contribution payable by the company for a year is charged to the Profit and Loss account.

##### ii) Defined Benefit Plan

###### General Description of Plans:-

**Leave encashment:** The Company does not have any scheme for Leave encashment.

**Gratuity:** Gratuity benefit is applicable to all permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes into account each completed year of service or part thereof in excess of 6 months. Annual contribution to the employees's Gratuity fund, Established with LIC of India (LIC) or determined based on an actuarial valuation by the LIC as at the year end.

#### 5. Foreign Currency Transactions :

Income and Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure/income is incurred/arised. The exchange difference arising on foreign currency transactions are recognized as income or Expenses in the period in which the payment is made/income received.

#### 6. Income Tax :

##### 6.1 Current Tax :

Provision for current tax is made and retained in the Accounts on the basis of estimated tax liability as per the applicable provisions of the income-tax Act,1961.

##### 6.2 Deferred Tax :

Deferred tax has been accounted in accordance with Accounting Standard - 22 "Accounting for Taxes on Income" issued by the ICAI, under the liability method.

A provision is made for Income tax annually based on the Tax Liability computed. The difference that result between the profit offered for income taxes and the Profit as per the Financial Statements are identified and thereafter a deferred tax asset or deferred tax liability for timing differences, namely the difference that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered.

The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

#### 7. Fixed Assets

Fixed assets are valued at original cost including incidental expenditures, taxes and duties net of CENVAT and VAT credit availed.

Capital Expenditure incurred on expansion oriject at Hardware Technology Park(HTP) is under advanced stage of completion and shown under Capital Work in progress.

#### 8. Research and Development Expenditure:

For Kernex Micro Systems (Ind) Ltd Revenue expenditure incurred on Research and Development is charged to Profit and Loss Account in the year it is incurred. Capital expenditure is included in the respective heads under Fixed Assets. For Avant-Garde Inc, USA Product Development Costs were Capitalized.

**9. Depreciation**

Depreciation has been charged on fixed assets on WDV method as per the rates specified in Schedule XIV of the Companies Act, 1956.

**10. Inventories**

Inventories of Components are valued at cost or realizable value whichever is less. Work in progress is valued at cost of materials and services used.

**11. Warranty Expenses**

Anticipated product warranty costs for the period of warranty are provided for in the year of sale.

**12. Segment Reporting :**

Since the Company has no Reportable segment to report, "Segment Reporting" under "Accounting Standard 17" issued by the "ICAI" is not applicable.

**13. Related Party Disclosures:**

- a) There are no related parties where control exists other than 100% Wholly Owned subsidiary.  
b) Other related parties with whom transactions have taken place during the year are:

Cova Technologies Inc, USA Enterprise owned by relative of Managing Director;

Consultancy services on Procurement & Inspection of goods in USA.  
(No Transactions during the year, Rs.9.65 during the Previous Year)

(Outstanding at the year end Mar,10 Rs 2.53 lacs Outstanding at the year end Mar,09 Rs 6.23 lacs)

The Company entered into related party transactions with Avant-Garde Infosystems Inc, USA. a 100 % Wholly owned Subsidiary with regard to :

(Amt Rs. in lacs)

Particulars	Year ended March 31	
	2010	2009
<b>1. Capital Transactions :</b> Working Capital Loan	—	—
<b>2. Revenue Transactions :</b> Interest receivable	<b>15.41</b>	<b>14.92</b>
<b>3. Sale of Services :</b>	—	—

(Amt Rs. in lacs)

**d) Key Management Personnel :**

			<b>2009-10</b>	<b>2008-09</b>	
Col. L.V. Raju (Retd.)	-	Managing Director	Remuneration	<b>24.09</b>	31.67
B. Murali Mohan	-	Whole-time Director	Remuneration	<b>22.89</b>	20.04

**14. Impairment Of Assets :**

An Asset is treated as impaired when the carrying cost of the asset exceeds its recoverable value being higher of value in use and net selling price. Value in use is computed at net present value of cash flow expected over the balance useful life of the assets. An impairment loss is recognised as an expense in the profit and loss account in the year in which an asset is identified as impaired. The impairment loss in prior accounting period is reversed if there has been an improvement in recoverable amount.

The Management of the Company is of the opinion that there are no Fixed Assets to be impaired for the period, as identified by the sources of Information, mentioned in the Accounting Standard -28 "Impairment of Assets" issued by the ICAI.

**B. Notes to Accounts:**

1. All Amounts in the financial statements are presented in Rupees. The Previous Year's figures have been regrouped/reclassified, wherever necessary to confirm to the current year's presentation. Figures are rounded off to the nearest rupee.
2. Sundry Debtors, Advances and Creditors are Subject to Reconciliation & Confirmation.
3. Contingent Liabilities in respect of :
  - a) Claims against the Company not acknowledged as debt Rs. 8 lakhs in respect of Income Tax for the Assessment Year 1998-99 for which the companies appeal is Pending before the High Court of Andhra Pradesh and Rs.4.13 Lakhs in respect of Sales Tax for the year 2002-03 for which the company appeal is pending before STAT
  - b) Bank guarantees outstanding Rs.1209.79 lakhs as on 31st March, 2010 (2009:Rs.1633.58 lakhs)
  - c) Estimated amount of contracts remaining to be executed on capital account and not accounted are Rs.5.60 crores (Previous Year:Rs.5.48crores)

**4. Exchange Differences:**

Exchange Fluctuation difference of Rs.8,39,466 /- ( Previous Year Rs.13,89,899) is added to the Miscellaneous Income.

**5. Term Loans and Cash Credits:**

- a) Cash credit facility from SBH is primarily secured by hypothecation of current assets of the company and collaterally secured by first charge on fixed assets of the company and equitable mortgage of land & buildings situated at Madhapur.
- b) Other Short term Loans are secured by Fixed and Term Deposits
- c) Vehicle Loans are secured by Hypothecation of Vehicles.
- d) Export Packing Credit facility is Primarily Secured by Hypothecation of Raw Materials, Stock in Process, Finished Goods in transit, stores spares, accessories of Anti Collision Devices ranking paripassu with other banks under multiple banking agreement and collaterally secured by all Fixed Assets Land & Buildings under construction

	(Amount in Rupees)	
	2009-10	2008-09
<b>6. Auditors Remuneration relates to</b>		
Statutory, Tax Audits including quarterly audits :	<b>6.00</b>	6.00
Other Services :	<b>1.55</b>	1.72
Reimbursement of Out of Pocket expenses :	<b>0.15</b>	0.00

**7. Earning Per Share :**

Earning/Diluted Earning Per Share of the Company has been calculated as per the Accounting Standard 20 "Earning Per Share" Issued by ICAI.

	(Amount in Rupees)	
	2009-10	2008-09
Earning Per Share	<b>(5.68)</b>	2.01
Diluted Earning Per Share	<b>(5.68)</b>	2.01

**8. Disclosure required by Clause 32 of the Listing Agreement**

Amount of Loans and advances in nature of loans outstanding from subsidiaries in the year ended March 31, 2010.

Name of Subsidiary Company	Outstanding as at March 31, 2010 (Rs. In Lacs)	Maximum Amt Outstanding during the year (Rs. In Lacs)	Investment in shares of the Company (No. of shares)	Investment in shares of subsidiaries of the Company (No. of shares)
Avant-Garde Info systems Inc	207.06	207.06	–	5,379,240

**9. Deferred Taxation :**

(Amount Rs. in lacs)

Particulars	As on 31.03.09	As on 31.03.08
Payments under 43B	<b>5,781,970</b>	6,786,997
Unabsorbed Business Loss (2009-10)	<b>34,782,444</b>	–
Total Deferred Tax Asset	<b>40,564,414</b>	6,786,997
Deferred Tax Liability		
Difference in Block of Assets	<b>4,444,053</b>	6,506,999
Total Deferred tax liability	<b>4,444,053</b>	6,506,999
Net Deferred tax ( Asset ) / Liability	<b>(36,120,361)</b>	(279,998)

**Note :**

As per the Accounting Standard-22 "Taxes on Income" issued by ICAI, The Net deferred tax Liability for the year Rs3,58,40,364/- is Credited to P&L A/c.

Signatories to Schedule A to T  
As per our report of even date

for **GMK ASSOCIATES,**  
Chartered Accountants

**(G Satyanarayana Murty)**  
Partner  
Membership No. 29919

Place : Hyderabad  
Date : 29th May, 2010

For and on behalf of the Board

**S V Subba Raju**  
Chairman

**S. Jasminder Singh**  
Company Secretary

**Col. L V Raju (Retd.)**  
Managing Director

**Consolidated Cash Flow Statement for the year ended March 31, 2010**

Particulars	(Amount in Rupees)	
	March 31, 2010	March 31, 2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Profit before tax</b>	<b>(106,838,426)</b>	43,457,603
<b>Adjustments for:</b>		
Depreciation and amortisation	<b>14,001,619</b>	18,195,100
Interest and other financial charges	<b>23,710,584</b>	10,611,625
Interest income	<b>(20,329,969)</b>	(29,473,082)
<b>Operating Profit Before Working Capital Changes</b>	<b>(89,456,192)</b>	42,791,246
Sundry debtors	<b>3,048,441</b>	31,268,844
Inventories	<b>(36,467,393)</b>	(27,938,451)
Loans and Advances	<b>(28,994,516)</b>	(20,804,212)
Current liabilities and provisions	<b>2,889,344</b>	78,144,452
Income-taxes paid during the year	<b>(8,698,152)</b>	(20,039,104)
<b>Net cash generated by operating activities</b>	<b>(157,678,468)</b>	83,422,775
<b>Cash flows from investing activities</b>		
Purchases of fixed assets and change in capital work-in-progress	<b>(38,895,704)</b>	(181,622,347)
Interest income	<b>20,329,969</b>	29,473,082
<b>Net cash used in investing activities</b>	<b>(18,565,735)</b>	(152,149,265)
<b>Cash flows from financing activities</b>		
Secured Loans Received/ (Repayment)	<b>79,765,314</b>	65,765,723
Interest and other financial charges	<b>(23,710,584)</b>	(10,611,625)
Dividends paid during the year, including dividend tax	<b>(14,623,971)</b>	(14,623,971)
<b>Net cash used in financing activities</b>	<b>41,430,759</b>	40,530,127
<b>Net (decrease)/increase in cash and cash equivalents during the year</b>	<b>(134,813,444)</b>	(28,196,363)
Effect of exchange difference on translation	<b>(817,242)</b>	1,500,009
Cash and cash equivalents at the beginning of the period/year	<b>352,593,082</b>	379,289,436
<b>Cash and cash equivalents at the end of the year</b>	<b>216,962,395</b>	352,593,082

As per our report of even date

for **GMK ASSOCIATES,**  
Chartered Accountants

**(G. Satyanarayana Murty)**  
Partner  
Membership No. 29919

Place : Hyderabad  
Date : 29th May, 2010

For and on behalf of the Board

**S.V. Subba Raju**  
Chairman

**S. Jasminder Singh**  
Chief Financial Officer

**Col. L.V. Raju (Retd.)**  
Managing Director

**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956.**

1.	Name of Subsidiary Company	Avant - Garde Infosystems Inc.,
2.	Financial Year of Subsidiary Company	Ended on 31-03-2010
3.	Holding Company's Interest	100%
4.	Number of Shares held by Kernex Microsystems (India) Limited in the Subsidiary Company The net aggregate of Profits for the current financial year of Subsidiary Company, so far it concerns to the members of the Company	35,80,000 Ordinary Shares of \$0.02 each and 17,99,240 Equity Shares of US \$ 0.10 each
5.	a) Dealt with in the accounts of Holding Company) b) Not Dealt with in the accounts of Holding Company	- \$42677
6.	The net aggregate of losses for the previous financial years of the Subsidiary Company, so far it concerns to the members of the Holding Company:  Dealt with in the accounts of Holding Company  Not Dealt with in the accounts of Holding Company	-  \$212702

- Notes:
1. Avant-Garde Infosystems Inc, USA was incorporated on September 25, 2000 as 100% subsidiary of Kernex Microsystems ( India) Limited.
  2. The Financial year of Holding Company and the Subsidiary ended on March, 31, 2010.

For and on behalf of the Board

**S.V. Subba Raju**  
Chairman

**Col. L.V. Raju (Retd.)**  
Managing Director

Place : Hyderabad  
Date : 29th May, 2010

**S. Jasminder Singh**  
Company Secretary

## **Avant - Garde Infosystems Inc, U.S.A.**

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### **Directors' Report**

To

The Members

The Board of Directors of Avant-Garde Infosystems Inc., has pleasure in submitting the Eighth Annual Report in respect of the period from April 1, 2009 to March 31, 2010.

### **Directors**

The Names of the Directors in office during or since the end of the Financial Year are

<u>Names</u>	<u>Position</u>
COL. L.V. Raju (Retd.)	Director and President
L. Muralidhara Raju	Director

### **Principal Activity**

The Principal activity of the Company during the Financial Year was developing, marketing software services and products in American Continent.

### **Financial Year**

The Financial Year of the company is from April 1 to March 31 to align with Kernex Microsystems (India) Limited, the Holding Company.

### **Financial Results**

The net loss of the company for the financial year was Rs. 10.88 lacs due to provision of interest on the loan availed from Kernex Microsystems (India) Limited.

### **Operations**

During the year the Company received an income of Rs. 1.66 lacs

### **Future prospects**

The Balance work on account of improving "Patient Medical Documentation Tracking Systems" is going as per the additional functional requirements from its technology partner Wolverine systems, Detroit and the marketing of the product to the corporate hospital in USA.

**For Avant - Garde Infosystems, Inc.,**

**Col. L V Raju (Retd.)**

**Director**

Date : 27th May, 2010



## Balance Sheet as at March 31, 2010

(Amount in Rupees)

	Schedule No.	AS AT 31.03.2010	AS AT 31.03.2009
<b>SOURCES OF FUNDS:</b>			
Share Capital	I	11,830,950	11,830,950
Reserves and Surplus	II	-	-
Secured Loans		-	-
Un-secured Loans	III	10,774,236	10,774,236
<b>TOTAL SOURCES</b>		<b>22,605,186</b>	<b>22,605,186</b>
<b>APPLICATION OF FUNDS:</b>			
Fixed Assets (Net Block)			
Gross Block	IV	1,143,048	1,143,048
Less: Depreciation		1,143,048	1,143,048
<b>Net Block</b>		<b>-</b>	<b>-</b>
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>			
Sundry debtors		-	-
Cash and bank balances	V	406	4,025
Advances & Deposits	VI	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>406</b>	<b>4,025</b>
<b>Less: Current Liabilities</b>	VII	<b>8,439,961</b>	<b>7,361,256</b>
<b>NET CURRENT ASSETS</b>		<b>(8,439,555)</b>	<b>(7,357,231)</b>
Miscellaneous Expenditure (To the extent not written off)			
Organisational Costs and Start-Up Costs	VIII	73,571	78,819
Research and Development Costs		20,835,127	20,835,127
Debit Balance in Profit & Loss Account		10,136,043	9,048,471
Notes on accounts	IX		
Forming part of accounts		22,605,186	22,605,186

For Avant - Garde Infosystems, Inc.,

Col. L V Raju (Retd.)  
DirectorPlace : Fremont  
Date : 27th May, 2010

**Avant - Garde Infosystems Inc, U.S.A.****Profit and Loss Account for the year ending March 31, 2010**

(Amount in Rupees)

	For the Year ended 31.03.2010	For the Year ended 31.03.2009
<b>INCOME</b>		
Sales	166,080	139,750
<b>TOTAL</b>	<b>166,080</b>	<b>139,750</b>
<b>EXPENDITURE</b>		
Rent	391,680	–
Accounting	93,600	98,707
Bank Charges	17,280	15,150
Interest	1,662,384	1,492,075
Amortization Expenses	5,248	5,248
Taxes	44,160	45,910
<b>TOTAL EXPENSES</b>	<b>2,214,352</b>	<b>1,657,090</b>
Profit/(Loss) before Tax and extraordinary items	(2,048,272)	(1,517,340)
Add/(Less ): Net Exchange Difference	(960,700)	(1,389,899)
Profit/(Loss before Tax)	(1,087,572)	(2,907,239)
Provision for Tax	–	–
Profit after Tax	(1,087,572)	(2,907,239)
Profit/(Loss) brought forward from earlier years	(9,048,471)	(6,141,232)
Profit/(Loss) carried to Balance Sheet	<b>(10,136,043)</b>	<b>(9,048,471)</b>

For Avant - Garde Infosystems, Inc.,

Col. L V Raju (Retd.)

Director

Place : Fremont

Date : 27th May, 2010

## Schedules forming part of Balance Sheet

(Amount in Rupees)

	AS AT 31.03.2010	AS AT 31.03.2009
<b>SCHEDULE 'I'</b>		
SHARE CAPITAL		
Authorised Capital		
Common Shares at no par value	<b>50,000,000</b>	50,000,000
	<b>Shares</b>	Shares
Issued, Subscribed and Paid-up Capital		
35,80,000 equity shares of US\$0.02	<b>11,830,950</b>	11,830,950
and 17,99,240 equity shares of US\$0.10		
	<b>11,830,950</b>	11,830,950
<b>SCHEDULE 'II'</b>		
Reserves and Surplus		
	-	-
<b>SCHEDULE 'III'</b>		
Unsecured Loans :-		
Loan from Kernex Microsystems (India) Ltd	<b>10,774,236</b>	10,774,236
	<b>10,774,236</b>	10,774,236
<b>SCHEDULE 'V'</b>		
Cash and Bank Balances		
California Pacific Bank	<b>406</b>	4,025
	<b>406</b>	4,025
<b>SCHEDULE 'VI'</b>		
Loans and Advances		
(Considered Good unless otherwise stated)		
Rent Deposit	-	-
Accounts Receivables	-	-
Advance for suppliers	-	-
Pre-Paid Taxes	-	-
	-	-
<b>SCHEDULE 'VII'</b>		
<b>Current Liabilities and Provisions</b>		
Rent Payable	<b>266,777</b>	-
Accounts Payable	<b>88,023</b>	-
Interest Payable	<b>8,085,161</b>	7,361,256
	<b>8,439,961</b>	7,361,256

Schedules forming part of Balance Sheet

SCHEDULE "IV"

FIXED ASSETS

(Amount in Rupees)

PARTICULARS	GROSS BLOCK		DEPRECIATION			NET BLOCK	
	As on 01-04-2009	Additions during the year	As on 31-03-2010	Up to 01-04-2009	During the year	As on 31-03-2010	As on 31-03-2009
Computer Equipment	417,756	-	417,756	417,756	-	-	-
Equipment - Others	294,535	-	294,535	294,535	-	-	-
Furniture & Fixtures	430,757	-	430,757	430,757	-	-	-
	1,143,048	-	1,143,048	1,143,048	-	-	-
Computer Software	143,039	-	143,039	143,039	-	-	-
Start-Up costs	244,872	-	244,872	179,540	4,062	61,270	65,332
Organisational Costs	71,488	-	71,488	58,000	1,186	12,302	13,488
	459,399	-	459,399	380,579	5,248	73,572	78,820

## Schedules forming part of Balance Sheet

(Amount in Rupees.)

	AS AT 31.03.2010	AS AT 31.03.2009
<b>SCHEDULE 'VIII'</b>		
Miscellaneous Expenditure to the Extent not written off or Adjusted		
Research & Development Expenses	20,835,127	20,835,127
Organisational Costs	143,039	143,039
Start-up Costs	244,872	244,872
Computer Software	71,488	71,488
<b>TOTAL</b>	<b>459,399</b>	459,399
Less: Already Amortized	380,580	375,332
Less Amortized during the year	5,248	5,248
Balance	<b>73,571</b>	78,819

## Schedule-IX : Notes to Accounts - March 31, 2010

## A. Significant Accounting Policies

## 1. Basis of Accounting

The accounts expressed in equivalent Indian Rupees are prepared in accordance with the historical cost convention.

## 2. PRINCIPAL ACTIVITIES

The Principal activities of the company are that of provision of computer consultancy, software development and related services.

## 3. SHARE CAPITAL

No of Shares as on 31.03.2010

Authorised Common shares at no par value 50000000

## 4. HOLDING COMPANY

The company is wholly owned Subsidiary of Kernex Microsystems (India) Limited.

## 5. ACCOUNTING PERIOD

The Financial Statements are prepared for the period from 1st April, 2009 to 31st March, 2010

## 6. RELATED PARTY TRANSACTIONS

The company has received the share capital and working capital loan from Kernex Microsystems (India) Limited a related Company.

## 7. Fixed Assets, Depreciation and Amortization

Fixed assets are carried at the cost of acquisition less accumulated depreciation. Depreciation has been charged on fixed assets on WDV method as per the rates specified in Schedule XIV of the Companies Act, 1956.

Depreciation is calculated on the computer Equipment, Office Equipment and Furniture and Fixtures over their estimated useful lives for the Subsidiary. Start-up and Organisational Costs and Computer Software are Amortized over a period of its useful life.

**8. Foreign Currency Transactions :**

Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure/ income is incurred. The exchange difference arising on foreign currency transactions are recognized as income or Expenses in the period in which the payment is made/income received.

The financial statements of the foreign subsidiary is translated into Indian rupees as follows :

- a Revenue items, except opening and closing inventories and depreciation are translated at the respective monthly average rates. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated.
  - b Monetary items are translated using the closing rate.
  - c Non-monetary items, other than inventories and fixed assets, are translated using the exchange rate at the date of transaction i.e., the date when they were acquired.
  - d Fixed assets are translated using the exchange rate at the date of their acquisition.
  - e The net exchange difference resulting from the translation of items in the financial statements of foreign subsidiary is recognized as income or as expense for the year.
- 9.** The accounts are reclassified to conform as near as to the Schedule VI of the Companies Act, 1956.
- 10.** The Financial Statements are the responsibility of the Company's Management and are not required to be Audited as per the existing US Laws.
- 11.** Previous Years Figures were re-grouped and re-arranged wherever necessary.
- 12.** The Balance Sheet and Profit & Loss Account for the year ended 31.03.2010 are prepared based on the Financial Statements duly certified by C.P.A

**For Avant - Garde Infosystems, Inc.,**

**Col. L V Raju (Retd.)  
Director**

Place: Fremont

Date : 27th May, 2010



# Kernex Microsystems (India) Limited

Registered Office : "THRUSHNA", Plot No:7, Software Units Layout, Madhapur, HYDERABAD -81

## ATTENDANCE SLIP

18th Annual General Meeting September 24, 2010

DP.Id*
Client Id*

Reg. Folio No.
----------------

Name and Address of the Shareholder : \_\_\_\_\_

No. of Share(s) held : \_\_\_\_\_

I certify that I am a member/proxy for a member of the Company. I hereby record my presence at the 18th Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 2.30 P.M. on Friday, the September 24, 2010.

\_\_\_\_\_  
\*\* Member's/Proxy's name in Block Letters

\_\_\_\_\_  
\*\* Member's/Proxy's Signature

Note : 1. Please sign this attendance slip and hand it over at the Attendance Verification Counter at the Entrance of the Meeting Hall.

2. This Attendance Slip is valid only in case shares are held on the date of the meeting.

\* Applicable for Investors holding shares in electronic form.

\*\* Strike out whichever is not applicable.



# Kernex Microsystems (India) Limited

Registered Office : "THRUSHNA", Plot No:7, Software Units Layout, Madhapur, HYDERABAD -81

## PROXY FORM

DP.Id*
Client Id*

Reg. Folio No.
----------------

I/We .....  
of .....  
being member/members of M/s. KERNEX MICROSYSTEMS (INDIA) LIMITED, hereby appoint ..  
of .....  
or failing him .....  
of .....  
as my / our proxy to vote for me/us on my/our behalf at the 18th Annual General Meeting of the Company to be held at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 2.30 P.M. on Friday, the September 24, 2010 and at every adjournment thereof.

Signed this ..... day of ..... , 2010.

Note : 1. Proxy need not be a member.

2. Proxy Form, complete in all respects, should reach the Registered Office of the Company not later than 48 hours before the commencement of the Meeting.

Affix  
Revenue  
Stamp

Signature

\*Applicable for Investors holding shares in electronic form.



