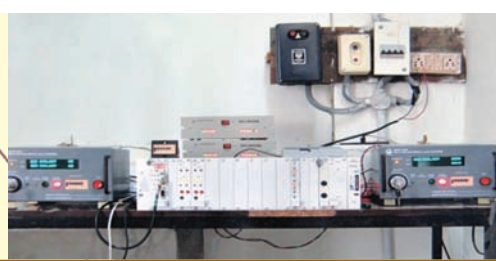
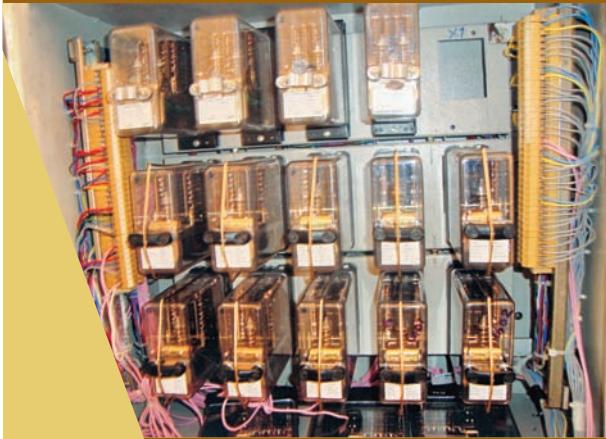


# ANNUAL REPORT 2012 - 13



**KERNEX**  
MICROSYSTEMS (INDIA) LIMITED

## **BOARD OF DIRECTORS**

|                                   |                        |
|-----------------------------------|------------------------|
| Col. L.V. Raju (Retd.)            | Managing Director      |
| Dr. Anji Raju Manthena            | Director               |
| Sri B. Murali Mohan               | Director - (Technical) |
| Dr. Jyoti Raju                    | Director               |
| Sri M. Gopalakrishna, IAS (Retd.) | Director               |
| Dr. Raju Narasa Mantena           | Director               |
| Dr. Janardhana Reddy Vinta        | Director               |
| Sri A.K. Sanwalka                 | Director               |

## **COMPANY SECRETARY**

K. Ramanjaneyulu

## **BANKERS**

STATE BANK OF HYDERABAD,  
Overseas Branch, Somajiguda,  
Hyderabad - 500 082.

## **AUDITORS**

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

## **REGISTRAR AND TRANSFER AGENT**

Karvy Computershare Pvt. Ltd.,  
Plot No. 17 to 24, Vittal Rao Nagar,  
Madhapur, Hyderabad - 500 081

## **REGISTERED OFFICE**

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

## **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 21st Annual General Meeting of the members of the company will be held on **Friday, September 27, 2013 at 3.00 P.M** at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad to transact the following business.

### ORDINARY BUSINESS

- 1) To receive, consider and adopt the audited Balance Sheet as at 31st March, 2013 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 Dr Jyothi Raju who retires by rotation and being eligible, offers herself for re-appointment.
- 3) To appoint a Director in place of Dr. Raju Narasa Manthena who retires by rotation and being eligible, offers himself for re-appointment.
- 4) 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

- 5) To consider and if thought fit to pass with or without modifications the following resolution as an ordinary resolution.

RESOLVED THAT Sri Arunkumar Sanwalka who has been appointed by the Board as an Additional director and who holds office up to the date of this Annual general Meeting of the company in terms of section 260 of the Companies Act, 1956 and in respect of whom the company has received a notice under section 257(1) of the Act proposing his candidature for the office of the director, be and is hereby appointed as a Director of the Company, whose term of office is liable to determination for retirement by rotation.

- 6) To consider and if thought fit to pass with or without modifications 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 be and is hereby accorded for the re-appointment of Sri B. Murali Mohan, Director as Director-Technical of the Company, not liable to retire by rotation, for a further period of 3 years w.e.f. 17-07-2013 as per the terms and conditions to be fixed by the board as recommended by the remuneration Committee.

By Order of The Board  
For Kernex Microsystems (India) Limited

Place : Hyderabad  
Date : 14th August, 2013

**K RAMANJANEYULU**  
Company Secretary

### NOTES

- 1 Explanatory statement in respect of item No.5 &6 of the Notice is annexed hereto in pursuance of section 173(2) of the Companies Act, 1956 and the same forms part of the notice
2. 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.
3. 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 advise about change in address to their respective Depository participants and not to the Company.
4. The Register of Members and Share Transfer Books of the Company shall remain closed from September 23rd, 2013 to September 27th, 2013 (both days inclusive).
5. 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.



## 6. Details of Directors Seeking Appointment/ Reappointment at the 21st Annual General Meeting

| Particulars   | <b>Dr Jyoti Raju</b>   | <b>Dr. Raju Narasa Manthena</b>  |
|---|--|--|
| Date of Birth   | January 14, 1974   | July 4, 1944   |
| Date of Appointment   | January 16, 2004   | September 20, 2008   |
| Qualifications  | Bachelor of Engineering in computer science from Birla Institute of Technologies & Science, Pilani, MS in computer Science with Ph.d. in Computer Science from University of California USA. | MD in USA and MBBS from Andhra University  |
| Expertise in specific Functional area   | 13 Years experience in defining, designing and developing Wireless Networking Products.  | He is a Physician and has about 28 years experience in Anesthology in USA. He received fellowship from Washington University, USA. He worked as Assistant Professor of Anesthology in Washington University from 1978 to 1980 and worked as consultant Anesthesiologist as St.Lukes Hospital USA from 1980-2002.He is working as Secretary and Correspondent of NRI Academy of Sciences since 2003 |
| Directorship held in other public companies (excluding foreign companies)   | Nil  | Nil  |
| Memberships / Chairmanships of committees of other Public companies (includes only Audit and Shareholders/ Investors Grievance Committee) | Nil  | Nil  |
| Number of shares held in the company  | 173329   | 8,54,633   |

**EXPLANATORY STATEMENT UNDERSECTION 173(2) OF THE COMPANIES ACT,1956**

**ITEM No. 5**

|   |   |                                     |
|---|---|-------------------------------------|
| Name of the Director                        | : | <b>Arunkumar Sanwalka</b>           |
| Date of Birth                               | : | 21-05-1947                          |
| Occupation                                  | : | Retired Employee of Indian Railways |
| Experience                                  | : | 38 years in Indian Railways         |
| Director in Other Companies                 | : | Nil                                 |
| Committee positions held in other Companies | : | Nil                                 |
| Shareholding in the Company                 | : | Nil                                 |

**Brief Profile**

Mr.Arunkumar Sanwalka did M.Sc. (Engg.), (UK) I.Mech.(E), UK, AMIE (India) – Mech. & Prod. and retired from the top executive position of Indian Railways viz. General Manager, Northeast Frontier Railway after 38 years of service. After retirement was on the Board of Directors of M/s RITES Ltd, and NTPC Ltd, leading PSUs of GOVT. of India, as non-official independent Director

Currently, holds the position of President, of Amsted Aikon Rail Ventures Pvt Ltd, a joint venture of Amsted Rail, USA and Aikon Technologies (Pvt) Ltd.

The Company has received a notice from a member under section 257 of the companies Act, 1956 proposing the candidature of Sri Arunkumar Sanwalka as a Director. Board considers it to be beneficial in the interest of the Company to have the guidance and advice of Sri Arunkumar Sanwalka and accordingly recommended his appointment as a Director.

Your Directors recommend the resolution at item NO 5 as an Ordinary Resolution for its approval by the members of the company.

None of the Directors of the company except Sri Arunkumar Sanwalka be interested in the above said resolution.

**ITEM No.6**

|   |   |                              |
|---|---|------------------------------|
| Name of the Director                        | : | Bandaru Murali Mohan         |
| Date of Birth                               | : | 17-07-1948                   |
| Occupation                                  | : | Director Technical of KERNEX |
| Experience                                  | : | 43 Years                     |
| Director in Other Companies                 | : | Nil                          |
| Committee positions held in other Companies | : | Nil                          |
| Shareholding in the Company                 | : | 3,43,071                     |

**Brief Profile**

Mr. B. Murali Mohan had 43 years of vast and varied experience in managing, designing, developing and maintaining several hardware products. He has been associated with the company since 2001 as a Technical Director.

Board considered it to be beneficial in the interest of the Company to have the guidance and advice of Sri B.Murali Mohan and accordingly recommended his appointment as a Whole time Director for a further period of 3 Years

Members are requested to consider his candidature for the same position of Director, Technical at the remuneration and other terms to be fixed by the Board on the recommendation of the Remuneration Committee

Your Directors recommend the resolution at item NO 6 as an Ordinary Resolution for its approval by the members of the company.

None of the Directors of the company except B.Murali Mohan be interested in the above said resolution.

## DIRECTOR'S REPORT

To  
The Members,  
Kernex Microsystems (India) Ltd.

Your Directors present herewith, the Twenty first Annual Report together with the audited accounts of the company for the year ending 31 March 2013.

### Financial Results

Rs in Lakhs

|   | <b>2012-2013</b> | 2011-2012 |
|---|------------------|-----------|
| Sales and Other Income                          | <b>3144.26</b>   | 4598.42   |
| Profit before interest and depreciation         | <b>696.25</b>    | 1135.26   |
| Interest  | <b>245.45</b>    | 369.68    |
| Depreciation                                    | <b>275.95</b>    | 80.54     |
| Profit before Tax                               | <b>174.85</b>    | 685.08    |
| Provision for Taxation                          | <b>110.17</b>    | 238.11    |
| Profit after Tax                                | <b>64.68</b>     | 446.97    |
| Add: Balance brought forward from previous year | <b>1912.06</b>   | 1610.37   |
| Profit available for appropriation              | <b>1976.74</b>   | 2057.34   |
| Earnings Per Share (Rs.)                        |                  |           |
| Basic   | <b>0.52</b>      | 3.58      |
| Diluted   | <b>0.52</b>      | 3.58      |
| Appropriations:                                 |                  |           |
| Transfer to General Reserve                     | -                | -         |
| Proposed Dividend                               | -                | 125.00    |
| Income Tax on proposed Dividend                 | -                | 20.28     |
| Balance carried to the Balance sheet            | <b>1976.74</b>   | 1912.06   |

### Dividend

In view of the reduction in turnover of the company Your directors are not in a position to recommend any dividend on the paid up capital of the company for the financial year 2012-2013. Due to recession and withdrawal of orders in process existing reserves are required to sustain the company's business and seed capital to take up new R&D projects.

### Year in Retrospect

The year 2012-13 was a difficult year due to funds constraints of the Indian Railways, their switchover

to TCAS from ACD and put the R & D Work of the company on ACD on hold and in suspension. This has adversely affected the turnover of the Company and receipt of regular payments.

### The Company's Business and Operational Results

- Your company has successfully developed Anti Collision Devices System Ver 1.0 along with Konkan Railways Corporation and commissioned the systems in Konkan Route over 730 KMS and 730 KMS in N.F Railway during 2004-2007.
- The changes suggested by the Railway Board and RDSO, have been incorporated in the new product ACD Ver 1.1.1. An advanced version 2.0 was also tested and tried out.
- In the meantime Indian Railways and RDSO has gone ahead with their Train Collision and Avoidance System (TCAS), with their new specifications RDSO, has floated tender in December 2012-January 2013 with TCAS specifications for product development. Your company has been qualified in 1st stage approval process Kernex has been qualified to develop the TCAS system on 14 June 2013. The Work order for Rs.584.00 lakhs with some conditions has since been received.
- According to the work order, KMIL has been awarded package "B" to develop, install, carry out trials of TCAS and prove inter operability in Vikarabad-Sadasivapet-Bidar track over 80 KMS. This work has been planned for Oct-Nov-Dec 2013 and if required, further trials will be taken up.
- Comprehensive Maintenance Contract operations for the year 2012-2013 have been successfully carried out, in NF Railway over 1800 KMS from Katihar to Dibrugarh and 12 Loco sheds. The ACD system was maintained successfully in the year 2012-2013, which involved over 575 Loco ACDs, 750 Static ACDs at Stations, at Gates and 245 Mobile ACDs, over forward repair centers located at 4 places that is at Guwahati, Jalpaiguri, Burdwan and Tinsukia and has functioned well.
- Our R&D work, on TCAS related work, and Lx System, continued during the year along with work on Multi Axle Digital Counter System (MSDAC).
- Apart from R & D Work on development of Ver1.1.2 of ACD, the software for ACD System Ver 1.1.2 involving new design without Repeaters between Stations has been successfully tested and is ready for deployment.

### **Cross Approvals, New Designs and Indigenization**

Our efforts for obtaining approvals for MSDAC, has been tardy due to change of specifications and rules. New work has to be undertaken. As far as our Lx System is concerned, it has been fully developed with Remote Diagnostic Monitoring System and work for obtaining accreditation certification is in progress.

### **International Operations and Exports**

Your company has completed development and shipment of 136 Lx Systems to Egyptian National Railways during 2011-2012. Installation work is in progress and by the year end only. Over 44 Gates have been installed due to dispersed sites. local problems of stores and delayed payments from ENR. Expected progress could not be achieved due to disturbed political, security and law and order problems in Egypt. We are seeking time and with situation improving, we may be in a position to achieve the targets. We are however exploring the scope to market Lx Gates and our technology in new export markets.

### **New areas of business in India**

Your company has been participating in all R&D tenders being floated by RDSO as far as Railways are concerned. It proposes to take part in Defence projects, in Microwave, RF and Radar technologies, by accepting outsourced manufacturing orders from Defence vendors or jointly manufacture Electronic Components required by Defence to utilize our infrastructure and Manpower skills.

### **Domestic Market**

Kernex plans to complete the development of TCAS project in about 10 to 12 months and be ready to bid for tenders in Railway market. Digital Axle Counters are greatly in demand and we are pursuing our association with M/s Altpro to secure approvals from RDSO and market the product in India and abroad.

### **Research & Development**

Your company intends to take up work in Defence related projects and GIS projects, besides new projects of Railways which are being tendered by RDSO. Kernex is planning to take up projects for indigenization and also local manufacturing on Transfer of Technology basis.

### **Progress achieved on the IPO and Company Expansion Projects**

As part of IPO related work, acquiring of the few pockets of land and approach stretches and part of conversion

work is in progress. All efforts are being made to complete the revised project works during the year 2013-14

### **Overseas 100% Owned Subsidiary**

Your company has one Wholly Owned Subsidiary in USA as on 31st March 2013. 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:

- a) In the preparation of the Annual Accounts for the year ended March 31, 2013 the applicable Accounting Standards had been followed along with proper explanation relating to material departures
- b) 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.
- c) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) The directors had prepared the annual accounts on a going concern basis.

### **Audit Committee of Board:**

With the resignation of the Independent Non-Executive Chairman of the Audit Committee, the Audit Committee of the company now comprises two Independent Directors and will be suitably strengthened. 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:**

None of the employees are covered under section 217(2A) of the Companies Act, 1956 read with the Companies (particulars of employees) Rules, 1975.

**Directors:**

Dr Jyoti Raju and Dr. Raju Narasa Manthena, Directors retire by rotation and being eligible, offer themselves for reappointment. Shri S.V.Subba Raju, has resigned from the Board on health grounds. Your Board records its appreciation of the valuable services rendered by Shri S.V.Subba Raju 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.

**Cost Auditors:**

“The products classified as Electronic Products are subjected to Cost Audit in terms of Section 233B of the Companies Act, 1956 read with the central Government Rules

M/s DZR and Co, Cost Accountants have been reappointed as the Cost Auditors for the year ending 31st March 2014having been appointed for the F.Y 2012-13.

The Cost Audit for the Year ended 31st March 2013 is in progress and Cost Audit Report will be filed within the stipulated time.”

**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

**B. Murali Mohan**  
Technical Director

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

Place : Hyderabad  
Date : August 14, 2013

**ANNEXURE OF 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 operation 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 productivity. The technologies being used are indigenous and the company has evolved a training methodology to measure the extent of adaptation by its personnel and training needs are accordingly identified.

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. these efforts are likely to become import substitutes at economical prices and suitable for Indian Railways and other railways working in developing countries.

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

(Rs. In lacs)

|                                       |        |
|---------------------------------------|--------|
| Foreign Exchange Earned for 2012-2013 | 209.79 |
| Foreign Exchange Used for 2012-2013   | 137.63 |

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

**B. Murali Mohan**  
Technical Director

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

Place : Hyderabad  
Date : August 14, 2013

## MANAGEMENT DISCUSSION AND ANALYSIS

Indian Economy is estimated to register a GDP growth rate of 5.8% to 6.0% during 2012-2013, due to slow down in the growth of economy, particularly in Industrial sector, involving manufacturing and exports. Economic slow down, can be attributed to Global recession especially in Europe, many developing and developed countries and flat growth in the US. The other factors that contributed to lower growth are high oil prices, heavy outflow of foreign currencies, shortage of power high interest rates and inflation. One more factor is the non-completion of infrastructure projects, and resultant time and cost overruns, besides the steep depreciation of Indian Rupee against foreign currencies.

Domestic factors that have not been very positive for the year 2012-2013 are growing revenue and fiscal deficit, high subsidies, demand recession, lower ICOR, tightening of lending policies by banks and high interest rates, lack of liquidity and reduced Govt. expenditures.

Indian Exports were at 303.3 billion US\$ and value of imports at 491.9 billion US\$, leading to a large current account deficit. Rising crude oil prices, depreciation in value of the rupee and increase in cost of other project related imports due to fall in rupee value, has adversely affected the Indian economy. The growth for 2013-2014 may slide to 5.0 to 5.5. Indian Govt is pushing forward level II and level III economic reforms, It is expected that Indian economy may recover and achieve better growth rate.

### Windows of Opportunities for Kernex

Railway freight revenues have shown an increase of 15%. Railways have announced number of projects for the decade ending 2020 that include infrastructure, dedicated freight corridor, numerous Metro Rail projects and all types of Railway Safety and Infrastructure works. Defense budget increased by 10%. Defense R&D works is estimated at Rs.10,000 crores and increase in FDI in Defence Industry, may open up more avenues and opportunities to SMEs and MMEs. Other sectors include Power sector, Service sector and Defence R&D, like Microwave, RF and Radar related fields.

Railway Sector – TCAS, TPWS, MSDAC, other projects

According to safety plan presented to Parliament by Railways and other plans for next 10 years envisages reduction of accidents, up gradation of safety and modernization of Railways. Some of the projects, included

in the safety plan are TCAS, TPWS, MTRC, Digital Axle Counters, Electronic Interlocking system, Electronic Gates, Hot Box Detection System, cabin signaling, security and Access Management System, Train Management system and other related projects. Railway budget is for Rs.1,43,742 crores with plan outlay at Rs.63,363 crores and safety budget at Rs.2,000/- crores.

### Defence Production Plans in India

India has embarked on indigenous production of both offensive and defensive weapon systems and is planning to achieving self-sufficiency in view of all round external and internal threats. The budget of Defence is Rs.2,03,672 crores, out of which they intend to spend Rs.10,612 crores towards R&D. There is a big window of opportunity for production of assemblies, sub-assemblies and components required. DRDO, DRDL, RCI, HAL, BDL, etc., are the sources of projects especially for technology companies.

### Period 2012-2013

In 2012-2013, your company was engaged with KRCL who is our technology partner in closing old version of ACD software Ver 1.1.1 and special S/W for eliminating Repeaters between Stations and other improvements in ACD Software.

Your company has carried out CMC, over 1800 KMS in NF Railway involving over 1400 ACDs. During this period, over 82 Loco ACDs were also retrofitted, after dismantling from foreign loco sheds, outside ACD territory.

ACD Software Ver 2.0 was almost completed along with new hardware but has been kept in abeyance, under instruction from KRCL.

Your company has since completed adding new features to Lx System, to meet the requirements of Egyptian Railways, including Zonal maintenance system, which is required for efficient monitoring, diagnosis and maintenance by Zones in Egyptian Railways. However, the main project progress was 44 Gates as the balance of work was held up owing to disturbed security and political conditions in Egypt. There are indications that situation will improve, and your company plans to complete the project during the extended period if things get stabilized.

Members will be glad to know that your company was selected along with another competitor by RDSO, Indian Railways, after thorough search and tendering for development of TCAS System for Indian Railways.

Your company will be putting all out efforts, to complete the pilot project by March 2014 and obtain qualification as a Part-I vendor by the Railways.

Kernex has registered with RDSO to develop many products for Indian Railways.

### **Opportunities, Threats, Risks and Concerns**

#### **Opportunities**

Your company continues to focus on R&D, acquiring of latest technologies which are in demand in India and delivering high tech and quality solutions with considerable value addition.

Indian Railways are keen to improve the safety of rail movements and also increase the throughput and capacity. Indian Railways are planning to introduce ETCS2 and GSM-R communication networks and some high speed trains that can run up to 160 KMS. Safety, speed, reliability, operability, maintainability and increased capacity are the main considerations. For this purpose, TCAS, TPWS, ETCS2, Electronic Interlocking system, Multi-section and Single Digital Axle Counters and Data loggers, Hot Box and Vibration Detecting Systems and also track status monitoring system will be necessary. In addition, Indian Railways may adopt SIL 3 to SIL 4 Sensor Activated Warning Systems at Gates to avoid collisions and accidents.

We visualize opportunities in the Railway sector all over the world for simple, reliable, high tech, high safety level equipment like Electronic Gates in countries like Turkey, Greece, Iran, Central and South Africa, Malaysia, Thailand, South East Asia, Australia and New Zealand.

With the Company's infrastructure and accretion of technology and talented manpower, it may be possible to diversify into Defence related R&D work, manufacture, validation and verification needed for large projects, etc. Kernex may also be able to undertake some outsourced jobs for manufacture of Electronic components, assembly work etc.

Kernex could locally assemble and supply important components required by Railways like Radio modems and RF Readers and Tags, which are not manufactured in India.

#### **Threats**

For every Indian technology, that is developed there is a threat of latest or advanced or superior technology from MNCs. Further, the frequent changes of Govt. policies and priorities in the Government had adverse impacts on our finances, however, technology with continuous upgradations can help developing of indigenous products suited to our markets. In the emerging situation and growing competition, Kernex need to embark on relevant,

fairly long term growth oriented, predictable, sustainable, risk reducible and profitable areas of business with sharp focus on sustainability, growth and continuity

#### **Risks and Concerns**

Kernex faces the risk of competition, need for mastery of new technologies, price competitiveness, retention of key personnel and financial constraints etc. In order to take on the risks, Kernex need to build resilience, with qualified and experienced manpower, plan for leadership and succession pipeline, infrastructure and reserve of funds. Company may have to focus on five to six related relevant products with long term prospects. It will have to constantly upgrade the technology developed and continuously introduce new technologies and products based on market demand. Kernex proposes to commission a comprehensive strategic study for future growth prospects inter- alia, covering new technologies, scope for partnership, alliance and linkages and financial plan to improve internal resources.

#### **Analysis of Financial performance of the Company**

During the financial year under review, the revenues were generated from Egyptian National Railway Project, S/W Development and CMC Contract of NF Railway and the ACD System restoration work undertaken for NF Railway through Konkan Railways.

The slow progress of ENR, Egypt project due to unstable financial, political and security conditions of Egypt, have affected our revenue earnings. ENR, has not finalized their part of decision on spare parts required by them and also start of warranty maintenance of value over Rs.12.00 crores. This has also affected our revenues.

Keeping ACD Ver 2.0 on hold has affected our revenues and hampered utilization of our infrastructure. The non-finalization of approval of digital axle counters has also affected our markets and sales.

The railway budget in the year 2012-2013, was as usual and no major projects have been included. Therefore, railway field opportunities have been adversely affected.

Income from all the above activities was Rs.33.00 crores for the year 2012-2013, out of which 55% has come from ENR Project.

After review of our company's performance, company has identified the priority objectives and goals as under:-

- a) ENR Project: Progress has to be accelerated to install 12 to 15 Gates per month for completion of project and collection of bills in time.



- b) ACD Version 2.0, to be reviewed and taken to logical end or suitable negotiations held with KRCL to recover the costs incurred.
- c) Realization of pending receivables from KRCL and ENR Projects.
- d) Expediting pending conciliation cases with KRCL.
- e) Exploring ACD related projects and use of R&D and production facilities.
- f) Utilization of infrastructure of H/W Technology Park: Kernex has not been able to utilize the facilities set up due to delay in placement of orders for ACDs. Company is exploring the scope to lease out some space pending our own utilization and also take up outsourced manufacturing works.
- g) Acquisition of new technologies and access to markets: It requires engagement of competent consultants and preparation of feasibility and detailed project reports to take informed and correct decisions. The Board is seized of this matter.
- h) Need for additional capital: Additional capital will be required to handle large R&D projects and for manufacturing activities – new projects that are approved by the shareholders would also require infusion of fresh capital. This will be dependent on proper evaluation, expert studies and appropriate decisions.
- i) Strengthening of marketing team: There is need to strengthen the financial and marketing wings with experienced full time senior persons who have good contacts with DRDO and Railways. Aero and Space Industry and networking skills. Opening of marketing office in New Delhi could help in this matter.
- j) Strengthening financial team. Need to have an experienced consultant.
- k) There is need to strengthen the leadership and succession pipeline in the Company and attract suitable talent in new areas of R&D work and manufacturing area as per flow of orders.

#### **Internal Control Systems and their adequacy**

The company has in place systems of internal controls commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance to record and provide reliable financial and operational information, compliance with applicable statutes, safeguarding of 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, processes 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 systematic improvements are considered and the Audit Committee follows up on the implementation of corrective action. 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**

The total number of employees as on March 2013 is 262 as against 290 as of March 31, 2012

The company has a good work environment that encourages innovation and meritocracy with a vibrant work ethic that provides its employees with an opportunity to work on new technologies, and enable it to leverage talents. As an organization which has to constantly upgrade itself, it has been building competence through training, cross training and skill upgradation.

#### **Cautionary Statement**

Statements in the Management's Discussion and 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 affect the actual results, which can be different from what the Director's envisage 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:

- i) The Board of Directors of the Company consists of eminent persons with professional expertise. The Board comprises of two Executive Directors and Seven Non-executive Directors, of whom three are independent Directors as on March 31, 2013. Accordingly, the Composition of the Board is in conformity with Clause 49 of the listing agreement entered with Stock Exchanges. The Director elects a Non-Executive Director as a Chairman for the Board Meeting.
- ii) 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.
- iii) 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 2012-13 |          | Whether Attended AGM held on 27.09.12 | 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 (Appointed on 12-11-2012 and resigned on 15-04-2013) | Independent Non-Executive     | 6   | 3        | No                                    | -  | -      | -   | -      |
| Col. L V Raju (Retd.)   | Non-Independent Executive     | 6   | 6        | Yes                                   | -  | -      | -   | -      |
| Sri. B Murali Mohan   | Non-Independent Executive     | 6   | 6        | Yes                                   | -  | -      | -   | -      |
| Dr. M Anji Raju   | Non-Independent Non-Executive | 6   | 0        | No                                    | -  | -      | -   | -      |
| Sri. S Nandakumar (Expired on 04-08-2012)                                 | Independent Non-Executive     | 6   | 3        | No                                    | -  | -      | -   | -      |
| Dr. Jyoti Raju  | Non-Independent Non-Executive | 6   | 1        | No                                    | -  | -      | -   | -      |
| Sri. M. Gopalakrishna, IAS (Retd)   | Independent Non-Executive     | 6   | 6        | No                                    | -  | 6      | 2   | 2      |
| Sri.Arunkumar Sanwalka (Appointed on 14-02-2013)                          | Independent Non-Executive     | 6   | 1        | No                                    | -  | -      | -   | -      |
| Dr Raju Narasa Mantena  | Non-Independent Non-Executive | 6   | 0        | No                                    | -  | -      | -   | -      |
| Dr Janaradhana Reddy Vinta.   | Non-Independent Non-Executive | 6   | 1        | No                                    | -  | -      | -   | -      |
| Sri R.Shankaran (Resigned on 20-04-2012)                                  | Non-Independent Non-Executive | 6   | 1        | No                                    | -  | -      | -   | -      |



- iv) 6 Board Meetings were held during the year ended March 31, 2013 and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows.
- v) April 4, 2012, May 28, 2012, July 27, 2012, October 11, 2012, December 23, 2012 and February 14, 2013
- vi) None of the Non-Executive Directors have any material pecuniary relationship or transaction with the Company.
- vii) 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 consisted of three Directors, all of whom are independent Directors and the Chairman is a Retired Addl Secretary to the State Government. 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.

- i. 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.,
- ii. The last Annual General Meeting of the Company was held on September 27, 2012.
- iii. The composition of the Audit Committee as on March 31, 2013 and particulars of meetings attended by the members are as follows:

| Name  | Category                  | No. of Meetings during the year 2012-13 |          |
|---|---------------------------|---|----------|
|   |                           | Held                                    | Attended |
| Sri R.Shankaran<br>(Resigned on 20-04-2012)                               | Independent Non-Executive | 5                                       | 1        |
| Sri S V Subba Raju<br>(Appointed on 12-11-2012 and Resigned on 15.4.2013) | Independent Non-Executive | 5                                       | 2        |
| Sri. M. Gopalakrishna, IAS (Retd),  | Independent Non-Executive | 5                                       | 5        |
| Sri S Nandakumar<br>(Expired on 04-08-2012)                               | Independent Non-Executive | 5                                       | 3        |
| Sri.A.K.Sanwalka<br>(Appointed on 14-02-2013)                             | Independent Non-Executive | 5                                       | 1        |

Five Audit Committee Meetings were held during the year ended March 31, 2013 i.e. April 19, 2012, May 28, 2012, July 27, 2012, November 11, 2012, and February 14, 2013.

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

#### **4. Remuneration Committee:**

1. The Remuneration Committee of the Company consists of two 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. S.V.Subba Raju               | Independent Non-Executive |
| Sri. M. Gopalakrishna, IAS (Retd) | Independent Non-Executive |

No Meetings of Remuneration Committee were held during the year under review

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 policy of fixed pay, allowances & perquisites. Performance of the individuals is measured through the annual appraisal process.
5. Details of Remuneration and other terms of appointment of Directors: for 2012-2013

#### **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, are 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 2012-13 is follows.

| Name                    | Designation         | REMUNERATION (Rs.Lacs) |            |       |
|-------------------------|---------------------|------------------------|------------|-------|
|                         |                     | Salary & Benefits      | Commission | Total |
| Col. L. V. Raju (Retd.) | Managing Director   | 36.00                  | 0.00       | 36.00 |
| Mr. B. Murali Mohan     | Whole time Director | 25.20                  | 0.00       | 25.20 |

Besides the 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 Managing Director is for a period of 5 years from his date of appointment.

**B. Non-Executive Directors:**

The Non-Executive Directors 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 2012-13, is as follows.

| Name                              | Sitting fee (Amount in Rs.) |
|-----------------------------------|-----------------------------|
| Sri. S V Subba Raju               | 50,000                      |
| Sri R Sankaran                    | 20,000                      |
| Sri S Nandakumar                  | 60,000                      |
| Dr. M Anji Raju                   | -                           |
| Dr. Jyoti Raju                    | 10,000                      |
| Sri. M. Gopalakrishna, IAS (Retd) | 1,10,000                    |
| Dr Raju Narasa Mantena            | --                          |
| Dr Janaradhana Reddy Vinta        | 10,000                      |
| Sri.A.K.Sanwalka                  | 20,000                      |

Share holding of the Directors in the Company as on March 31, 2013.

| Name                      | No. of Share of Rs.10/- each |
|---------------------------|------------------------------|
| Sri S V Subba Raju        | 1,158                        |
| Col. L V Raju (Retd.)     | 2,25,863                     |
| Sri. B Murali Mohan       | 3,43,071                     |
| Dr. M Anji Raju           | 81,578                       |
| Dr. Jyoti Raju            | 1,73,329                     |
| Dr Raju Narasa Mantena    | 8,54,633                     |
| Dr Janardhana Reddy Vinta | 1,98,655                     |

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

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

| Name                              | Category                  |
|-----------------------------------|---------------------------|
| Sri. S.V.Subba Raju               | Independent Non-Executive |
| Sri. M. Gopalakrishna, IAS (Retd) | Independent Non-Executive |

- iii. Sri K.Ramanjaneyulu, Company Secretary is the Compliance Officer.
- iv. Details of complaints received and redressed:

| Opening Balance | Received during the period 01.04.2012 to 31.03.2013 | Resolved during the period 01.04.2012 to 31.03.2013 | Closing Balance |
|-----------------|---|---|-----------------|
| Nil             | 28  | 28  | Nil             |

**6. General Body Meetings:**

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

| Year    | Meeting  | Day, Date and Time of the Meeting         | Venue  |
|---------|----------|---|--|
| 2011-12 | 20th AGM | Thursday , September 27, 2012 at 3.00 P.M | Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003 |
| 2010-11 | 19th AGM | Monday , September 26, 2011 at 2.30 P.M   | Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003 |
| 2009-10 | 18th AGM | Friday , September 24, 2010 at 2.30 P.M   | Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003 |

- ii. During the last three Annual General Meetings of the Company, the members have not passed any Special resolutions.

**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, 2013.
- 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 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, 2013.

August 14, 2013  
Hyderabad.

**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/ CFO 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 website [www.kernex.in](http://www.kernex.in). Official press releases made by the Company from time to time are also displayed on the website. The Management's Discussion and Analysis is a part of the Company's annual report.

**iv. General Shareholders information:**

1. Annual General Meeting

|       |   |   |
|-------|---|---|
| Date  | : | 27th September 2013   |
| Time  | : | 3.00P.M   |
| Venue | : | Hotel Minerva Grand,<br>Sarojini Devi Road,<br>Secunderabad – 500 003 |

**ii) Financial Calendar**

|             |   |                    |
|-------------|---|--------------------|
| Year ending | : | March 31, 2013     |
| AGM         | : | September 27, 2013 |

**iii) Date of Book Closure** : Nil

**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-12   | 62.70                         | 53.10     | 512802                     | 62.70                           | 53.00     | 1233454                    |
| May-12   | 54.90                         | 41.60     | 477860                     | 55.00                           | 41.15     | 1180649                    |
| June-12  | 52.50                         | 45.15     | 431369                     | 52.70                           | 44.80     | 986217                     |
| July-12  | 58.70                         | 46.50     | 703676                     | 58.45                           | 46.20     | 1377342                    |
| Aug-12   | 52.10                         | 46.20     | 226285                     | 52.00                           | 45.60     | 473207                     |
| Sep-12   | 58.70                         | 46.35     | 678415                     | 59.00                           | 45.50     | 1540117                    |
| Oct-12   | 66.00                         | 56.40     | 1134058                    | 66.10                           | 55.50     | 2591435                    |
| Nov-12   | 70.35                         | 60.40     | 683421                     | 70.30                           | 52.30     | 1739576                    |
| Dec-12   | 82.70                         | 69.10     | 1241893                    | 82.80                           | 69.10     | 2853668                    |
| Jan -13  | 83.50                         | 56.40     | 1765454                    | 83.20                           | 54.65     | 3704723                    |
| Feb -13  | 69.00                         | 37.20     | 3087473                    | 69.00                           | 37.10     | 7370124                    |
| March-13 | 38.20                         | 28.35     | 831566                     | 38.30                           | 28.70     | 1939378                    |

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



- ix) Registrar and Transfer Agents : Karvy Computershare Pvt Ltd.,  
Name & Address 46, Avenue 4, Street 1, Banjara Hills  
Hyderabad-500 034  
Tel: 91 40 23440627, Fax: 91 40 23420814,  
E-mail :ksreddy@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 31,2013):

- a) Distribution of shareholding as on March 31, 2013.

| Category           | No. of Shares | Holding in Rs    | % to Capital  | No. of accounts | % of Total Accounts |
|--------------------|---------------|------------------|---------------|-----------------|---------------------|
| 1-5000             |               | 20917330         | 16.73         | 20983           | 91.43               |
| 5001-10000         |               | 7891800          | 6.31          | 1020            | 4.44                |
| 10001-20000        |               | 7360120          | 5.89          | 494             | 2.15                |
| 20001-30000        |               | 3900930          | 3.12          | 153             | 0.67                |
| 30001-40000        |               | 2393450          | 1.92          | 69              | 0.30                |
| 40001-50000        |               | 1696430          | 1.36          | 37              | 0.16                |
| 50001-100000       |               | 7118350          | 5.69          | 101             | 0.44                |
| 100001& above      |               | 73718140         | 58.98         | 94              | 0.41                |
| <b>GRAND TOTAL</b> |               | <b>124996550</b> | <b>100.00</b> | <b>22951</b>    | <b>100.00</b>       |

- b) Categories of Shareholders as on March 31, 2013

| Category   | No. of Shareholders | No. of shares      | Percentage |
|--|---------------------|--------------------|------------|
| Indian Promoters   | 1                   | 225863             | 1.81       |
| Foreign Promoters  | 19                  | 3880974            | 30.65      |
| Persons acting in Concert  |                     |                    |            |
| i) Indian  | 3                   | 116385             | 0.93       |
| ii) Foreign  | 6                   | 467093             | 3.76       |
| Mutual Funds and UTI   | 0                   | 0                  | 0.00       |
| Banks, Financial Institutions, Insurance Companies (Central / State Gov. Institutions / Non-government Institutions) | 3                   | 9558               | 0.075      |
| Qualified Foreign Investors  | 6                   | 467093             | 3.74       |
| Corporate Bodies   | 536                 | 1363480            | 10.91      |
| Public   | 22071               | 3744241            | 30.335     |
| Individual Shareholders excess 1 Lakh  | 25                  | 1223700            | 9.79       |
| Trusts   | 4                   | 24731              | 0.19       |
| Clearing Members   | 73                  | 41185              | 0.33       |
| NonResident Indians  | 204                 | 935352             | 7.48       |
| <b>TOTAL</b>   | <b>22951</b>        | <b>1,24,99,655</b> | <b>100</b> |

xii) Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialized form. Equity shares of the Company representing 95.27% of the company's share capital are dematerialized as on March 31, 2013.

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, 2013 the company did not have any outstanding GDRs / ADRs / Warrants or any convertible instruments

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

xv) Address of Correspondence : Kernex Microsystems (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 2013, 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  
Firm Regn No. 006945S

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

Place: Hyderabad  
Date: August 14, 2013

## AUDITORS' REPORT

To

The Members of

**KERNEX MICROSYSTEMS (INDIA) LIMITED**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of KERNEX MICROSYSTEMS (INDIA) LIMITED ("the Company"), which comprise the Balance Sheet as at March 31, 2013 and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act 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 the Balance Sheet, of the state of affairs of the Company as at March 31, 2013
- b. In the case of Statement of Profit and Loss, of the profit for the year ended on that date.
- c. In the case of the Cash Flow Statement, of the Cash flows for the year ended on that date.

### **Report on Other Legal and Regulatory Requirements**

1. 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 Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Act, we report that:
  - a. 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.
  - b. 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.
  - c. The Balance Sheet and Statement of Profit and Loss dealt with by this Report are in agreement with the books of account.
  - d. In our opinion, the Balance Sheet, Statement of Profit and Loss comply with the accounting





Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

- e. On the basis of written representations received from the directors as on 31st March, 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31st, 2013 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

**For GMK Associates**  
Chartered Accountants  
Firm Regn No. 006945S

**(G. Satyanarayana Murty)**  
Partner  
Membership No. 029919

Place: Hyderabad  
Date: 25.05.2013

**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) As per the explanations given to us by the management, physical verification of Fixed Assets has been carried out during the year and no material discrepancies are 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 system 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 there have been no transactions that need to be entered into the register maintained under Section 301;
- (VI) The Company has not accepted any deposits from the public during the year under review falls under section 58A and 58AA of the Companies Act 1956;
- (VII) The Company has an in-house internal audit department, which, in our opinion the scope 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) There have been delays in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax and Service Tax with appropriate authorities during the year. According to the records, information and explanations provided to us, there are undisputed amounts payable in respect of Provident Fund Rs. 3,56,951/-, Employees State Insurance Rs. 6,64,147, TDS Rs 22,54,681/-, and Corporate Dividend Tax Rs. 20,27,757/- outstanding at the year end for a period of more than six months from the date they become payable ;
- (b) According to the information and explanations provided to us, particulars of outstanding dues of Income tax and Sales tax have not been deposited on account of any dispute are given below:

| Name of Statute | Nature of the Dues | Period to which the amounts relates | Amount (Rupees in Lakhs) | Forum where dispute is pending |
|-----------------|--------------------|-------------------------------------|--------------------------|--------------------------------|
| Income Tax Act  | Income Tax         | A.Y 1998-99                         | 8.00                     | High Court                     |
| APGST           | Sales Tax          | A.Y 2003-04                         | 4.13                     | STAT                           |

- (X) The Company does not have any accumulated losses at the end of the financial year and has not incurred any cash loss during the year covered by our audit and also 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 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  
(Firm Regn No.006945S)

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

Place: Hyderabad  
Date: 25th May, 2013

**Balance Sheet as at 31st March, 2013**

Rupees

| Particulars                     | Note No. | As at<br>31 March 2013 | As at<br>31 March 2012 |
|---------------------------------|----------|------------------------|------------------------|
| <b>A EQUITY AND LIABILITIES</b> |          |                        |                        |
| <b>Shareholders' funds</b>      |          |                        |                        |
| Share capital                   | 2        | <b>124,996,550</b>     | 124,996,550            |
| Reserves and surplus            | 3        | <b>1,176,107,596</b>   | 1,169,639,908          |
|                                 |          | <b>1,301,104,146</b>   | 1,294,636,458          |
| <b>Non-current liabilities</b>  |          |                        |                        |
| Long-term borrowings            | 4        | -                      | -                      |
| Deferred tax liabilities (net)  | 23.13    | <b>3,379,179</b>       | -                      |
| Other long-term liabilities     |          | -                      | -                      |
| Long-term provisions            |          | -                      | -                      |
|                                 |          | <b>3,379,179</b>       | -                      |
| <b>Current liabilities</b>      |          |                        |                        |
| Short-term borrowings           | 5        | <b>163,492,282</b>     | 179,015,704            |
| Trade payables                  | 6        | <b>83,659,959</b>      | 73,955,340             |
| Other current liabilities       | 7        | <b>68,320,948</b>      | 96,466,668             |
| Short-term provisions           | 8        | <b>7,814,416</b>       | 18,078,773             |
|                                 |          | <b>323,287,605</b>     | 367,516,484            |
|                                 |          | <b>1,627,770,930</b>   | 1,662,152,942          |
| <b>B ASSETS</b>                 |          |                        |                        |
| <b>Non-current assets</b>       |          |                        |                        |
| Fixed Assets                    |          |                        |                        |
| Tangible Assets                 | 9        | <b>602,001,721</b>     | 278,893,832            |
| Intangible Assets               |          | <b>2,773,048</b>       | -                      |
| Capital work-in-progress        |          | <b>97,440,499</b>      | 438,118,929            |
|                                 |          | <b>702,215,268</b>     | 717,012,761            |
| Non-current investments         | 10       | <b>11,830,950</b>      | 11,830,950             |
| Deferred tax assets (net)       | 23.13    | -                      | 3,879,839              |
| Long-term loans and advances    | 11       | <b>124,958,723</b>     | 116,759,578            |
| <b>Total Non Current Assets</b> |          | <b>839,004,941</b>     | 849,483,128            |
| <b>Current assets</b>           |          |                        |                        |
| Inventories                     | 12       | <b>157,019,422</b>     | 166,605,992            |
| Trade receivables               | 13       | <b>467,723,105</b>     | 425,932,410            |
| Cash and cash equivalents       | 14       | <b>83,955,039</b>      | 118,737,582            |
| Short-term loans and advances   | 15       | <b>72,602,914</b>      | 88,426,754             |
| Other current assets            | 16       | <b>7,465,509</b>       | 12,967,077             |
| <b>Total Current Assets</b>     |          | <b>788,765,989</b>     | 812,669,814            |
|                                 |          | <b>1,627,770,930</b>   | 1,662,152,942          |
| Significant Accounting Policies | 1        |                        |                        |

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

**For GMK ASSOCIATES**

Chartered Accountants

Firm Reg. # 006945S

**(G. Satyanarayana Murty)**

Partner

Membership # 029919

Place : Hyderabad.

Date : 25.5.2013

**B. Murali Mohan**

Technical Director

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

Managing Director

**K. Ramanjaneyulu**

(Company Secretary)

**Statement of Profit and Loss for the year ended 31st March, 2013**

Rupees

| Particulars   | Note<br>No. | <b>For the year<br/>ended<br/>31 March, 2013</b> | For the year<br>ended<br>31 March, 2012 |
|---|-------------|--|---|
| 1 Revenue from operations (gross)   | 17          | <b>283,100,541</b>                               | 438,697,517                             |
| Less: Excise duty   | 17          | <b>778,319</b>                                   | 184,855                                 |
| Revenue from operations (net)   |             | <b>282,322,222</b>                               | 438,512,662                             |
| 2 Other income  | 18          | <b>32,104,211</b>                                | 21,329,347                              |
| <b>3 Total revenue (1+2)</b>  |             | <b>314,426,433</b>                               | 459,842,009                             |
| <b>4 Expenses</b>   |             |  |   |
| (a) Cost of materials consumed  | 19.A        | <b>23,646,532</b>                                | 23,796,500                              |
| (b) Purchases of stock-in-trade   | 19.B        | <b>14,259,514</b>                                | 43,237,019                              |
| (c) Changes in inventories of finished goods, work-in-progress and stock-in-trade | 19.C        | <b>2,822,955</b>                                 | 34,598,948                              |
| (d) Employee benefits expense   | 20          | <b>78,101,029</b>                                | 97,824,052                              |
| (e) Finance costs   | 21          | <b>38,406,967</b>                                | 36,968,108                              |
| (f) Depreciation and amortisation expense   | 9           | <b>27,595,598</b>                                | 8,049,762                               |
| (g) Other expenses  | 22          | <b>112,109,131</b>                               | 146,859,783                             |
| <b>Total expenses</b>   |             | <b>296,941,727</b>                               | 391,334,173                             |
| <b>5 Profit / (Loss) before tax (3-4)</b>   |             | <b>17,484,706</b>                                | 68,507,836                              |
| <b>6 Tax expense</b>  |             |  |   |
| Current tax   |             | <b>3,758,001</b>                                 | 16,237,194                              |
| (Less): MAT credit (where applicable)   |             | -  | -                                       |
| (b) Current tax expense relating to prior years                                   |             |  | 323,113                                 |
| (c) Net current tax expense   |             | <b>3,758,001</b>                                 | 16,560,307                              |
| Deferred tax  | 23.13       | <b>7,259,018</b>                                 | 7,250,246                               |
|   |             | <b>11,017,019</b>                                | 23,810,553                              |
| <b>7 Profit / (Loss) for the year (5+6)</b>                                       |             | <b>6,467,688</b>                                 | 44,697,283                              |
| <b>8 Earnings per share (of ₹ 10/- each)</b>                                      |             |  |   |
| (a) Basic   |             | <b>0.52</b>                                      | 3.58                                    |
| (b) Diluted   |             | <b>0.52</b>                                      | 3.58                                    |
| Significant Accounting Policies   | 1           |  |   |

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

**For GMK ASSOCIATES**

 Chartered Accountants  
 Firm Reg. # 006945S

**B. Murali Mohan**  
 Technical Director

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

**(G. Satyanarayana Murty)**

 Partner  
 Membership # 029919

**K. Ramanjaneyulu**  
 (Company Secretary)

 Place : Hyderabad.  
 Date : 25.5.2013

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2013**

Rupees

| Particulars  | For the year ended<br>31 March, 2013 | For the year ended<br>31 March, 2012 |
|--|--------------------------------------|--------------------------------------|
| <b>A. Cash flow from operating activities</b>                          |                                      |                                      |
| <b>Net Profit / (Loss) before extraordinary items and tax</b>          | <b>17,484,706</b>                    | 68,507,836                           |
| <b>Adjustments for:</b>  |                                      |                                      |
| Depreciation and amortisation  | 27,595,598                           | 8,049,762                            |
| Finance costs  | 38,406,967                           | 36,968,108                           |
| Interest income  | (11,575,873)                         | (13,199,596)                         |
|  | <b>54,426,692</b>                    | 31,818,274                           |
| <b>Operating profit / (loss) before working capital changes</b>        | <b>71,911,398</b>                    | 100,326,110                          |
| <b>Changes in working capital:</b>                                     |                                      |                                      |
| <i>Adjustments for (increase)/ decrease in operating assets:</i>       |                                      |                                      |
| Inventories  | 9,586,570                            | 40,817,271                           |
| Trade receivables  | (41,790,695)                         | (66,237,571)                         |
| Short-term loans and advances  | 15,823,839                           | 17,015,868                           |
| Long-term loans and advances   | (8,199,144)                          | (23,017,152)                         |
| Other current assets   | 5,501,568                            | 2,402,222                            |
| Other non-current assets   | -                                    | -                                    |
| <i>Adjustments for increase / (decrease) in operating liabilities:</i> |                                      |                                      |
| Trade payables   | 9,704,620                            | (259,634)                            |
| Other current liabilities  | (28,145,720)                         | 10,879,561                           |
|  | <b>(37,518,963)</b>                  | (18,399,434)                         |
| Cash generated from operations   | <b>34,392,435</b>                    | 81,926,676                           |
| <b>Net cash flow from / (used in) operating activities (A)</b>         | <b>34,392,435</b>                    | 81,926,676                           |
| <b>B. Cash flow from investing activities</b>                          |                                      |                                      |
| Capital expenditure on fixed assets, including capital advances        | (12,798,105)                         | (12,441,525)                         |
| Interest received  | 11,575,873                           | 13,199,596                           |
| Net income tax (paid) / refunds  | 553,333                              | (8,282,561)                          |
| Net cash flow from / (used in) investing activities (B)                | <b>(668,899)</b>                     | (7,524,490)                          |
| <b>C. Cash flow from financing activities</b>                          |                                      |                                      |
| Repayment of long-term borrowings                                      | -                                    | (364,815)                            |
| Net increase / (decrease) in working capital borrowings                | (15,523,422)                         | (45,749,195)                         |
| Finance cost   | (38,406,967)                         | (36,968,108)                         |
| Dividends paid   | (12,499,655)                         | (12,499,655)                         |
| Tax on dividend  | (2,076,036)                          | -                                    |
|  | <b>(68,506,080)</b>                  | (95,581,773)                         |
| <b>Net cash flow from / (used in) financing activities (C)</b>         | <b>(68,506,080)</b>                  | (95,581,773)                         |
| <b>Net increase / (decrease) in Cash and cash equivalents (A+B+C)</b>  | <b>(34,782,543)</b>                  | (21,179,586)                         |
| Cash and cash equivalents at the beginning of the year                 | <b>118,737,582</b>                   | 139,917,168                          |
| <b>Cash and cash equivalents at the end of the year</b>                | <b>83,955,039</b>                    | 118,737,582                          |



Rupees

| Particulars  | For the year ended<br>31 March, 2013 | For the year ended<br>31 March, 2012 |
|--|--------------------------------------|--------------------------------------|
| Reconciliation of Cash and cash equivalents with the Balance of Cash and cash equivalents as per Balance Sheet | <b>83,955,039</b>                    | 118,737,582                          |
| <b>Cash and cash equivalents at the end of the year *</b>  | <b><u>83,955,039</u></b>             | <b><u>118,737,582</u></b>            |
| * Comprises:   |                                      |                                      |
| (a) Cash on hand   | <b>68,197</b>                        | 277,461                              |
| (b) Balances with banks  |                                      |                                      |
| (i) In current accounts  | <b>1,010,126</b>                     | 1,210,908                            |
| (ii) In EEFC accounts  | <b>37,519</b>                        | 37,519                               |
| (iii) In deposit accounts  | <b>59,603,476</b>                    | 100,410,252                          |
| (iv) In earmarked accounts   | <b><u>23,235,721</u></b>             | <u>16,801,443</u>                    |
|  | <b><u>83,955,039</u></b>             | <b><u>118,737,582</u></b>            |

In terms of our report attached.

For and on behalf of the Board of Directors

**For GMK ASSOCIATES**

Chartered Accountants  
Firm Reg. # 006945S

**(G. Satyanarayana Murty)**

Partner  
Membership # 029919

Place : Hyderabad.  
Date : 25.5.2013

**B. Murali Mohan**  
Technical Director

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

**K. Ramanjaneyulu**  
(Company Secretary)

Place : Hyderabad.  
Date : 25.5.2013

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS****NOTE # 2 SHARE CAPITAL**

Rupees

| Particulars   | As at 31 March, 2013 |                    | As at 31 March, 2012 |             |
|---|----------------------|--------------------|----------------------|-------------|
|   | Number of shares     | ₹                  | Number of shares     | ₹           |
| (a) Authorised (Equity shares of ₹ 10/- each with voting rights)                              | <b>15,000,000</b>    | <b>150,000,000</b> | 15,000,000           | 150,000,000 |
| (b) Issued, Subscribed & Paid up Capital<br>(Equity shares of ₹ 10/- each with voting rights) | <b>12,499,655</b>    | <b>124,996,550</b> | 12,499,655           | 124,996,550 |
| (Company has only one class of Shares i.e, Equity Shares with Voting rights)                  | <b>12,499,655</b>    | <b>124,996,550</b> | 12,499,655           | 124,996,550 |

**Notes:**

- 2.1. 55,22,177 Shares out of the issued, subscribed and paid up share capital were allotted as Bonus Shares in the last five years by capitalisation of free Reserves of the company.
- 2.2 Reconciliation of the number of shares and amount outstanding at the beginning and at the end of the reporting period:

| Particulars                      | Opening Balance | Fresh issue | Closing Balance |
|----------------------------------|-----------------|-------------|-----------------|
| Equity shares with voting rights |                 |             |                 |
| <b>Year ended 31 March, 2013</b> |                 |             |                 |
| - Number of shares               | 12,499,655      | -           | 12,499,655      |
| - Amount (₹)                     | 124,996,550     | -           | 124,996,550     |
| <b>Year ended 31 March, 2012</b> |                 |             |                 |
| - Number of shares               | 12,499,655      | -           | 12,499,655      |
| - Amount (₹)                     | 124,996,550     | -           | 124,996,550     |

- 2.3. Details of shares held by each shareholder holding more than 5% shares

| Name of Shareholder                     | As at 31st March, 2013 |                                   | As at 31st March, 2012 |                                   |
|---|------------------------|-----------------------------------|------------------------|-----------------------------------|
|   | Number of Shares held  | % holding in that class of shares | Number of Shares held  | % holding in that class of shares |
| <b>Equity Shares with voting rights</b> |                        |                                   |                        |                                   |
| 1. Dr Raju Narsa Manthena               | <b>854,633</b>         | <b>6.84</b>                       | 854,633                | 6.84                              |
| 2. Seetharamaraju Manthena              | <b>701,894</b>         | <b>5.62</b>                       | 701,894                | 5.62                              |



## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### NOTE # 3 RESERVES AND SURPLUS

Rupees

| Particulars   | As at 31st<br>March, 2013<br>₹ | As at 31 March,<br>2012<br>₹ |
|---|--------------------------------|------------------------------|
| <b>(a) General reserve</b>  |                                |                              |
| Opening balance   | <b>61,213,631</b>              | 61,213,631                   |
| Closing balance   | <b>61,213,631</b>              | 61,213,631                   |
| <b>(b) Securities premium account</b>                                       |                                |                              |
| Opening balance   | <b>917,219,545</b>             | 917,219,545                  |
| Closing balance   | <b>917,219,545</b>             | 917,219,545                  |
| <b>(c) Surplus / (Deficit) in Statement of Profit and Loss</b>              |                                |                              |
| Opening balance   | <b>191,206,732</b>             | 161,036,860                  |
| Add: Profit / (Loss) for the year   | <b>6,467,688</b>               | 44,697,283                   |
| Less: Appropriations  |                                |                              |
| Dividends proposed to be distributed to equity shareholders (₹ 1 per share) | -                              | 12,499,655                   |
| Tax on dividend   | -                              | 2,027,757                    |
| <b>Closing balance</b>  | <b>197,674,420</b>             | 191,206,732                  |
| <b>Total</b>  | <b>1,176,107,596</b>           | 1,169,639,908                |

### NOTE # 4 LONG-TERM BORROWINGS

|  |          |          |
|--|----------|----------|
| (a) Other loans and advances   | -        | -        |
| Secured  | -        | -        |
| State Bank of Hyderabad(Vehicle Loan)  | -        | -        |
| <b>Total</b>   | <b>-</b> | <b>-</b> |
| (i) Details of terms of repayment for the other long-term borrowings and security provided in respect of the secured other long-term borrowings: |          |          |

| Particulars                              | Terms of repayment and<br>security                        | As at 31 March, 2013 |                | As at 31 March, 2012 |                |
|--|---|----------------------|----------------|----------------------|----------------|
|  |   | Secured<br>₹         | Unsecured<br>₹ | Secured<br>₹         | Unsecured<br>₹ |
| <b>Vehicle loans from banks:</b>         |   |                      |                |                      |                |
| State Bank of Hyderabad                  | Vehicle Loans are secured by<br>Hypothecation of Vehicles | -                    | -              | -                    | -              |
| <b>Total - Term loans from<br/>banks</b> |   | <b>-</b>             | <b>-</b>       | <b>-</b>             | <b>-</b>       |

(ii) For the current maturities of long-term borrowings, refer items (a) in Note # 7 Other current liabilities.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### NOTE # 5 SHORT-TERM BORROWINGS

|   |                                | Rupees                       |  |
|---|--------------------------------|------------------------------|--|
| Particulars                                     | As at 31st<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |  |
| (a) Loans repayable on demand (Working Capital) |                                |                              |  |
| Secured   |                                |                              |  |
| State Bank of Hyderabad                         | <b>152,638,995</b>             | 156,855,150                  |  |
| Punjab National Bank                            | -                              | 2,160,554                    |  |
| (b) Other loans and advances                    |                                |                              |  |
| Unsecured                                       |                                |                              |  |
| Inter Corporate Deposits                        | <b>10,853,287</b>              | 20,000,000                   |  |
| Total   | <b>163,492,282</b>             | 179,015,704                  |  |

#### (i) Details of security for the secured short-term borrowings:

| Particulars                           | Nature of Security  | As at 31st<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---------------------------------------|---|--------------------------------|------------------------------|
| Loans repayable on demand from banks: |   |                                |                              |
| State Bank of Hyderabad               | Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park and lands situated at Basanthpur (Nalgonda Dist and Amangal (Mahaboobnagar Dist) | <b>152,638,995</b>             | 156,855,150                  |
| Punjab National Bank                  | Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park.   | -                              | 2,160,554                    |
| Total From Banks                      |   | <b>152,638,995</b>             | 159,015,704                  |

#### (ii) Details of short-term borrowings guaranteed by some of the directors or others :

| Particulars   | As at 31st<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---|--------------------------------|------------------------------|
| Loans repayable on demand from banks- Personal gurantee of the Managing Director      | <b>152,638,995</b>             | 159,015,704                  |
| Inter Corporate Deposits are Secured by the pledge of Directors shares in the Company | <b>10,853,287</b>              | 20,000,000                   |

### NOTE # 6 TRADE PAYABLES

#### Trade payables:

|                        |                   |            |
|------------------------|-------------------|------------|
| Acceptances            | -                 | -          |
| Other than Acceptances | <b>83,659,959</b> | 73,955,340 |
| Total                  | <b>83,659,959</b> | 73,955,340 |

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### NOTE # 7 OTHER CURRENT LIABILITIES

Rupees

| Particulars   | As at 31st<br>March, 2013<br>₹ | As at 31 March,<br>2012<br>₹ |
|---|--------------------------------|------------------------------|
| (a) Current maturities of finance lease obligations                           | -                              | 364,815                      |
| (b) Interest accrued and due on borrowings                                    | <b>1,003,402</b>               | -                            |
| (c) Unpaid dividends  | <b>488,731</b>                 | 342,382                      |
| (d) Application money received for allotment of securities and due for refund | <b>193,300</b>                 | 193,300                      |
| (e) Statutory remittances :   |                                |                              |
| Contribution to ESI   | <b>326,545</b>                 | 33,788                       |
| Contribution to PF  | <b>2,544,458</b>               | 210,154                      |
| Professional Tax Payable  | <b>47,650</b>                  | 39,410                       |
| Excise Duty Payable   | <b>531,388</b>                 | 531,388                      |
| Service Tax Payable   | <b>11,175,215</b>              | 22,843,949                   |
| TDS Payable   | <b>4,745,489</b>               | 5,229,775                    |
| Works Contract Tax  | <b>572,895</b>                 | 421,018                      |
| (f) Payables on purchase of fixed assets                                      | <b>3,003,668</b>               | 14,021,391                   |
| (g) Interest accrued on others  | <b>486,476</b>                 |                              |
| (h) Advances from customers   | <b>43,201,731</b>              | 52,235,299                   |
| Total   | <b>68,320,948</b>              | 96,466,668                   |

**Note: Current maturities of long-term debt (Refer Notes (i) in Note 4 - Long-term borrowings for details of security and guarantee):**

|   |   |         |
|---|---|---------|
| (a) Other loans and advances            |   |         |
| Secured                                 |   |         |
| State Bank of Hyderabad- (Vehicle Loan) | - | 364,815 |
| Total                                   | - | 364,815 |

### NOTE # 8 SHORT-TERM PROVISIONS

|   |                  |            |
|---|------------------|------------|
| (a) Provision - Others:                       |                  |            |
| (i) Provision for tax                         | <b>5,786,659</b> | 3,551,361  |
| (ii) Proposed dividends                       | -                | 12,499,655 |
| (iii) Provision for tax on Proposed dividends | <b>2,027,757</b> | 2,027,757  |
| Total   | <b>7,814,416</b> | 18,078,773 |

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**  
**NOTE # 9 FIXED ASSETS**

Rupees

|                                      | Gross block                   |             |             |                                | Accumulated depreciation and impairment |                                   |             |                                | Net block                      |                                |
|--------------------------------------|-------------------------------|-------------|-------------|--------------------------------|---|-----------------------------------|-------------|--------------------------------|--------------------------------|--------------------------------|
|                                      | Balance as at 1st April, 2012 | Additions   | Del/Adj     | Balance as at 31st March, 2013 | Balance as at 1st April, 2012           | Depreciation expense for the year | Adjustments | Balance as at 31st March, 2013 | Balance as at 31st March, 2013 | Balance as at 31st March, 2012 |
| <b>A. Tangible assets</b>            | ₹                             | ₹           | ₹           | ₹                              | ₹                                       | ₹                                 | ₹           | ₹                              | ₹                              | ₹                              |
| (a) Land & Land Development Freehold | 238,061,366                   | 4,868,130   | -           | 242,929,496                    | -                                       | -                                 | -           | -                              | 242,929,496                    | 238,061,366                    |
| (b) Buildings Own use                | 43,671,920                    | 299,815,043 | -           | 343,486,963                    | 25,159,329                              | 18,033,020                        | -           | 43,192,349                     | 300,294,614                    | 18,512,591                     |
| (c) Plant and Equipment Owned        | 114,253,813                   | 39,094,190  | 15,185,736  | 138,162,267                    | 99,000,853                              | 6,195,271                         | 15,185,736  | 90,010,388                     | 48,151,879                     | 15,252,960                     |
| (d) Furniture and Fixtures Owned     | 11,610,361                    | 4,997,119   | 4,581,762   | 12,025,718                     | 9,348,880                               | 1,283,022                         | 4,581,762   | 6,050,140                      | 5,975,578                      | 2,261,481                      |
| (e) Vehicles Owned                   | 8,974,770                     | -           | 1,128,222   | 7,846,548                      | 7,063,537                               | 526,262                           | 1,128,222   | 6,461,577                      | 1,384,971                      | 1,911,233                      |
| (f) Office equipment Owned           | 9,115,616                     | 948,311     | 532,925     | 9,531,002                      | 6,221,415                               | 577,329                           | 532,925     | 6,265,819                      | 3,265,183                      | 2,894,201                      |
| Total                                | 425,687,846                   | 349,722,793 | 21,428,645  | 753,981,994                    | 146,794,014                             | 26,614,904                        | 21,428,645  | 151,980,273                    | 602,001,721                    | 278,893,832                    |
| Previous year                        | 403,360,897                   | 22,326,949  | -           | 425,687,846                    | 138,744,252                             | 8,049,762                         | -           | 146,794,014                    | 278,893,832                    | 264,616,645                    |
| Capital WIP                          | 438,118,929                   | 4,400,325   | 345,078,755 | 97,440,499                     | -                                       | -                                 | -           | -                              | 97,440,499                     | 438,118,929                    |
|                                      |                               |             |             |                                |   |                                   |             |                                |                                |                                |
|                                      |                               |             |             |                                |   |                                   |             |                                |                                |                                |
|                                      |                               |             |             |                                |   |                                   |             |                                |                                |                                |
|                                      |                               |             |             |                                |   |                                   |             |                                |                                |                                |
|                                      |                               |             |             |                                |   |                                   |             |                                |                                |                                |
| <b>B. Intangible assets</b>          | ₹                             | ₹           | ₹           | ₹                              | ₹                                       | ₹                                 | ₹           | ₹                              | ₹                              | ₹                              |
| Computer Software                    | -                             | 3,753,742   | -           | 3,753,742                      | -                                       | 980,694                           | -           | 980,694                        | 2,773,048                      | -                              |

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### NOTE # 10 NON-CURRENT INVESTMENTS

Rupees

| Particulars  | As at 31 March 2013 |                   |                   | As at 31 March, 2012 |            |                   |
|--|---------------------|-------------------|-------------------|----------------------|------------|-------------------|
|  | Quoted #            | Unquoted #        | Total             | Quoted #             | Unquoted # | Total             |
|  | ₹                   | ₹                 | ₹                 | ₹                    | ₹          | ₹                 |
| <b>Investments (At cost):</b>  |                     |                   |                   |                      |            |                   |
| Other investments  |                     |                   |                   |                      |            |                   |
| (a) Investment in Equity Shares of Subsidiaries  |                     |                   |                   |                      |            |                   |
| Avant - Garde Infosystems inc. USA<br>(100% subsidiary)                                      |                     | <b>11,830,950</b> | <b>11,830,950</b> | 11,830,950           |            | 11,830,950        |
| 35,80,000 Equity shares of US\$0.02<br>each and 17,99,240 Equity Shares of<br>US\$ 0.10 each |                     |                   |                   |                      |            |                   |
| (Common Shares at no Par Value)  |                     |                   |                   |                      |            |                   |
| Total  | -                   | <b>11,830,950</b> | <b>11,830,950</b> | -                    | 11,830,950 | 11,830,950        |
| <b>Aggregate amount of unquoted investments</b>  |                     |                   | <b>11,830,950</b> |                      |            | <b>11,830,950</b> |

### NOTE # 11 LONG-TERM LOANS AND ADVANCES

| Particulars   | As at 31           | As at 31    |
|---|--------------------|-------------|
|   | March, 2013        | March, 2012 |
|   | ₹                  | ₹           |
| (a) Capital advances  |                    |             |
| Unsecured, considered good  | <b>81,082,030</b>  | 74,511,670  |
| (b) Security deposits   |                    |             |
| Unsecured, considered good  | <b>2,959,188</b>   | 3,125,274   |
| (c) Loans and advances to related parties                             |                    |             |
| Unsecured, considered good-Avant-Garde info systems                   | <b>26,999,999</b>  | 25,205,128  |
| (d) Advance income tax (net of provisions) Unsecured, considered good | -                  | -           |
| (e) MAT credit entitlement # - Unsecured, considered good             | <b>13,917,506</b>  | 13,917,506  |
| Total   | <b>124,958,723</b> | 116,759,578 |

### NOTE # 12 INVENTORIES

(At lower of cost and net realisable value)

|   |                    |             |
|---|--------------------|-------------|
| (a) Raw materials                         | <b>44,577,028</b>  | 51,340,643  |
| (b) Work-in-progress(refer note(i) below) | <b>112,442,394</b> | 115,265,349 |
| Total                                     | <b>157,019,422</b> | 166,605,992 |

#### Note

|                                |                    |             |
|--------------------------------|--------------------|-------------|
| (i) Work in Progress Comprises |                    |             |
| ACDs                           | <b>103,159,790</b> | 105,982,745 |
| Service Contracts-ENR          | <b>9,282,604</b>   | 9,282,604   |
|                                | <b>112,442,394</b> | 115,265,349 |

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS****NOTE # 13 TRADE RECEIVABLES**

Rupees

| Particulars   | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---|------------------------------|------------------------------|
| Trade receivables outstanding for a period exceeding six months from the date they were due for payment |                              |                              |
| Unsecured, considered good  | <b>351,957,886</b>           | 257,358,826                  |
| Doubtful  | -                            | -                            |
| Other Trade receivables   |                              |                              |
| Unsecured, considered good  | <b>115,765,219</b>           | 168,573,584                  |
| Total   | <b>467,723,105</b>           | 425,932,410                  |

**NOTE # 14 CASH AND CASH EQUIVALENTS**

|   |                   |             |
|---|-------------------|-------------|
| (a) Cash on hand  | <b>68,197</b>     | 277,461     |
| (b) Balances with banks   |                   |             |
| (i) In current accounts   | <b>1,010,126</b>  | 1,210,908   |
| (ii) In EEFC accounts   | <b>37,519</b>     | 37,519      |
| (iii) In deposit accounts (Refer Note (i) below)  | <b>59,603,476</b> | 100,410,252 |
| (iv) In earmarked accounts  |                   |             |
| - Unpaid dividend accounts  | <b>505,426</b>    | 343,532     |
| - Share application money received for allotment of securities and due for refund                                       | <b>193,300</b>    | 193,300     |
| - Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below) | <b>19,016,414</b> | 15,536,000  |
| - Escrow accounts (Refer Note (ii) below)   | <b>3,520,581</b>  | 728,611     |
| Total   | <b>83,955,039</b> | 118,737,582 |
| Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statements is :  | <b>83,955,039</b> | 118,737,582 |

**Notes:**

- (i) Balances with banks include deposits amounting to ₹ NIL (As at 31 March, 2012 ₹ NIL) and margin monies amounting to ₹ NIL (As at 31 March, 2012 ₹ NIL) which have an original maturity of more than 12 months.
- (ii) Balances with banks - Other earmarked accounts (Escrow A/c) include ₹ NIL (As at 31 March, 2012 ₹ NIL) which have restriction on repatriation.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### NOTE # 15 SHORT-TERM LOANS AND ADVANCES

Rupees

| Particulars                                       | As at 31<br>March, 2013<br>₹ | As at 31 March,<br>2012<br>₹ |
|---|------------------------------|------------------------------|
| (a) Security deposits                             |                              |                              |
| Unsecured, considered good                        | <b>279,472</b>               | 273,948                      |
| (b) Loans and advances to employees               |                              |                              |
| Unsecured, considered good                        | -                            | 922,885                      |
| (c) Prepaid expenses - Unsecured, considered good | <b>1,813,047</b>             | 3,025,425                    |
| (d) Balances with government authorities          |                              |                              |
| Unsecured, considered good                        | <b>13,542,348</b>            | 20,018,243                   |
| (e) Advances to Suppliers and Services            |                              |                              |
| Unsecured, considered good                        | <b>56,968,047</b>            | 64,186,253                   |
| Total   | <b>72,602,914</b>            | 88,426,754                   |

### NOTE # 16 OTHER CURRENT ASSETS

|  |                  |            |
|--|------------------|------------|
| (a) Accruals                             |                  |            |
| Interest accrued on deposits             | <b>2,875,430</b> | 1,588,812  |
| (b) Others                               |                  |            |
| (i) Rent Receivables                     | <b>4,590,079</b> | 3,768,557  |
| (ii) Income Tax Refund Receivable        | -                | 7,575,521  |
| (iii) Deferred Interest on Vehicle Loans | -                | 34,187     |
| Total                                    | <b>7,465,509</b> | 12,967,077 |

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS****NOTE # 17 REVENUE FROM OPERATIONS**

Rupees

| Particulars                                  | For the year<br>ended 31<br>March, 2013<br>₹ | For the year<br>ended<br>31 March, 2012<br>₹ |
|--|--|--|
| (a) Sale of products (Refer Note (i) below)  | <b>17,645,135</b>                            | 165,901,104                                  |
| (b) Sale of services (Refer Note (ii) below) | <b>265,455,406</b>                           | 272,796,413                                  |
|  | <b>283,100,541</b>                           | 438,697,517                                  |
| Less:  |  |  |
| (c) Excise duty                              | <b>778,319</b>                               | 184,855                                      |
| Total  | <b>282,322,222</b>                           | 438,512,662                                  |
| <b>Note</b>                                  |  |  |
| (i) Sale of products comprises :             |  |  |
| <i>Manufactured goods</i>                    |  |  |
| Flashers                                     | -  | 5,459,936                                    |
| ECM  | -  | 17,891,016                                   |
| Control Panels                               | -  | 15,053,816                                   |
| Interlocking                                 | -  | 10,035,878                                   |
| Bells  | -  | 685,688                                      |
| Others                                       | <b>1,462,872</b>                             | -  |
| <b>Total - Sale of manufactured goods</b>    | <b>1,462,872</b>                             | 49,126,334                                   |
| <i>Traded goods</i>                          |  |  |
| DVR & Camera                                 | -  | 19,073,705                                   |
| LCD Display                                  | -  | 22,872,879                                   |
| Wheel Sensors                                | -  | 10,386,915                                   |
| M S Tubular Structures                       | <b>16,182,263</b>                            | -  |
| Barriers                                     | -  | 64,441,271                                   |
| <b>Total - Sale of Traded goods</b>          | <b>16,182,263</b>                            | 116,774,770                                  |
| <b>Total - Sale of products</b>              | <b>17,645,135</b>                            | 165,901,104                                  |
| (ii) Sale of services comprises              |  |  |
| Software Services                            | <b>47,769,021</b>                            | 100,909,947                                  |
| Maintenance Contracts                        | <b>134,343,462</b>                           | 145,632,459                                  |
| Instalation & Commissioning                  | -  | 3,107,506                                    |
| Service Contracts-Egypt                      | <b>78,494,589</b>                            | 21,611,165                                   |
| Others                                       | <b>4,848,334</b>                             | 1,535,336                                    |
| Total - Sale of services                     | <b>265,455,406</b>                           | 272,796,413                                  |



## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### NOTE # 18 OTHER INCOME

Rupees

| Particulars  | For the year ended<br>31 March, 2013<br>₹ | For the year ended<br>31 March, 2012<br>₹ |
|--|---|---|
| (a) Interest income (Refer Note (i) below)   | <b>11,575,873</b>                         | 13,199,596                                |
| (b) Net gain on foreign currency transactions and translation<br>(other than considered as finance cost)         | <b>11,660,401</b>                         | 1,395,185                                 |
| (c) Other non-operating income (net of expenses directly<br>attributable to such income) (Refer Note (ii) below) | <b>8,867,937</b>                          | 6,734,566                                 |
| <b>Total</b>   | <b><u>32,104,211</u></b>                  | <b><u>21,329,347</u></b>                  |
| Note   |   |   |
| (i) Interest income comprises:<br>Interest from banks on:  |   |   |
| Deposits   | <b>7,365,843</b>                          | 10,475,283                                |
| Others   | <b>14,110</b>                             |   |
| Interest on advances given to Subsidiaries   | <b>1,794,870</b>                          | 1,613,737                                 |
| Interest on income tax refund  | <b>2,401,050</b>                          | 1,110,576                                 |
| <b>Total - Interest income</b>   | <b><u>11,575,873</u></b>                  | <b><u>13,199,596</u></b>                  |
| (ii) Other non-operating income comprises:   |   |   |
| Rental Income (inclusive of Servicetax collected)  | <b>7,830,373</b>                          | 6,394,930                                 |
| Other Misc. Income   | <b>1,037,564</b>                          | 339,636                                   |
| <b>Total - Other non-operating income</b>  | <b><u>8,867,937</u></b>                   | <b><u>6,734,566</u></b>                   |

### NOTE # 19.A COST OF MATERIALS CONSUMED

|                              |                          |                          |
|------------------------------|--------------------------|--------------------------|
| Opening stock                | <b>51,340,643</b>        | 57,558,966               |
| Add: Purchases               | <b>16,882,917</b>        | 17,578,177               |
|                              | <b>68,223,560</b>        | 75,137,143               |
| Less: Closing stock          | <b>44,577,028</b>        | 51,340,643               |
| Cost of material consumed    | <b>23,646,532</b>        | 23,796,500               |
| Material consumed comprises: |                          |                          |
| Electronic Components        | <b>23,646,532</b>        | 23,796,500               |
| <b>Total</b>                 | <b><u>23,646,532</u></b> | <b><u>23,796,500</u></b> |

### NOTE # 19.B PURCHASE OF TRADED GOODS

|                      |                          |                          |
|----------------------|--------------------------|--------------------------|
| DVR & Axel Counters  | -                        | 1,722,600                |
| Cameras              | -                        | 3,061,058                |
| LCD Monitors         | -                        | 1,563,562                |
| Double Wheel Sensors | -                        | 20,103,620               |
| Barriers             | -                        | 15,529,500               |
| Others               | <b>14,259,514</b>        | 1,256,679                |
| <b>Total</b>         | <b><u>14,259,514</u></b> | <b><u>43,237,019</u></b> |

### NOTE # 19.C CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE

|   |                           |                           |
|---|---------------------------|---------------------------|
| Inventories at the end of the year:       |                           |                           |
| Work-in-progress                          | <b>112,442,394</b>        | 115,265,349               |
|   | <b><u>112,442,394</u></b> | <b><u>115,265,349</u></b> |
| Inventories at the beginning of the year: |                           |                           |
| Work-in-progress                          | <b>115,265,349</b>        | 149,864,297               |
|   | <b><u>115,265,349</u></b> | <b><u>149,864,297</u></b> |
| Net (increase) / decrease                 | <b><u>2,822,955</u></b>   | <b><u>34,598,948</u></b>  |

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS****NOTE # 20 EMPLOYEE BENEFITS EXPENSE**

Rupees

| Particulars  | For the year ended<br>31st March, 2013<br>₹ | For the year ended<br>31 March, 2012<br>₹ |
|--|---|---|
| Salaries and wages   | <b>67,605,357</b>                           | 84,596,325                                |
| Contributions to provident and other funds (Refer Note 23.9) | <b>3,381,717</b>                            | 4,254,080                                 |
| Directors Remuneration                                       | <b>6,120,000</b>                            | 7,800,000                                 |
| Staff welfare expenses                                       | <b>993,955</b>                              | 1,173,647                                 |
| <b>Total</b>   | <b>78,101,029</b>                           | <b>97,824,052</b>                         |

**NOTE # 21 FINANCE COSTS**

|   |                   |                   |
|---|-------------------|-------------------|
| (a) Interest expense on:  |                   |                   |
| (i) Borrowings  | <b>24,545,506</b> | 26,224,630        |
| (b) Other borrowing costs   | <b>13,861,461</b> | 10,743,478        |
| (c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost) | -                 | -                 |
| <b>Total</b>  | <b>38,406,967</b> | <b>36,968,108</b> |

**NOTE # 22 OTHER EXPENSES**

|   |                    |                    |
|---|--------------------|--------------------|
| Project Execution Expenses  | <b>76,241,595</b>  | 84,961,420         |
| Sales Tax Paid  | <b>1,114,340</b>   | 4,184,800          |
| Service Tax Paid  | <b>9,185,178</b>   | 11,279,782         |
| Rent  | -                  | 1,575,000          |
| Repairs and maintenance - Buildings   | -                  | 57,632             |
| Repairs and maintenance - Others  | <b>3,170,213</b>   | 5,434,347          |
| Insurance   | <b>531,308</b>     | 878,150            |
| Rates and taxes   | <b>3,143,488</b>   | 2,398,588          |
| Postate, Telephone and Courier  | <b>1,235,076</b>   | 1,662,914          |
| Travelling and conveyance   | <b>2,456,916</b>   | 3,623,420          |
| Directors Sitting Fee   | <b>270,000</b>     | 440,000            |
| Printing and stationery   | <b>446,263</b>     | 555,575            |
| Freight   | <b>1,270</b>       | 13,552             |
| Business promotion  | <b>1,074,058</b>   | 1,239,487          |
| Professional & Consultancy Fees   | <b>1,806,567</b>   | 4,328,379          |
| Payments to auditors (Refer Note (i) below)   | <b>613,960</b>     | 680,900            |
| Books & Periodicals   | <b>5,100</b>       | 6,749              |
| Security Charges  | <b>1,554,393</b>   | 1,456,727          |
| Electricity Charges   | <b>3,449,198</b>   | 3,966,618          |
| Bad trade debts written off   | <b>5,286,840</b>   | 21,606,211         |
| General Expenses  | <b>523,369</b>     | 652,486            |
| <b>Total</b>  | <b>112,109,131</b> | <b>146,859,783</b> |
| (i) Payments to the auditors comprises (net of service tax input credit, where applicable): |                    |                    |
| As auditors - statutory audit   | <b>600,000</b>     | 600,000            |
| Reimbursement of expenses   | <b>13,960</b>      | 8,900              |
| For other services  | -                  | 72,000             |
| <b>Total</b>  | <b>613,960</b>     | <b>680,900</b>     |

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS** (₹ in Lakhs)

| Note        | Particulars  | As at 31 March,<br>2013                          | As at 31 March,<br>2012                          |   |
|-------------|--|--|--|---|
| <b>23.1</b> | <b>CONTINGENCIES</b>   |  |  |   |
| (i)         | <b>Contingent liabilities</b>  |  |  |   |
|             | (a) Claims against the company not acknowledged as a debt, in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT      | <b>4.13</b>                                      | 12.13  |   |
|             | (b) Bank Guarantees Outstanding  | <b>1,384.61</b>                                  | 1,860.71   |   |
| (ii)        | <b>Commitments</b>   |  |  |   |
|             | Estimated amount of contracts remaining to be executed on capital account and not provided for   |  |  |   |
|             | Tangible assets  | <b>54.96</b>                                     | 129.00   |   |
|             | Intangible assets  | -  | -  |   |
| <b>23.2</b> | <b>DISCLOSURES REQUIRED UNDER SECTION 22 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006</b>  |  |  |   |
|             | Particulars  | As at 31 March,<br>2013                          | As at 31 March,<br>2012                          |   |
|             | Principal amount remaining unpaid to suppliers as at the end of the accounting year  | <b>1.50</b>                                      | 1.44   |   |
|             | Dues to Micro and Small Enterprises have been determined to the extent such parties have been identified on the basis of information collected by the Management |  |  |   |
| <b>23.3</b> | <b>DISCLOSURE AS PER CLAUSE 32 OF THE LISTING AGREEMENTS WITH THE STOCK EXCHANGES</b>  |  |  |   |
|             | Loans and Advances in the nature of Advances given to Subsidiaries, associates and others  |  |  |   |
|             | Name of the Party  | Relationship                                     | Amount<br>outstanding as at<br>31st March, 2013  | Maximum Balance<br>outstanding during<br>the year |
|             | Avant-Garde info systems   | Subsidiary                                       | <b>270.00</b>                                    | 270.00  |
|             | (Previous Year)  |  | <b>(252.05)</b>                                  | (252.05)  |
| <b>23.4</b> | <b>VALUE OF IMPORTS CALCULATED ON CIF BASIS :</b>  | <b>For the year<br/>ended 31 March,<br/>2013</b> | <b>For the<br/>year ended 31<br/>March, 2012</b> |   |
|             | Raw materials  | <b>4.82</b>                                      | 83.86  |   |
|             | Spare parts  | -  | -  |   |
|             | Capital goods  | <b>32.04</b>                                     | 21.33  |   |
| <b>23.5</b> | <b>EXPENDITURE IN FOREIGN CURRENCY :</b>   |  |  |   |
|             | Travelling & Other Expenses  | <b>32.37</b>                                     | 28.17  |   |
|             | Loans to 100% Subsidiary   | -  | 3.93   |   |
|             | Consultancy Fees   | -  | -  |   |
|             | Egypt Branch   | <b>68.27</b>                                     | 42.37  |   |

**23.6 DETAILS OF CONSUMPTION OF IMPORTED AND INDIGENOUS ITEMS** Rupees

|                        | <b>For the year ended 31 March, 2013</b> |            |
|------------------------|--|------------|
|                        | <b>(Rupees in lakhs )</b>                | <b>(%)</b> |
| <b>Imported</b>        |  |            |
| Raw materials          | <b>23.62</b>                             | 10%        |
| (Previous Year)        | <b>70.68</b>                             | 30%        |
| Sub Total - Imported   | <b>23.62</b>                             | 10%        |
| (Previous Year)        | <b>70.68</b>                             | 30%        |
| <b>Indigenous</b>      |  |            |
| Raw materials          | <b>212.84</b>                            | 90%        |
| (Previous Year)        | <b>167.28</b>                            | 70%        |
| Sub Total - Indigenous | <b>212.84</b>                            | 90%        |
| (Previous Year)        | <b>167.28</b>                            | 70%        |
| Grand Total            | <b>236.46</b>                            | 100%       |
| (Previous Year)        | <b>237.96</b>                            | 100%       |

**23.7 EARNINGS IN FOREIGN EXCHANGE :**

|  | <b>For the year<br/>ended 31<br/>March, 2013</b> | For the year<br>ended 31 March,<br>2012 |
|--|--|---|
| Export of goods calculated on FOB basis and service income | <b>784.94</b>                                    | 1,949.79                                |
| Interest Earned on Advance Given to Subsidiary             | <b>17.95</b>                                     | 16.14                                   |

**23.8 AMOUNTS REMITTED IN FOREIGN CURRENCY DURING THE YEAR ON ACCOUNT OF DIVIDEND :**

|   |                |         |
|---|----------------|---------|
| Amount of Dividend remitted in Foreign Currency   | <b>578,063</b> | 917,427 |
| Total number of Non-resident shareholders (To whom the dividends were remitted in foreign currency) | <b>27</b>      | 31      |
| Total number of shares held by them on which dividend was due                                       | <b>578,063</b> | 917,427 |
| Financial Year to which the dividend relates  | <b>2011-12</b> | 2010-11 |

**23.9 DISCLOSURES UNDER ACCOUNTING STANDARD - 15**

Employee benefit plans

**23.9.a Defined contribution plans**

The Company makes Provident Fund contributions to defined contribution plans for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The Company recognized ₹ 22.01 Lakhs (Year ended 31 March, 2012 ₹ 28.19 lakhs) for Provident Fund contributions in the Statement of Profit and Loss. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes.

**23.9.b Defined benefit plans**

- i) *Leave Encashment* : The Company does not have any scheme for Leave Encashment
- ii) *Gratuity*: Gratuity benefit is applicable to all the 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 there of in excess of 6 months. Annual Contribution to the employee'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.

The following table sets out the funded status of the defined benefit schemes and the amount recognized in the financial statements:

| Particulars  | <b>Year ended 31<br/>March, 2013</b> | Year ended 31<br>March, 2012 |
|--|--------------------------------------|------------------------------|
|  | <b>Gratuity</b>                      | Gratuity                     |
| Components of employer expense                               |                                      |                              |
| Current service cost   | <b>76,800</b>                        | 742,505                      |
| Total expense recognized in the Statement of Profit and Loss | <b>76,800</b>                        | 742,505                      |
| Actual contribution and benefit payments for year            |                                      |                              |
| Actual benefit payments                                      | <b>1,397,625</b>                     | 622,240                      |
| Actual contributions   | -                                    | -                            |

### **23.10 DISCLOSURES UNDER ACCOUNTING STANDARD - 17**

Particulars

Segment information

Since the Company has no reportable Segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

### **23.11 DISCLOSURES UNDER ACCOUNTING STANDARD - 18**

#### **RELATED PARTY TRANSACTIONS**

#### **23.11.a Details of related parties:**

| <i>Description of relationship</i> | <i>Names of related parties</i>   |
|------------------------------------|---|
| Subsidiaries                       | Avant- Garde Info systems Inc, USA (100% Wholly Owned Subsidiary)             |
| Key Management Personnel (KMP)     | Col. L.V Raju(retd) - Managing Director & B Murali Mohan- Whole Time Director |

Note: Related parties have been identified by the Management.

#### **23.11.b Details of related party transactions during the year ended 31 March, 2013 and balances outstanding as at 31 March, 2013:**

Rupees in Lakhs

|  | Subsidiaries       | KMP              | <b>Total</b>                     |
|--|--------------------|------------------|----------------------------------|
| Receiving of services -- Directors remuneration (Previous Year)            | -                  | 61.20<br>(78.00) | <b>61.20</b><br><b>(78.00)</b>   |
| Finance --Interest receivable on USL (Previous Year)                       | 17.95<br>(16.13)   | -                | <b>17.95</b><br><b>(16.13)</b>   |
| Finance --USL Given (Previous Year)  | -                  | -                | -                                |
|  | (3.93)             | -                | <b>(3.93)</b>                    |
| Balances outstanding at the end of the year                                |                    |                  |                                  |
| Loans and advances (Including Interest on Working Capital) (Previous Year) | 270.00<br>(252.05) | -                | <b>270.00</b><br><b>(252.05)</b> |

**23.12 DISCLOSURES UNDER ACCOUNTING STANDARD - 20**

Rupees

| Particulars   | For the year<br>ended<br>31 March, 2013 | For the year<br>ended<br>31 March, 2012 |
|---|---|---|
|   | ₹                                       | ₹                                       |
| Earnings per share  |   |   |
| Basic   |   |   |
| <b>23.12.a Continuing operations</b>  |   |   |
| Net profit / (loss) for the year from continuing operations   | <b>6,467,688</b>                        | 44,697,283                              |
| Less: Preference dividend and tax thereon   |   |   |
| Net profit / (loss) for the year from continuing operations attributable to the equity shareholders   | <b>6,467,688</b>                        | 44,697,283                              |
| Weighted average number of equity shares  | <b>12,499,655</b>                       | 12,499,655                              |
| Par value per share   | <b>10</b>                               | 10                                      |
| Earnings per share from continuing operations - Basic   | <b>0.52</b>                             | 3.58                                    |
| <b>Diluted</b>  |   |   |
| The diluted earnings per share has been computed by dividing the Net Profit After Tax available for Equity Shareholders by the weighted average number of equity shares, after giving dilutive effect of the outstanding Warrants, Stock Options and Convertible bonds for the respective periods. Since, the effect of the conversion of Preference shares was anti-dilutive, it has been ignored. |   |   |
| <b>23.12.b Continuing operations</b>  |   |   |
| Net profit / (loss) for the year from continuing operations   | <b>6,467,688</b>                        | 44,697,283                              |
| Less: Preference dividend and tax thereon   | -                                       | -                                       |
| Net profit / (loss) for the year attributable to the equity shareholders from continuing operations   | <b>6,467,688</b>                        | 44,697,283                              |
| Add: Interest expense and exchange fluctuation on convertible bonds (net)   | -                                       | -                                       |
| Profit / (loss) attributable to equity shareholders from continuing operations (on dilution)  | <b>6,467,688</b>                        | 44,697,283                              |
| Weighted average number of equity shares for Basic EPS  | <b>12,499,655</b>                       | 12,499,655                              |
| Add: Effect of warrants, ESOPs and Convertible bonds which are dilutive   | -                                       | -                                       |
| Weighted average number of equity shares - for diluted EPS  | <b>12,499,655</b>                       | 12,499,655                              |
| Par value per share   | <b>10</b>                               | 10                                      |
| Earnings per share, from continuing operations - Diluted  | <b>0.52</b>                             | 3.58                                    |
| Tax effect of items constituting deferred tax liability   |   |   |

**23.13 DISCLOSURES UNDER ACCOUNTING STANDARD - 22**

| Particulars  | As at 31 March,<br>2013 | As at 31 March,<br>2012 |
|--|-------------------------|-------------------------|
| Deferred tax (liability) / asset   |                         |                         |
| Tax effect of items constituting deferred tax liability  |                         |                         |
| On difference between book balance and tax balance of fixed assets                                   | <b>6,906,876</b>        | 1,894,047               |
| On expenditure deferred in the books but allowable for tax purposes                                  | -                       | -                       |
| On items included in Reserves and surplus pending amortization into the Statement of Profit and Loss | -                       | -                       |
| Others   |                         |                         |
| Tax effect of items constituting deferred tax liability  | <b>6,906,876</b>        | 1,894,047               |
| Tax effect of items constituting deferred tax assets   |                         |                         |
| Provision for compensated absences, gratuity and other employee benefits                             | -                       | -                       |
| Provision for doubtful debts / advances  | -                       | -                       |
| Disallowances under Section 40(a)(i), 43B of the Income Tax Act, 1961                                | <b>3,527,698</b>        | 5,773,886               |
| On difference between book balance and tax balance of fixed assets                                   | -                       | -                       |
| Unabsorbed depreciation carried forward  | -                       | -                       |
| Brought forward business losses  | -                       | -                       |
| On items included in Reserves and surplus pending amortization into the Statement of Profit and Loss | -                       | -                       |
| Others   | -                       | -                       |
| Tax effect of items constituting deferred tax assets   | <b>3,527,698</b>        | 5,773,886               |
| <b>Net deferred tax (liability) / asset</b>  | <b>(3,379,179)</b>      | 3,879,839               |
| Deferred tax (liability)/asset recognised in Statement of profit and loss                            | <b>(7,259,018)</b>      | (7,250,246)             |

**23.14**

| Particulars  | For the year<br>ended<br>31 March, 2013 | For the year<br>ended<br>31 March, 2012 |
|--|---|---|
| Details of research and development expenditure recognized as an expense |   |   |
| Materials  | <b>0.04</b>                             | 0.54                                    |
| Employee benefits expense  | <b>12.76</b>                            | 55.72                                   |
| Total  | <b>12.80</b>                            | 56.26                                   |

**23.15 Trade debtors and Advances are subject to Reconciliation and Confirmation**
**23.16 PREVIOUS YEAR'S FIGURES**

Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure. Disclosures are made in respect of items that are applicable to your company.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### Note : CORPORATE INFORMATION

Kernex Microsystems(India) Limited is engaged in the manufacture and sale of Safety Systems and Software services for railways.

### 1 SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 Basis of accounting and preparation of financial statements

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

#### 1.2 Use of estimates

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

#### 1.3 Inventories

Inventories of components are valued at cost or realisable value whichever is less. Work in Progress is valued at cost of materials and services used.

#### 1.4 Cash and cash equivalents

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

#### 1.5 Cash flow statement

Cash flows are reported using the indirect method, whereby profit / (loss) before extraordinary items and tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

#### 1.6 Depreciation

Depreciation has been provided on the fixed assets on WDV method as per the rates prescribed in Schedule XIV to the Companies Act, 1956.

#### 1.7 Revenue recognition

##### *Revenue from contracts*

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

##### *Revenue from services*

Service income is recognised as per the terms of contracts with the customer, when the related service is performed.





*Sale of goods*

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

**1.8 Other income**

Interest income is accounted on accrual basis.

**1.9 Tangible fixed assets**

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

*Capital work-in-progress:*

Projects under which assets are not ready for their intended use and other capital work-in-progress are carried at cost, comprising direct cost, related incidental expenses and attributable interest.

**1.10 Foreign currency transactions and translations**

*Initial recognition*

Transactions in foreign currencies entered into by the Company and its integral foreign operations are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.

*Measurement of foreign currency monetary items at the Balance Sheet date*

Foreign currency monetary items of the Company and its net investment in non-integral foreign operations outstanding at the Balance Sheet date are restated at the year-end rates.

*Treatment of exchange differences*

Exchange differences arising on settlement / restatement of short-term foreign currency monetary assets and liabilities of the Company are recognised as income or expense in the Statement of Profit and Loss.

**1.11 Investments**

Long-term investments in Subsidiary (100% wholly owned Subsidiary) are carried at cost.

**1.12 Employee benefits**

*Defined contribution plans*

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.

*Defined benefit plans*

Gratuity: Gratuity benefit is applicable to all the 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 there of in excess of 6 months. Annual Contribution to the employee'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.

*Short-term employee benefits*

The Company does not have any scheme for Leave encashment in place.

**1.13 Segment reporting**

Since the Company has no Reportable segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

### **1.14 Earnings per share**

Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) as adjusted for dividend, interest and other charges to expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

### **1.15 Taxes on income**

Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961.

Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company.

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

### **1.16 Provisions and contingencies**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes.

## 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 | <input type="text"/> | N | I | L | Bonus Issue       | <input type="text"/> | N | I | L |  |  |
| Rights Issue | <input type="text"/> | N | I | L | Private Placement | <input type="text"/> | N | I | L |  |  |
| Sweat Equity | <input type="text"/> | N | I | L |                   |                      |   |   |   |  |  |

### Position of Mobilization and Deployment of Funds:

Total Liabilities        Total Assets

### Sources of Funds

|                        |                      |                    |  |   |  |  |  |  |  |  |  |
|------------------------|----------------------|--------------------|--|---|--|--|--|--|--|--|--|
| Paid up Capital        | <input type="text"/> | Reserves & Surplus | <input type="text" value="1"/> <input type="text" value="1"/> <input type="text" value="7"/> <input type="text" value="6"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="7"/> |   |  |  |  |  |  |  |  |
| Secured Loan           | <input type="text"/> | Unsecured Loans    | <input type="text"/>   |   |  |  |  |  |  |  |  |
| Deferred Tax Liability | <input type="text"/> | N                  | I  | L |  |  |  |  |  |  |  |

### Application of Funds:

|                          |                      |                    |                      |   |   |   |
|--------------------------|----------------------|--------------------|----------------------|---|---|---|
| Net Fixed Assets         | <input type="text"/> | Investments        | <input type="text"/> |   |   |   |
| Capital Working Progress | <input type="text"/> | Misc. Expenditure  | <input type="text"/> | N | I | L |
| Net Current Assets       | <input type="text"/> | Deferred Tax Asset | <input type="text"/> | N | I | L |

### Performance of Company:

|                   |                      |                   |                      |   |   |   |   |          |                      |   |   |   |
|-------------------|----------------------|-------------------|----------------------|---|---|---|---|----------|----------------------|---|---|---|
| Total Revenues    | <input type="text"/> | Total Expenditure | <input type="text"/> |   |   |   |   |          |                      |   |   |   |
| Profit Before Tax | <input type="text"/> | Profit after Tax  | <input type="text"/> |   |   |   |   |          |                      |   |   |   |
| Earning Per Share | R                    | s                 | .                    | 0 | . | 5 | 2 | Dividend | <input type="text"/> | N | I | L |

### Generic Names of three Principal Products / Services of Company

|                     |   |
|---------------------|---|
| Item Code           | <input type="text" value="8"/> <input type="text" value="5"/> <input type="text" value="2"/> <input type="text" value="4"/> <input type="text" value="9"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="9"/> . <input type="text" value="1"/> <input type="text" value="0"/> |
| Product Description | Computer Software   |
| Item Code           | —   |
| Product Description | Electronic Safety Devices for Indian Railways   |

For and on behalf of the Board of Directors

**B. Murali Mohan**  
Technical Director

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

**K. Ramanjaneyulu**  
(Company Secretary)

Place: Hydrabad  
Date: 25th May, 2013

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## **Consolidated Financial Statements**

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## AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

### To the Board of Directors of Kernex Micro Systems (India) Limited

We have audited the accompanying consolidated financial statements of Kernex Micro Systems (India) Limited ("the Company"), and its 100% subsidiary Avant-garde Info Systems inc. USA, which comprise the consolidated Balance sheet as at March 31, 2013, and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated

financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We did not audit the financial statements of 100% wholly owned overseas subsidiary, whose financial statements include total assets of Rs 208.96 Lakhs as at 31/03/2013, the total loss before the tax Rs 28.64 Lakhs for the year ended on that date. These financial statements have been compiled by other auditors whose compilation report has been furnished to us, and our opinion is solely based on the compilation report furnished to us.

### Opinion

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 subject to non audit of subsidiary by us:

- (a) In the case of the consolidated Balance Sheet, of the state of affairs of the company as at March 31, 2013;
- (b) In the case of the consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) In the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on date.

**For GMK Associates**

Chartered Accountants  
Firm Regn No. 006945S

**(G. Satyanarayana Murty)**

Partner  
Membership No. 029919

Place: Hyderabad

Date: 25th May, 2013

**Consolidated Balance Sheet as at 31 March, 2013**

Rupees

| Particulars                     | Note No. | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---------------------------------|----------|------------------------------|------------------------------|
| <b>A EQUITY AND LIABILITIES</b> |          |                              |                              |
| <b>Shareholders' funds</b>      |          |                              |                              |
| Share capital                   | 2        | 124,996,550                  | 124,996,550                  |
| Reserves and surplus            | 3        | <u>1,157,881,661</u>         | <u>1,153,434,282</u>         |
|                                 |          | <b>1,282,878,211</b>         | <b>1,278,430,832</b>         |
| <b>Non-current liabilities</b>  |          |                              |                              |
| Long-term borrowings            | 4        | -                            | -                            |
| Deferred tax liabilities (net)  | 23.7     | <b>3,379,179</b>             | -                            |
| Other long-term liabilities     |          | -                            | -                            |
| Long-term provisions            |          | -                            | -                            |
|                                 |          | <u>3,379,179</u>             | -                            |
| <b>Current liabilities</b>      |          |                              |                              |
| Short-term borrowings           | 5        | <b>163,492,282</b>           | 179,015,704                  |
| Trade payables                  | 6        | <b>83,950,837</b>            | 74,132,611                   |
| Other current liabilities       | 7        | <b>68,320,948</b>            | 96,466,668                   |
| Short-term provisions           | 8        | <b>7,814,416</b>             | 18,078,773                   |
|                                 |          | <u>323,578,483</u>           | <u>367,693,756</u>           |
| TOTAL                           |          | <u><b>1,609,835,873</b></u>  | <u><b>1,646,124,588</b></u>  |
| <b>B ASSETS</b>                 |          |                              |                              |
| <b>Non-current assets</b>       |          |                              |                              |
| Fixed assets                    |          |                              |                              |
| (i) Tangible assets             | 9        | <b>602,001,721</b>           | 278,893,832                  |
| (ii) Intangible assets          |          | <b>2,773,048</b>             | -                            |
| (iii) Capital work-in-progress  |          | <b>97,440,499</b>            | 438,118,929                  |
|                                 |          | <u>702,215,268</u>           | <u>717,012,761</u>           |
| Non-current investments         | 10       | -                            | -                            |
| Deferred tax assets (net)       | 23.7     | -                            | 3,879,839                    |
| Long-term loans and advances    | 11       | <b>97,958,724</b>            | 91,554,450                   |
| <b>Total Non-current Assets</b> |          | <b>800,173,992</b>           | 812,447,050                  |
| <b>Current assets</b>           |          |                              |                              |
| Inventories                     | 12       | <b>157,019,422</b>           | 166,605,992                  |
| Trade receivables               | 13       | <b>467,723,105</b>           | 425,932,410                  |
| Cash and cash equivalents       | 14       | <b>83,957,976</b>            | 118,847,103                  |
| Short-term loans and advances   | 15       | <b>72,602,915</b>            | 88,426,754                   |
| Other current assets            | 16       | <b>28,358,463</b>            | 33,865,279                   |
| <b>Total Current Assets</b>     |          | <u>809,661,881</u>           | <u>833,677,538</u>           |
| TOTAL                           |          | <u><b>1,609,835,873</b></u>  | <u><b>1,646,124,588</b></u>  |
| Significant Accounting Policies | 1        |                              |                              |

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

**For GMK ASSOCIATES**

 Chartered Accountants  
 Firm Reg. # 006945S

**(G. Satyanarayana Murty)**

Partner

Membership # 029919

Place : Hyderabad.

Date : 25.5.2013

**B. Murali Mohan**  
 Technical Director

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

**K. Ramanjaneyulu**  
 (Company Secretary)

**Consolidated Statement of Profit and Loss for the year ended 31 March, 2013**

Rupees

| Particulars   | Note No. | For the year ended<br>March 31, 2013<br>₹ | For the year ended<br>March 31, 2012<br>₹ |
|---|----------|---|---|
| 1 Revenue from operations (gross)   | 17       | <b>283,100,541</b>                        | 438,697,517                               |
| Less: Excise duty   | 17       | <b>778,319</b>                            | 184,855                                   |
| Revenue from operations (net)   |          | <b>282,322,222</b>                        | 438,512,662                               |
| 2 Other income  | 18       | <b>29,453,266</b>                         | 18,317,307                                |
| <b>3 Total revenue (1+2)</b>  |          | <b>311,775,488</b>                        | 456,829,969                               |
| <b>4 Expenses</b>   |          |   |   |
| (a) Cost of materials consumed  | 19.A     | <b>23,646,532</b>                         | 23,796,500                                |
| (b) Purchases of stock-in-trade   | 19.B     | <b>14,259,514</b>                         | 43,237,019                                |
| (c) Changes in inventories of finished goods, work-in-progress and stock-in-trade | 19.C     | <b>2,822,955</b>                          | 34,598,948                                |
| (d) Employee benefits expense   | 20       | <b>78,101,029</b>                         | 97,824,052                                |
| (e) Finance costs   | 21       | <b>38,424,285</b>                         | 36,971,502                                |
| (f) Depreciation and amortisation expense   | 9        | <b>27,600,846</b>                         | 8,055,010                                 |
| (g) Other expenses  | 22       | <b>112,299,856</b>                        | 147,231,428                               |
| <b>Total expenses</b>   |          | <b>297,155,017</b>                        | 391,714,459                               |
| <b>5 Profit / (Loss) before tax (3 - 4)</b>                                       |          | <b>14,620,471</b>                         | 65,115,510                                |
| <b>6 Tax expense:</b>   |          |   |   |
| (a) Current tax   |          | <b>3,758,001</b>                          | 16,237,194                                |
| (Less): MAT credit (where applicable)   |          | -   | -   |
| (b) Current tax expense relating to prior years                                   |          | -   | 323,113.00                                |
| (c) Net current tax expense   |          | <b>3,758,001</b>                          | 16,560,307                                |
| Deferred tax  | 23.7     | <b>7,259,018</b>                          | 7,250,246                                 |
|   |          | <b>11,017,019</b>                         | 23,810,553                                |
| <b>7 Profit / (Loss) for the year (5 +6)</b>                                      |          | <b>3,603,452</b>                          | 41,304,957                                |
| <b>8 Earnings per share (of ₹ 10/- each):</b>                                     |          |   |   |
| (a) Basic   |          | <b>0.29</b>                               | 3.30                                      |
| (b) Diluted   |          | <b>0.29</b>                               | 3.30                                      |
| Significant Accounting Policies   | 1        |   |   |

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

**For GMK ASSOCIATES**Chartered Accountants  
Firm Reg. # 006945S**B. Murali Mohan**  
Technical Director**Col. L.V. Raju (Retd.)**  
Managing Director**(G. Satyanarayana Murty)**Partner  
Membership # 029919**K. Ramanjaneyulu**  
(Company Secretary)

Place : Hyderabad.

Date : 25.5.2013



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2013**

Rupees

| Particulars  | For the year ended<br>31 March, 2013 |                     | For the year ended<br>31 March, 2012 |                     |
|--|--------------------------------------|---------------------|--------------------------------------|---------------------|
|  | ₹                                    | ₹                   | ₹                                    | ₹                   |
| <b>A. Cash flow from operating activities</b>                          |                                      |                     |                                      |                     |
| <b>Net Profit / (Loss) before extraordinary items and tax</b>          |                                      | <b>14,620,471</b>   |                                      | <b>65,115,510</b>   |
| <i>Adjustments for:</i>  |                                      |                     |                                      |                     |
| Depreciation and amortisation  | <b>27,600,846</b>                    |                     | 8,055,010                            |                     |
| Finance costs  | <b>38,424,285</b>                    |                     | 36,971,502                           |                     |
| Interest income  | <b>(9,781,003)</b>                   |                     | (11,585,859)                         |                     |
|  |                                      | <b>56,244,128</b>   |                                      | <b>33,440,653</b>   |
| Operating profit / (loss) before working capital changes               |                                      | <b>70,864,599</b>   |                                      | <b>98,556,163</b>   |
| Changes in working capital:  |                                      |                     |                                      |                     |
| <i>Adjustments for (increase) / decrease in operating assets:</i>      |                                      |                     |                                      |                     |
| Inventories  | <b>9,586,570</b>                     |                     | 40,817,271                           |                     |
| Trade receivables  | <b>(41,790,695)</b>                  |                     | (66,237,571)                         |                     |
| Short-term loans and advances  | <b>15,823,839</b>                    |                     | 17,015,868                           |                     |
| Long-term loans and advances   | <b>(6,404,274)</b>                   |                     | (21,010,680)                         |                     |
| Other current assets   | <b>5,501,568</b>                     |                     | 2,402,223                            |                     |
| <i>Adjustments for increase / (decrease) in operating liabilities:</i> |                                      |                     |                                      |                     |
| Trade payables   | <b>9,818,226</b>                     |                     | (167,639)                            |                     |
| Other current liabilities  | <b>(28,145,720)</b>                  |                     | 10,879,561                           |                     |
| Other long-term liabilities  | -                                    |                     | -                                    |                     |
| Short-term provisions  | -                                    |                     | -                                    |                     |
| Long-term provisions   | -                                    |                     | -                                    |                     |
|  | <b>(35,610,485)</b>                  | <b>(35,610,485)</b> | (16,300,967)                         | (16,300,967)        |
| Cash generated from operations   |                                      | <b>35,254,114</b>   |                                      | <b>82,255,196</b>   |
| <b>Net cash flow from / (used in) operating activities (A)</b>         |                                      | <b>35,254,114</b>   |                                      | <b>82,255,196</b>   |
| <b>B. Cash flow from Investing activities</b>                          |                                      |                     |                                      |                     |
| Capital expenditure on fixed assets, including capital advances        | <b>(12,798,105)</b>                  |                     | (12,441,525)                         |                     |
| Interest received  | <b>9,781,003</b>                     |                     | 11,585,859                           |                     |
| Net income tax (paid) / refunds  | <b>553,333</b>                       |                     | (8,282,561)                          |                     |
|  |                                      | <b>(2,463,769)</b>  |                                      | <b>(9,138,227)</b>  |
| <b>Net cash flow from / (used in) investing activities (B)</b>         |                                      | <b>(2,463,769)</b>  |                                      | <b>(9,138,227)</b>  |
| <b>C. Cash flow from financing activities</b>                          |                                      |                     |                                      |                     |
| Proceeds from issue of equity shares                                   | -                                    |                     | -                                    |                     |
| Proceeds from long-term borrowings                                     | -                                    |                     | -                                    |                     |
| Repayment of long-term borrowings                                      | -                                    |                     | (364,815)                            |                     |
| Net increase / (decrease) in working capital borrowings                | <b>(15,523,422)</b>                  |                     | (45,749,195)                         |                     |
| Finance cost   | <b>(38,424,285)</b>                  |                     | (36,971,502)                         |                     |
| Dividends paid   | <b>(12,499,655)</b>                  |                     | (12,499,655)                         |                     |
| Tax on dividend  | <b>(2,076,036)</b>                   |                     | -                                    |                     |
|  |                                      | <b>(68,523,398)</b> |                                      | <b>(95,585,166)</b> |
| <b>Net cash flow from / (used in) financing activities (C)</b>         |                                      | <b>(68,523,398)</b> |                                      | <b>(95,585,166)</b> |

| Particulars   | For the year ended<br>31 March, 2013 |                     | For the year ended<br>31 March, 2012 |                     |
|---|--------------------------------------|---------------------|--------------------------------------|---------------------|
|   | ₹                                    | ₹                   | ₹                                    | ₹                   |
| <b>Net increase / (decrease) in Cash and cash equivalents (A+B+C)</b>   |                                      | <b>(35,733,054)</b> |                                      | <b>(22,468,197)</b> |
| Cash and cash equivalents at the beginning of the year  |                                      | <b>118,847,103</b>  |                                      | 139,918,775         |
| Effect of exchange differences on restatement of foreign currency Cash and cash equivalents                           |                                      | <b>843,927</b>      |                                      | 1,396,525           |
| <b>Cash and cash equivalents at the end of the year</b>   |                                      | <b>83,957,976</b>   |                                      | <b>118,847,103</b>  |
| <b>Reconciliation of Cash and cash equivalents with the Balance of Cash and cash equivalents as per Balance Sheet</b> |                                      | <b>83,957,976</b>   |                                      | <b>118,847,103</b>  |
| <b>Cash and cash equivalents at the end of the year *</b>   |                                      | <b>83,957,976</b>   |                                      | <b>118,847,103</b>  |
| * Comprises:  |                                      |                     |                                      |                     |
| (a) Cash on hand  |                                      | <b>68,197</b>       |                                      | 277,461             |
| (b) Balances with banks   |                                      |                     |                                      |                     |
| (i) In current accounts   |                                      | <b>1,013,063</b>    |                                      | 1,320,429           |
| (ii) In EEFC accounts   |                                      | <b>37,519</b>       |                                      | 37,519              |
| (iii) In deposit accounts   |                                      | <b>59,603,476</b>   |                                      | 100,410,252         |
| (iv) In earmarked accounts  |                                      | <b>23,235,721</b>   |                                      | 16,801,443          |
|   |                                      | <b>83,957,976</b>   |                                      | <b>118,847,103</b>  |

In terms of our report attached.

**For GMK ASSOCIATES**

Chartered Accountants  
Firm Reg. # 006945S

**(G. Satyanarayana Murty)**

Partner  
Membership # 029919

Place : Hyderabad.  
Date : 25.5.2013

For and on behalf of the Board of Directors

**B. Murali Mohan**  
Technical Director

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

**K. Ramanjaneyulu**  
(Company Secretary)

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE # 2 SHARE CAPITAL**

Rupees

| Particulars   | As at 31 March, 2013 |                    | As at 31 March, 2012 |             |
|---|----------------------|--------------------|----------------------|-------------|
|   | Number of shares     | ₹                  | Number of shares     | ₹           |
| (a) Authorised (Equity shares of ₹ 10/- each with voting rights)                              | <b>15,000,000</b>    | <b>150,000,000</b> | 15,000,000           | 150,000,000 |
| (b) Issued, Subscribed & Paid up Capital<br>(Equity shares of ₹ 10/- each with voting rights) | <b>12,499,655</b>    | <b>124,996,550</b> | 12,499,655           | 124,996,550 |
| (Company has only one class of Shares i.e., Equity Shares with Voting rights)                 | <b>12,499,655</b>    | <b>124,996,550</b> | 12,499,655           | 124,996,550 |

**Notes:**

- 2.1. 55,22,177 Shares out of the issued, subscribed and paid up share capital were allotted as Bonus Shares in the last five years by capitalisation of free Reserves of the company
- 2.2 Reconciliation of the number of shares and amount outstanding at the beginning and at the end of the reporting period:

| Particulars                      | Opening Balance | Fresh issue | Closing Balance |
|----------------------------------|-----------------|-------------|-----------------|
| Equity shares with voting rights |                 |             |                 |
| <b>Year ended 31 March, 2013</b> |                 |             |                 |
| - Number of shares               | 12,499,655      | -           | 12,499,655      |
| - Amount (₹)                     | 124,996,550     | -           | 124,996,550     |
| <b>Year ended 31 March, 2012</b> |                 |             |                 |
| - Number of shares               | 12,499,655      | -           | 12,499,655      |
| - Amount (₹)                     | 124,996,550     | -           | 124,996,550     |

- 2.3. Details of shares held by each shareholder holding more than 5% shares

| Name of Shareholder                     | As at 31st March, 2013 |                                   | As at 31st March, 2012 |                                   |
|---|------------------------|-----------------------------------|------------------------|-----------------------------------|
|   | Number of Shares held  | % holding in that class of shares | Number of Shares held  | % holding in that class of shares |
| <b>Equity Shares with voting rights</b> |                        |                                   |                        |                                   |
| 1. Dr Raju Narsa Manthena               | <b>854,633</b>         | <b>6.84</b>                       | 854,633                | 6.84                              |
| 2. Seetharamaraju Manthena              | <b>701,894</b>         | <b>5.62</b>                       | 701,894                | 5.62                              |

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE # 3 RESERVES AND SURPLUS**

Rupees

| Particulars  | As at 31 March,      | As at 31 March,      |
|--|----------------------|----------------------|
|  | 2013<br>₹            | 2012<br>₹            |
| <b>(a) General reserve</b>   |                      |                      |
| Opening balance  | 61,213,631           | 61,213,631           |
| Less: Foreign Currency Translation adjustment                              | (305,576)            | 538,351              |
| Closing balance  | 61,519,207           | 60,675,280           |
| <b>(b) Securities premium account</b>                                      |                      |                      |
| Opening balance  | 917,219,545          | 917,219,545          |
| Closing balance  | 917,219,545          | 917,219,545          |
| <b>(c) Surplus / (Deficit) in Statement of Profit and Loss</b>             |                      |                      |
| Opening balance  | 175,539,457          | 148,761,912          |
| Add: Profit / (Loss) for the year  | 3,603,452            | 41,304,957           |
| Less: Appropriations   |                      |                      |
| Dividends proposed to be distributed to equity shareholders (₹1 per share) | -                    | 12,499,655           |
| Tax on dividend  | -                    | 2,027,757            |
| <b>Closing balance</b>   | <b>179,142,910</b>   | <b>175,539,457</b>   |
| <b>Total</b>   | <b>1,157,881,661</b> | <b>1,153,434,282</b> |

**NOTE # 4 LONG-TERM BORROWINGS**

|                                       |          |          |
|---------------------------------------|----------|----------|
| (a) Other loans and advances          |          |          |
| Secured                               |          |          |
| State Bank of Hyderabad(Vehicle Loan) | -        | -        |
| <b>Total</b>                          | <b>-</b> | <b>-</b> |

**(i) Details of terms of repayment for the other long-term borrowings and security provided in respect of the secured other long-term borrowings:**

| Particulars                   | Terms of repayment and security                        | As at 31 March, 2013 |                | As at 31 March, 2012 |                |
|-------------------------------|--|----------------------|----------------|----------------------|----------------|
|                               |  | Secured<br>₹         | Unsecured<br>₹ | Secured<br>₹         | Unsecured<br>₹ |
| Vehicle loans from banks:     |  |                      |                |                      |                |
| State Bank of Hyderabad       | Vehicle Loans are secured by Hypothecation of Vehicles | -                    | -              | -                    | -              |
| Total - Term loans from banks |  | -                    | -              | -                    | -              |

**(ii) For the current maturities of long-term borrowings, refer items (a) in Note # 7 Other current liabilities.**

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE # 5 SHORT-TERM BORROWINGS**

Rupees

| Particulars                                     | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---|------------------------------|------------------------------|
| (a) Loans repayable on demand (Working Capital) |                              |                              |
| Secured   |                              |                              |
| State Bank of Hyderabad                         | <b>152,638,995</b>           | 156,855,150                  |
| Punjab National Bank                            | -                            | 2,160,554                    |
| (b) Other loans and advances                    |                              |                              |
| Unsecured                                       |                              |                              |
| Inter Corporate Deposits                        | <b>10,853,287</b>            | 20,000,000                   |
| Total   | <b>163,492,282</b>           | 179,015,704                  |

**(i) Details of security for the secured short-term borrowings:**

| Particulars                           | Nature of security  | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---------------------------------------|---|------------------------------|------------------------------|
| Loans repayable on demand from banks: |   |                              |                              |
| State Bank of Hyderabad               | Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park and lands situated at Basanthpur (Nalgonda Dist and Amangal (Mahaboobnagar Dist) | <b>152,638,995</b>           | 156,855,150                  |
| Punjab National Bank                  | Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park.   | -                            | 2,160,554                    |
| Total From Banks                      |   | <b>152,638,995</b>           | 159,015,704                  |

**(ii) Details of short-term borrowings guaranteed by some of the directors:**

| Particulars   | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---|------------------------------|------------------------------|
| Loans repayable on demand from banks- Personal guarantee of the Managing Director | <b>152,638,995</b>           | 159,015,704                  |
| Inter Corporate Deposits are Secured by the pledge of shares of the Company       | <b>10,853,287</b>            | -                            |
| <b>NOTE # 6 TRADE PAYABLES</b>  |                              |                              |
| Trade payables:   |                              |                              |
| Acceptances   | -                            | -                            |
| Other than Acceptances  | <b>83,950,837</b>            | 74,132,611                   |
| Total   | <b>83,950,837</b>            | 74,132,611                   |

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE # 7 OTHER CURRENT LIABILITIES**

| Particulars   | Rupees                       |                              |
|---|------------------------------|------------------------------|
|   | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
| (a) Current maturities of finance lease obligations                           | -                            | 364,815                      |
| (b) Interest accrued and due on borrowings                                    | <b>1,003,402</b>             | -                            |
| (c) Unpaid dividends  | <b>488,731</b>               | 342,382                      |
| (d) Application money received for allotment of securities and due for refund | <b>193,300</b>               | 193,300                      |
| (e) Statutory remittances :   |                              |                              |
| Contribution to ESI   | <b>326,545</b>               | 33,788                       |
| Contribution to PF  | <b>2,544,458</b>             | 210,154                      |
| Professional Tax Payable  | <b>47,650</b>                | 39,410                       |
| Excise Duty Payable   | <b>531,388</b>               | 531,388                      |
| Service Tax Payable   | <b>11,175,215</b>            | 22,843,949                   |
| TDS Payable   | <b>4,745,489</b>             | 5,229,775                    |
| Works Contract Tax  | <b>572,895</b>               | 421,018                      |
| (f) Payables on purchase of fixed assets                                      | <b>3,003,668</b>             | 14,021,391                   |
| (g) Interest accrued on others  | <b>486,476</b>               |                              |
| (h) Advances from customers   | <b>43,201,731</b>            | 52,235,299                   |
| Total   | <b>68,320,948</b>            | 96,466,668                   |

**Note: Current maturities of long-term debt (Refer Notes (i) in Note 4 - Long-term borrowings for details of security and guarantee):**

|   |   |         |
|---|---|---------|
| (a) Other loans and advances            |   |         |
| Secured                                 |   |         |
| State Bank of Hyderabad- (Vehicle Loan) | - | 364,815 |
| Total                                   | - | 364,815 |

**NOTE # 8 SHORT-TERM PROVISIONS**

|  |                  |            |
|--|------------------|------------|
| (a) Provision - Others:                      |                  |            |
| (i) Provision for tax                        | <b>5,786,659</b> | 3,551,361  |
| (i) Proposed dividends                       | -                | 12,499,655 |
| (ii) Provision for tax on Proposed dividends | <b>2,027,757</b> | 2,027,757  |
| Total  | <b>7,814,416</b> | 18,078,773 |



**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE # 9 FIXED ASSETS**

|                                      | Gross block                 |             |             |                              | Accumulated depreciation and impairment |                                   |             |                              | Net block                    |                              | Rupees |
|--------------------------------------|-----------------------------|-------------|-------------|------------------------------|---|-----------------------------------|-------------|------------------------------|------------------------------|------------------------------|--------|
|                                      | Balance as at 1 April, 2012 | Additions   | Del/Adj     | Balance as at 31 March, 2013 | Balance as at 1 April, 2012             | Depreciation expense for the year | Adjustments | Balance as at 31 March, 2013 | Balance as at 31 March, 2013 | Balance as at 31 March, 2012 |        |
|                                      | ₹                           | ₹           | ₹           | ₹                            | ₹                                       | ₹                                 | ₹           | ₹                            | ₹                            | ₹                            |        |
| <b>A. Tangible assets</b>            |                             |             |             |                              |   |                                   |             |                              |                              |                              |        |
| (a) Land & Land Development Freehold | 238,061,366                 | 4,868,130   | -           | 242,929,496                  | -                                       | -                                 | -           | -                            | 242,929,496                  | 238,061,366                  |        |
| (b) Buildings Own use                | 43,671,920                  | 299,815,043 | -           | 343,486,963                  | 25,159,329                              | 18,033,020                        | -           | 43,192,349                   | 300,294,614                  | 18,512,591                   |        |
| (c) Plant and Equipment Owned        | 114,253,813                 | 39,094,190  | 15,185,736  | 138,162,267                  | 99,000,853                              | 6,195,271                         | 15,185,736  | 90,010,388                   | 48,151,879                   | 15,252,960                   |        |
| (d) Furniture and Fixtures Owned     | 11,610,361                  | 4,997,119   | 4,581,762   | 12,025,718                   | 9,348,880                               | 1,283,022                         | 4,581,762   | 6,050,140                    | 5,975,578                    | 2,261,481                    |        |
| (e) Vehicles Owned                   | 8,974,770                   | -           | 1,128,222   | 7,846,548                    | 7,063,537                               | 526,262                           | 1,128,222   | 6,461,577                    | 1,384,971                    | 1,911,233                    |        |
| (f) Office equipment Owned           | 9,115,616                   | 948,311     | 532,925     | 9,591,002                    | 6,221,415                               | 577,329                           | 532,925     | 6,265,819                    | 3,265,183                    | 2,894,201                    |        |
| Total                                | 425,687,846                 | 349,722,793 | 21,428,645  | 753,981,994                  | 146,794,014                             | 26,614,904                        | 21,428,645  | 151,980,273                  | 602,001,721                  | 278,893,832                  |        |
| Previous year                        | 403,360,897                 | 22,326,949  | -           | 425,687,846                  | 138,744,252                             | 8,049,762                         | -           | 146,794,014                  | 278,893,832                  | 264,616,645                  |        |
| Capital WIP                          | 438,118,929                 | 4,400,325   | 345,078,755 | 97,440,499                   | -                                       | -                                 | -           | -                            | 97,440,499                   | 438,118,929                  |        |

|                             | Gross block                   |           |         |                                | Accumulated depreciation and impairment |                                   |             |                                | Net block                      |                                |
|-----------------------------|-------------------------------|-----------|---------|--------------------------------|---|-----------------------------------|-------------|--------------------------------|--------------------------------|--------------------------------|
|                             | Balance as at 1st April, 2012 | Additions | Del/Adj | Balance as at 31st March, 2013 | Balance as at 1st April, 2012           | Depreciation expense for the year | Adjustments | Balance as at 31st March, 2013 | Balance as at 31st March, 2013 | Balance as at 31st March, 2012 |
|                             | ₹                             | ₹         | ₹       | ₹                              | ₹                                       | ₹                                 | ₹           | ₹                              | ₹                              | ₹                              |
| <b>B. Intangible assets</b> |                               |           |         |                                |   |                                   |             |                                |                                |                                |
| Computer Software           | -                             | 3,753,742 | -       | 3,753,742                      | -                                       | 980,694                           | -           | 980,694                        | 2,773,048                      | -                              |

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE # 10 NON-CURRENT INVESTMENTS**

Rupees

| Particulars  | As at 31 March, 2013 |                 |            | As at 31 March, 2012 |               |            |
|--|----------------------|-----------------|------------|----------------------|---------------|------------|
|  | Quoted #<br>₹        | Unquoted #<br>₹ | Total<br>₹ | Quoted<br>₹          | Unquoted<br>₹ | Total<br>₹ |
| Investments (At cost):   |                      |                 |            |                      |               |            |
| Other investments  |                      |                 |            |                      |               |            |
| (a) Investment in Equity Shares of Subsidiaries  |                      |                 |            |                      |               |            |
| Avant-Garde Infosystems inc.USA (100% subsidiary)                                      |                      |                 | -          | -                    | -             | -          |
| 35,80,000 Equity shares of US\$0.02 each and 17,99,240 Equity Shares of US\$ 0.10 each |                      |                 |            |                      |               |            |
| (Common Shares at no Par Value)  |                      |                 |            |                      |               |            |
| Total  |                      |                 | -          | -                    | -             | -          |
| <b>Aggregate amount of unquoted investments</b>  |                      |                 | -          |                      |               | -          |

**NOTE # 11 LONG-TERM LOANS AND ADVANCES**

| Particulars   | As at 31<br>March, 2013 | As at 31<br>March, 2012 |
|---|-------------------------|-------------------------|
|   | ₹                       | ₹                       |
| (a) Capital advances  |                         |                         |
| Unsecured, considered good  | <b>81,082,030</b>       | 74,511,670              |
| (b) Security deposits   |                         |                         |
| Unsecured, considered good  | <b>2,959,188</b>        | 3,125,274               |
| (c) Loans and advances to related parties                             |                         |                         |
| Unsecured, considered good-Avant-Garde info systems                   | -                       | -                       |
| (d) Advance income tax (net of provisions) Unsecured, considered good |                         |                         |
| (e) MAT credit entitlement # - Unsecured, considered good             | <b>13,917,506</b>       | 13,917,506              |
| Total   | <b>97,958,724</b>       | 91,554,450              |

**NOTE # 12 INVENTORIES**

(At lower of cost and net realisable value)

|                      |                    |             |
|----------------------|--------------------|-------------|
| (a) Raw materials    | <b>44,577,028</b>  | 51,340,643  |
| (b) Work-in-progress | <b>112,442,394</b> | 115,265,349 |
| Total                | <b>157,019,422</b> | 166,605,992 |

**Note**

|                                |                    |             |
|--------------------------------|--------------------|-------------|
| (i) Work in Progress Comprises |                    |             |
| ACDs Development               | <b>103,159,790</b> | 105,982,745 |
| Service Contracts-ENR          | <b>9,282,604</b>   | 9,282,604   |
|                                | <b>112,442,394</b> | 115,265,349 |



## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE # 13 TRADE RECEIVABLES

Rupees

| Particulars   | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---|------------------------------|------------------------------|
| Trade receivables outstanding for a period exceeding six months from the date they were due for payment |                              |                              |
| Unsecured, considered good  | <b>351,957,886</b>           | 173,555,455                  |
| Doubtful  | -                            | -                            |
| Other Trade receivables   |                              |                              |
| Unsecured, considered good  | <b>115,765,219</b>           | 252,376,955                  |
| Total   | <b>467,723,105</b>           | 425,932,410                  |

### NOTE # 14 CASH AND CASH EQUIVALENTS

|   |                   |             |
|---|-------------------|-------------|
| (a) Cash on hand  | <b>68,197</b>     | 277,461     |
| (b) Balances with banks   |                   |             |
| (i) In current accounts   | <b>1,013,063</b>  | 1,320,429   |
| (ii) In EEFC accounts   | <b>37,519</b>     | 37,519      |
| (iii) In deposit accounts (Refer Note (i) below)  | <b>59,603,476</b> | 100,410,252 |
| (iv) In earmarked accounts  |                   |             |
| - Unpaid dividend accounts  | <b>505,426</b>    | 343,532     |
| - Share application money received for allotment of securities and due for refund                                       | <b>193,300</b>    | 193,300     |
| - Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below) | <b>19,016,414</b> | 15,536,000  |
| - Escrow accounts (Refer Note (ii) below)   | <b>3,520,581</b>  | 728,611     |
| Total   | <b>83,957,976</b> | 118,847,103 |

Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statements is :

**83,957,976**      118,847,103

#### Notes:

- (i) Balances with banks include deposits amounting to ₹ NIL (As at 31 March, 2012 ₹ NIL) and margin monies amounting to ₹ NIL (As at 31 March, 2012 ₹ NIL) which have an original maturity of more than 12 months.
- (ii) Balances with banks - Other earmarked accounts (Escrow A/c) include ₹ NIL (As at 31 March, 2012 ₹ NIL) which have restriction on repatriation.

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE # 15 SHORT-TERM LOANS AND ADVANCES**

Rupees

| Particulars                                       | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|---|------------------------------|------------------------------|
| (a) Security deposits                             |                              |                              |
| Unsecured, considered good                        | <b>279,472</b>               | 273,948                      |
| (b) Loans and advances to employees               |                              |                              |
| Unsecured, considered good                        | -                            | 922,885                      |
| (c) Prepaid expenses - Unsecured, considered good | <b>1,813,047</b>             | 3,025,425                    |
| (d) Balances with government authorities          |                              |                              |
| Unsecured, considered good                        | <b>13,542,348</b>            | 20,018,243                   |
| (e) Advances to Suppliers and Services            |                              |                              |
| Unsecured, considered good                        | <b>56,968,048</b>            | 64,186,253                   |
| Total   | <b>72,602,915</b>            | 88,426,754                   |

**NOTE # 16 OTHER CURRENT ASSETS**

|  |                   |            |
|--|-------------------|------------|
| (a) Unamortised expenses                 |                   |            |
| Product Development Expenses             | <b>20,835,127</b> | 20,835,127 |
| Organisational & Start up Cost           | <b>57,828</b>     | 63,075     |
| (b) Accruals                             |                   |            |
| Interest accrued on deposits             | <b>2,875,430</b>  | 1,588,812  |
| (c) Others                               |                   |            |
| (i) Rent Receivables                     | <b>4,590,079</b>  | 3,768,557  |
| (ii) Income Tax Refund Receivable        | -                 | 7,575,521  |
| (iii) Deferred Interest on Vehicle Loans | -                 | 34,187     |
| Total                                    | <b>28,358,463</b> | 33,865,279 |

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE # 17 REVENUE FROM OPERATIONS

| Particulars                                  | Rupees                                       |  |
|--|--|--|
|  | For the year<br>ended<br>31 March, 2013<br>₹ | For the year<br>ended<br>31 March, 2012<br>₹ |
| (a) Sale of products (Refer Note (i) below)  | <b>17,645,135</b>                            | 165,901,104                                  |
| (b) Sale of services (Refer Note (ii) below) | <b>265,455,406</b>                           | 272,796,413                                  |
|  | <b>283,100,541</b>                           | 438,697,517                                  |
| Less:  |  |  |
| (c) Excise duty                              | <b>778,319</b>                               | 184,855                                      |
| Total  | <b>282,322,222</b>                           | 438,512,662                                  |
| <b>Note</b>                                  |  |  |
| (i) Sale of products comprises :             |  |  |
| <i>Manufactured goods</i>                    |  |  |
| Flashers                                     |  | 5,459,936                                    |
| ECM  |  | 17,891,016                                   |
| Control Panels                               |  | 15,053,816                                   |
| Interlocking                                 |  | 10,035,878                                   |
| ACDs   |  | -  |
| Bells  |  | 685,688                                      |
| Others                                       | <b>1,462,872</b>                             | -  |
| <b>Total - Sale of manufactured goods</b>    | <b>1,462,872</b>                             | 49,126,334                                   |
| <i>Traded goods</i>                          |  |  |
| DVR & Camera                                 |  | 19,073,705                                   |
| LCD Display                                  |  | 22,872,879                                   |
| Wheel Sensors                                |  | 10,386,915                                   |
| Battaries                                    |  | -  |
| M S Tubular Structures                       | <b>16,182,263</b>                            | -  |
| Barriers                                     |  | 64,441,271                                   |
| <b>Total - Sale of traded goods</b>          | <b>16,182,263</b>                            | 116,774,770                                  |
| <b>Total - Sale of products</b>              | <b>17,645,135</b>                            | 165,901,104                                  |
| (ii) Sale of services comprises              |  |  |
| Software Services                            | <b>47,769,021</b>                            | 100,909,947                                  |
| Maintenance Contracts                        | <b>134,343,462</b>                           | 145,632,459                                  |
| Instalation & Commissioning                  | -  | 3,107,506                                    |
| Service Contracts-Egypt                      | <b>78,494,589</b>                            | 21,611,165                                   |
| ACD Filed Trails                             | -  | -  |
| Others                                       | <b>4,848,334</b>                             | 1,535,336                                    |
| <b>Total - Sale of services</b>              | <b>265,455,406</b>                           | 272,796,413                                  |

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE # 18 OTHER INCOME**

|             |   | Rupees                                  |   |
|-------------|---|---|---|
| Particulars |   | For the<br>year ended<br>31 March, 2013 | For the<br>year ended<br>31 March, 2012 |
| (a)         | Interest income (Refer Note (i) below)  | <b>9,781,003</b>                        | 11,585,859                              |
| (b)         | Net gain on foreign currency transactions and translation (other than considered as finance cost)         | <b>10,804,326</b>                       | (3,118)                                 |
| (c)         | Other non-operating income (net of expenses directly attributable to such income) (Refer Note (ii) below) | <b>8,867,937</b>                        | 6,734,566                               |
|             | <b>Total</b>  | <b><u>29,453,266</u></b>                | <b><u>18,317,307</u></b>                |
| Note        |   |   |   |
| (i)         | Interest income comprises:  |   |   |
|             | Interest from banks on:   |   |   |
|             | deposits  | <b>7,365,843</b>                        | 10,475,283                              |
|             | Others  | <b>14,110</b>                           |   |
|             | Interest on advances given to Subsidiaries  | -                                       | -                                       |
|             | Interest on income tax refund   | <b>2,401,050</b>                        | 1,110,576                               |
|             | <b>Total - Interest income</b>  | <b><u>9,781,003</u></b>                 | <b><u>11,585,859</u></b>                |
| (ii)        | Other non-operating income comprises:   |   |   |
|             | Rental Income (inclusive of Servicetax collected)   | <b>7,830,373</b>                        | 6,394,930                               |
|             | Other Misc. Income  | <b>1,037,564</b>                        | 339,636                                 |
|             | <b>Total - Other non-operating income</b>   | <b><u>8,867,937</u></b>                 | <b><u>6,734,566</u></b>                 |

**NOTE # 19.A COST OF MATERIALS CONSUMED**

|                              |                          |                          |
|------------------------------|--------------------------|--------------------------|
| Opening stock                | <b>51,340,643</b>        | 57,558,966               |
| Add: Purchases               | <b>16,882,917</b>        | 17,578,177               |
|                              | <b>68,223,560</b>        | 75,137,143               |
| Less: Closing stock          | <b>44,577,028</b>        | 51,340,643               |
| Cost of material consumed    | <b>23,646,532</b>        | 23,796,500               |
| Material consumed comprises: |                          |                          |
| Electronic Components        | <b>23,646,532</b>        | 23,796,500               |
| <b>Total</b>                 | <b><u>23,646,532</u></b> | <b><u>23,796,500</u></b> |

**NOTE # 19.B PURCHASE OF TRADED GOODS**

|                               |                          |                          |
|-------------------------------|--------------------------|--------------------------|
| DVR & Axel Counters           |                          | 1,722,600                |
| Cameras                       |                          | 3,061,058                |
| LCD Monitors                  |                          | 1,563,562                |
| Double Wheel Sensors          |                          | 20,103,620               |
| Barriers                      |                          | 15,529,500               |
| Solar Power Generating System |                          | -                        |
| Battries                      |                          | -                        |
| Others                        | <b>14,259,514</b>        | 1,256,679                |
| <b>Total</b>                  | <b><u>14,259,514</u></b> | <b><u>43,237,019</u></b> |

**NOTE # 19.C CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE**

|   |                           |                           |
|---|---------------------------|---------------------------|
| Inventories at the end of the year:       |                           |                           |
| Work-in-progress                          | <b>112,442,394</b>        | 115,265,349               |
|   | <b><u>112,442,394</u></b> | <b><u>115,265,349</u></b> |
| Inventories at the beginning of the year: |                           |                           |
| Work-in-progress                          | <b>115,265,349</b>        | 149,864,297               |
|   | <b><u>115,265,349</u></b> | <b><u>149,864,297</u></b> |
| Net (increase) / decrease                 | <b><u>2,822,955</u></b>   | <b><u>34,598,948</u></b>  |

**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE # 20 EMPLOYEE BENEFITS EXPENSE**

| Particulars  | Rupees                                       |  |
|--|--|--|
|  | For the year<br>ended 31<br>March, 2013<br>₹ | For the year<br>ended 31<br>March, 2012<br>₹ |
| Salaries and wages   | <b>67,605,357</b>                            | 84,596,325                                   |
| Contributions to provident and other funds (Refer Note 23.4) | <b>3,381,717</b>                             | 4,254,080                                    |
| Directors Remuneration                                       | <b>6,120,000</b>                             | 7,800,000                                    |
| Staff welfare expenses                                       | <b>993,955</b>                               | 1,173,647                                    |
| <b>Total</b>   | <b><u>78,101,029</u></b>                     | <u>97,824,052</u>                            |

**NOTE # 21 FINANCE COSTS**

|  |                          |                   |
|--|--------------------------|-------------------|
| (a) Interest expense on:   |                          |                   |
| (i) Borrowings   | <b>24,545,506</b>        | 26,224,630        |
| (b) Other borrowing costs  | <b>13,878,779</b>        | 10,746,872        |
| (c) Net (gain) / loss on foreign currency transactions and translation<br>(considered as finance cost) | -                        | -                 |
| <b>Total</b>   | <b><u>38,424,285</u></b> | <u>36,971,502</u> |

**NOTE # 22 OTHER EXPENSES**

|   |                           |                    |
|---|---------------------------|--------------------|
| Project Execution Expenses  | <b>76,241,595</b>         | 84,961,420         |
| Sales Tax Paid  | <b>1,114,340</b>          | 41,848             |
| Service Tax Paid  | <b>9,185,178</b>          | 11,279,782         |
| Rent  | <b>25,190</b>             | 1,808,025          |
| Repairs and maintenance - Buildings   | -                         | 57,632             |
| Repairs and maintenance - Others  | <b>3,170,213</b>          | 5,434,347          |
| Insurance   | <b>531,308</b>            | 878,150            |
| Rates and taxes   | <b>3,196,808</b>          | 2,443,998          |
| Postage, Telephone and Courier  | <b>1,235,076</b>          | 1,662,914          |
| Travelling and conveyance   | <b>2,456,916</b>          | 3,623,420          |
| Directors Sitting Fee   | <b>270,000</b>            | 440,000            |
| Printing and Stationery   | <b>446,263</b>            | 555,575            |
| Freight   | <b>1,270</b>              | 13,552             |
| Business promotion  | <b>1,074,058</b>          | 1,239,487          |
| Professional & Consultancy Fees   | <b>1,895,783</b>          | 4,421,589          |
| Payments to Auditors (Refer Note (i) below)   | <b>613,960</b>            | 680,900            |
| Books & Periodicals   | <b>5,100</b>              | 6,749              |
| Security Charges  | <b>1,554,393</b>          | 1,456,727          |
| Electricity Charges   | <b>3,449,198</b>          | 3,966,618          |
| Bad trade debts written off   | <b>5,286,840</b>          | 21,606,211         |
| General Expenses  | <b>546,367</b>            | 652,486            |
| <b>Total</b>  | <b><u>112,299,856</u></b> | <u>147,231,428</u> |
| (i) Payments to the auditors comprises (net of service tax input credit, where applicable): |                           |                    |
| As auditors - statutory audit   | <b>600,000</b>            | 600,000            |
| Reimbursement of expenses   | <b>8,900</b>              | 8,900              |
| For other services  | <b>72,000</b>             | 72,000             |
| <b>Total</b>  | <b><u>680,900</u></b>     | <u>680,900</u>     |

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

₹ in lakhs

| Note          | Particulars  | As at 31<br>March, 2013<br>₹             | As at 31<br>March, 2012<br>₹             |
|---------------|--|--|--|
| <b>23.1</b>   | <b>CONTINGENCIES</b>   |  |  |
| (i)           | Contingent liabilities   |  |  |
| (a)           | Claims against the company not acknowledged as a debt, in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT  | <b>4.13</b>                              | 12.13                                    |
| (b)           | Bank Guarantees Outstanding  | <b>1,384.61</b>                          | 1,860.71                                 |
| (ii)          | Commitments  |  |  |
|               | Estimated amount of contracts remaining to be executed on capital account and not provided for   |  |  |
|               | Tangible assets  | <b>54.96</b>                             | 129.00                                   |
|               | Intangible assets  | -  | -  |
| <b>23.2</b>   | <b>DISCLOSURES REQUIRED UNDER SECTION 22 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006</b>  |  |  |
|               | Principal amount remaining unpaid to suppliers as at the end of the accounting year  | <b>1.50</b>                              | 1.44                                     |
|               | Dues to Micro and Small Enterprises have been determined to the extent such parties have been identified on the basis of information collected by the Management   |  |  |
| <b>23.3</b>   | <b>DISCLOSURES UNDER ACCOUNTING STANDARD - 15</b>  |  |  |
|               | Employee benefit plans   |  |  |
| <b>23.3.a</b> | <b>Defined contribution plans</b>  |  |  |
|               | The Company makes Provident Fund contributions to defined contribution plans for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The Company recognized ₹ 22.01 Lakhs (Year ended 31 March, 2012 ₹ 28.19 lakhs) for Provident Fund contributions in the Statement of Profit and Loss. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes.   |  |  |
| <b>23.3.b</b> | <b>Defined benefit plans</b>   |  |  |
| i)            | <i>Leave Encashment</i> : The Company does not have any scheme for Leave Encashment  |  |  |
| ii)           | <i>Gratuity</i> : Gratuity benefit is applicable to all the 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 there of in excess of 6 months. Annual Contribution to the employee'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. |  |  |
|               | The following table sets out the funded status of the defined benefit schemes and the amount recognized in the financial statements:   |  |  |
|               | Particulars  | Year ended 31<br>March, 2013<br>Gratuity | Year ended 31<br>March, 2012<br>Gratuity |
|               | Components of employer expense   |  |  |
|               | Current service cost   | <b>76,800</b>                            | 742,505                                  |
|               | Total expense recognized in the Statement of Profit and Loss   | <b>76,800</b>                            | 742,505                                  |
|               | Actual contribution and benefit payments for year  |  |  |
|               | Actual benefit payments  | <b>13,97,625</b>                         | 622,240                                  |
|               | Actual contributions   | -  | -  |

**23.4 DISCLOSURES UNDER ACCOUNTING STANDARD - 17**

Segment information

Since the Company has no reportable Segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

**23.5 DISCLOSURES UNDER ACCOUNTING STANDARD - 18**

RELATED PARTY TRANSACTIONS

**23.5.a Details of related parties:**

|                                |  |
|--------------------------------|--|
| Description of relationship    | Names of related parties   |
| Subsidiaries                   | Avant- Garde Infosystems Inc, USA (100% Wholly Owned Subsidiary)                 |
| Key Management Personnel (KMP) | Col. L.V Raju (Retd.) - Managing Director & B Murali Mohan - Whole Time Director |
| Relatives of KMP               |  |

Note: Related parties have been identified by the Management.

**Details of related party transactions during the year ended 31 March, 2013 and balances outstanding as at 31 March, 2013:**

| 23.5.b   | Rs. in Lakhs |         |          |
|--|--------------|---------|----------|
|  | Subsidiaries | KMP     | Total    |
| Receiving of services -- Directors remuneration            | NIL          | 61.20   | 61.20    |
| (Previous Year)  | NIL          | (78.00) | (78.00)  |
| Finance --Interest receivable on USL                       | 17.95        | NIL     | 17.95    |
| (Previous Year)  | (16.13)      | NIL     | (16.13)  |
| Finance --USL Given  | -            | -       | -        |
| (Previous Year)  | (3.93)       | NIL     | (3.93)   |
| Finance --USL Taken  | -            | -       | -        |
| (Previous Year)  | NIL          | NIL     | -        |
| Balances outstanding at the end of the year                |              |         |          |
| Loans and advances (including interest on Working Capital) | 270.00       | NIL     | 270.00   |
| (Previous Year)  | (252.05)     | NIL     | (252.05) |

**23.6 DISCLOSURES UNDER ACCOUNTING STANDARD - 20**

| Particulars        | For the year ended | For the year ended |
|--------------------|--------------------|--------------------|
|                    | 31 March, 2013     | 31 March, 2012     |
|                    | ₹                  | ₹                  |
| Earnings per share |                    |                    |
| Basic              | <b>0.29</b>        | 3.30               |
| Diluted            | <b>0.29</b>        | 3.30               |

|        |   |                   |            |
|--------|---|-------------------|------------|
| 23.6.a | <b>Continuing operations</b>  |                   | Rupees     |
|        | Net profit / (loss) for the year from continuing operations   | <b>3,603,452</b>  | 41,304,957 |
|        | Less: Preference dividend and tax thereon   |                   |            |
|        | Net profit / (loss) for the year from continuing operations attributable to the equity shareholders | <b>3,603,452</b>  | 41,304,957 |
|        | Weighted average number of equity shares  | <b>12,499,655</b> | 12,499,655 |
|        | Par value per share   | <b>10.00</b>      | 10.00      |
|        | Earnings per share from continuing operations - Basic   | <b>0.29</b>       | 3.30       |

**Diluted**

The diluted earnings per share has been computed by dividing the Net Profit After Tax available for Equity Shareholders by the weighted average number of equity shares, after giving dilutive effect of the outstanding Warrants, Stock Options and Convertible bonds for the respective periods. Since, the effect of the conversion of Preference shares was anti-dilutive, it has been ignored.

|        |   |                   |            |
|--------|---|-------------------|------------|
| 23.6.b | <b>Continuing operations</b>  |                   |            |
|        | Net profit / (loss) for the year from continuing operations   | <b>3,603,452</b>  | 41,304,957 |
|        | Less: Preference dividend and tax thereon   | -                 | -          |
|        | Net profit / (loss) for the year attributable to the equity shareholders from continuing operations | <b>3,603,452</b>  | 41,304,957 |
|        | Add: Interest expense and exchange fluctuation on convertible bonds (net)                           | -                 | -          |
|        | Profit / (loss) attributable to equity shareholders from continuing operations (on dilution)        | <b>3,603,452</b>  | 41,304,957 |
|        | Weighted average number of equity shares for Basic EPS  | <b>12,499,655</b> | 12,499,655 |
|        | Add: Effect of warrants, ESOPs and Convertible bonds which are dilutive                             | -                 | -          |
|        | Weighted average number of equity shares - for diluted EPS  | <b>12,499,655</b> | 12,499,655 |
|        | Par value per share   | <b>10</b>         | 10.00      |
|        | Earnings per share, from continuing operations - Diluted  | <b>0.29</b>       | 3.30       |

23.7 **DISCLOSURES UNDER ACCOUNTING STANDARD - 22**

| Particulars  | As at 31 March,<br>2013<br>₹ | As at 31<br>March, 2012<br>₹ |
|--|------------------------------|------------------------------|
| Deferred tax (liability) / asset   |                              |                              |
| Tax effect of items constituting deferred tax liability  |                              |                              |
| On difference between book balance and tax balance of fixed assets                                   | <b>6,906,876</b>             | 1,894,047                    |
| On expenditure deferred in the books but allowable for tax purposes                                  | -                            | -                            |
| On items included in Reserves and surplus pending amortization into the Statement of Profit and Loss | -                            | -                            |
| Others   |                              |                              |
| Tax effect of items constituting deferred tax liability  | <b>6,906,876</b>             | 1,894,047                    |
| Tax effect of items constituting deferred tax assets   |                              |                              |
| Provision for compensated absences, gratuity and other employee benefits                             | -                            | -                            |
| Provision for doubtful debts / advances  | -                            | -                            |



|  |                   |           |
|--|-------------------|-----------|
| Disallowances under Section 40(a)(i), 43B of the Income Tax Act, 1961                                | <b>3,527,698</b>  | 5,773,886 |
| On difference between book balance and tax balance of fixed assets                                   | -                 | -         |
| Unabsorbed depreciation carried forward  | -                 | -         |
| Brought forward business losses  | -                 | -         |
| On items included in Reserves and surplus pending amortization into the Statement of Profit and Loss | -                 | -         |
| Others   | -                 | -         |
| Tax effect of items constituting deferred tax assets   | <b>3,527,698</b>  | 5,773,886 |
| Net deferred tax (liability) / asset   | <b>-3,379,179</b> | 3,879,839 |

| Note | Particulars | For the year          | For the year   |
|------|-------------|-----------------------|----------------|
|      |             | ended                 | ended          |
|      |             | <b>31 March, 2013</b> | 31 March, 2012 |
|      |             | ₹                     | ₹              |

|      |   |              |       |
|------|---|--------------|-------|
| 23.8 | <b>Details of research and development expenditure recognized as an expense</b> |              |       |
|      | Materials   | <b>0.04</b>  | 0.54  |
|      | Employee benefits expense   | <b>12.76</b> | 55.72 |
|      | Total   | <b>12.80</b> | 56.26 |

25.2 Trade debtors and Advances are subject to Reconciliation and Confirmation

23.9 **PREVIOUS YEAR'S FIGURES**

Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure. Disclosures are made in respect of items that are applicable to your company.

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Note

#### 1 SIGNIFICANT ACCOUNTING POLICIES

##### 1.1 Basis of accounting and preparation of financial statements

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year 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,US 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-realised 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 recognised 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 the similar circumstances

##### 1.2 Use of estimates

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

##### 1.3 Inventories

Inventories of components are valued at cost or realisable value whichever is less. Work in Progress is valued at cost of materials and services used.

##### 1.4 Cash and cash equivalents

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.



### **1.5 Cash flow statement**

Cash flows are reported using the indirect method, whereby profit / (loss) before extraordinary items and tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

### **1.6 Depreciation and amortisation**

Depreciation has been provided on the fixed assets on WDV method as per the rates prescribed in Schedule XIV to 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 amortised over a period of its useful life.

### **1.7 Revenue recognition**

#### *Revenue from contracts*

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

#### *Revenue from services*

Service income is recognised as per the terms of contracts with the customer, when the related service is performed.

#### *Sale of goods*

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

### **1.8 Other income**

Interest income is accounted on accrual basis.

### **1.9 Tangible fixed assets**

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

#### *Capital work-in-progress:*

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

### **1.10 Foreign currency transactions and translations**

#### *Initial recognition*

Transactions in foreign currencies entered into by the Company and its integral foreign operations are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.

#### *Measurement of foreign currency monetary items at the Balance Sheet date*

Foreign currency monetary items of the Company and its net investment in non-integral foreign operations outstanding at the Balance Sheet date are restated at the year-end rates.

#### *Treatment of exchange differences*

"Exchange differences arising on settlement / restatement of short-term foreign currency monetary assets and liabilities of the Company are recognised as income or expense in the Statement of Profit and Loss."

### 1.11 Employee benefits

#### *Defined contribution plans*

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.

#### *Defined benefit plans*

Gratuity: Gratuity benefit is applicable to all the 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 there of in excess of 6 months. Annual Contribution to the employee'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.

#### *Short-term employee benefits*

The Company does not have any scheme for Leave encashment in place.

### 1.12 Segment reporting

Since the Company has no Reportable segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

### 1.13 Earnings per share

Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) as adjusted for dividend, interest and other charges to expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

### 1.14 Taxes on income

"Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961.

Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company.

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability. "

### 1.15 Provisions and contingencies

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes.



**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 31-03-2013   |
| 3. | Holding Company's Interest  | 100%  |
| 4. | Number of Shares held by Kernex Microsystems (India) Limited in the Subsidiary Company<br><br>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)<br><br>b) Not Dealt with in the accounts of Holding Company   | -<br><br>\$37,078   |
| 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:<br><br>Dealt with in the accounts of Holding Company<br><br>Not Dealt with in the accounts of Holding Company | -<br><br>\$3,45,711   |

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, 2013.

For and on behalf of the Board of Directors

**B. Murali Mohan**  
Technical Director

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

Place: Hydrabad  
Date: 25th May, 2013

**K. Ramanjaneyulu**  
(Company Secretary)

## AVANT GRADE INFOSYSTEMS INC, U.S.A

### DIRECTORS' REPORT

To

The Members

The Board of Directors of Avant-Grade Infosystems Inc, has pleasure in submitting the 11th Annual Report in respect of the period from 1st April, 2012 to 31st March, 2013.

#### Directors

The name 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. Muralidhar 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 1st April, to 31st March to align with Kernex Microsystems (India) Limited, the Holding Company.

#### Financial Results

The net loss of the Company for the Financial Year was Rs. 28.64 Lakhs due to provision of interest on the loan availed from Kernex Microsystems (India) Limited.

#### Operations

During the year the Company did not receive any income.

#### Future Prospects

The balance work on account of improving "Patient Medical Documentation Tracking System" 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: 22nd May, 2013

**AVANT GRADE INFOSYSTEMS INC, U.S.A**
**Balance Sheet as at 31 March, 2013**

Rupees

| Particulars                     | Note<br>No. | <b>As at 31<br/>March, 2013</b><br>₹ | As at 31<br>March, 2012<br>₹ |
|---------------------------------|-------------|--------------------------------------|------------------------------|
| <b>A EQUITY AND LIABILITIES</b> |             |                                      |                              |
| Shareholders' funds             |             |                                      |                              |
| Share capital                   | 2           | <b>11,830,950</b>                    | 11,830,950                   |
| Reserves and surplus            | 3           | <b>(18,531,511)</b>                  | (15,667,287)                 |
|                                 |             | <b>(6,700,561)</b>                   | (3,836,337)                  |
| Non-current liabilities         |             |                                      |                              |
| Long-term borrowings            | 4           | <b>12,206,203</b>                    | 12,206,203                   |
|                                 |             | <b>12,206,203</b>                    | 12,206,203                   |
| Current liabilities             |             |                                      |                              |
| Trade payables                  | 5           | <b>290,878</b>                       | 177,271                      |
| Other current liabilities       | 6           | <b>15,099,371</b>                    | 12,460,586                   |
|                                 |             | <b>15,390,249</b>                    | 12,637,857                   |
| TOTAL                           |             | <b>20,895,891</b>                    | 21,007,723                   |
| <b>B ASSETS</b>                 |             |                                      |                              |
| Non-current assets              |             |                                      |                              |
| Fixed assets                    |             |                                      |                              |
| Tangible assets                 | 7           | -                                    | -                            |
| Current assets                  |             |                                      |                              |
| Cash and cash equivalents       | 8           | <b>2,937</b>                         | 109,521                      |
| other current assets            | 9           | <b>20,892,954</b>                    | 20,898,202                   |
|                                 |             | <b>20,895,891</b>                    | 21,007,723                   |
| TOTAL                           |             | <b>20,895,891</b>                    | 21,007,723                   |
| Significant Accounting Policies | 1           |                                      |                              |

See accompanying notes forming part of the financial statements

**for AVANT-GARDE INFOSYSTEMS INC.,**
**Col. L. V. RAJU** (Retd.)

Director

Date: 22nd May, 2013

**AVANT GRADE INFOSYSTEMS INC, U.S.A****Statement of Profit and Loss for the year ended 31 March, 2013**

Rupees

| Particulars  | Note<br>No. | <b>For the year ended<br/>31 March, 2013</b><br>₹ | For the year ended<br>31 March, 2012<br>₹ |
|--|-------------|---|---|
| 1 Revenue from operations (gross)  |             | -   | -   |
| Less: Excise duty  |             | -   | -   |
| Revenue from operations (net)  |             | -   | -   |
| 2 Other income   |             | -   | -   |
| <b>3 Total revenue (1+2)</b>   |             | <b>-</b>  | <b>-</b>                                  |
| <b>4 Expenses</b>  |             |   |   |
| (a) Cost of materials consumed   |             | -   | -   |
| (b) Purchases of stock-in-trade  |             | -   | -   |
| (c) Changes in inventories of finished goods,<br>work-in-progress and stock-in-trade |             | -   | -   |
| (d) Employee benefits expense  |             | -   | -   |
| (e) Finance costs  | 10          | <b>2,668,264</b>                                  | 3,015,434                                 |
| (f) Depreciation and amortisation expense  | 7           | <b>5,248</b>                                      | 5,248                                     |
| (g) Other expenses   | 11          | <b>190,712</b>                                    | 371,645                                   |
| <b>Total expenses</b>  |             | <b>2,864,224</b>                                  | 3,392,327                                 |
| <b>5 Profit / (Loss) before tax (3 - 4)</b>  |             | <b>(2,864,224)</b>                                | (3,392,327)                               |
| <b>6 Tax expense:</b>  |             | -   | -   |
| <b>7 Profit / (Loss) for the year (5 +6)</b>   |             | <b>(2,864,224)</b>                                | (3,392,327)                               |
| Significant Accounting Policies  | 1           |   |   |

See accompanying notes forming part of the financial statements

**for AVANT-GARDE INFOSYSTEMS INC.,****Col. L. V. RAJU** (Retd.)

Director

Date: 22nd May, 2013



**AVANT GRADE INFOSYSTEMS INC, U.S.A**
**NOTE # 2 SHARE CAPITAL**

Rupees

| Particulars  | As at 31 March, 2013 |                   | As at 31 March, 2012 |            |
|--|----------------------|-------------------|----------------------|------------|
|  | Number of shares     | ₹                 | Number of shares     | ₹          |
| (a) Authorised (Common Shares at no par Value)   | <b>50,000,000</b>    | -                 | 50,000,000           | -          |
| (b) Issued, Subscribed & Paid up Capital<br>(35,80,000 Equity shares of US \$0.02/- and<br>17,99,240 equity Shares of US \$ 0.10)<br>(Company has only one class of Shares i.e,<br>Equity Shares with Voting rights) | <b>5,379,240</b>     | <b>11,830,950</b> | 5,379,240            | 11,830,950 |
|  | <b>5,379,240</b>     | <b>11,830,950</b> | 5,379,240            | 11,830,950 |

**Notes:**
**2.1 Reconciliation of the number of shares and amount outstanding at the beginning and at the end of the reporting period:**

| Particulars                      | Opening Balance | Fresh issue | Closing Balance |
|----------------------------------|-----------------|-------------|-----------------|
| Equity shares with voting rights |                 |             |                 |
| <b>Year ended 31 March, 2013</b> |                 |             |                 |
| - Number of shares               | 5,379,240       | -           | 5,379,240       |
| - Amount (₹)                     | 11,830,950      | -           | 11,830,950      |
| <b>Year ended 31 March, 2012</b> |                 |             |                 |
| - Number of shares               | 5,379,240       | -           | 5,379,240       |
| - Amount (₹)                     | 11,830,950      | -           | 11,830,950      |

**2.2 Details Of Shares Held by Holding Company**

| Particulars   | As at 31 March, 2013<br>₹ | As at 31 March, 2012<br>₹ |
|---|---------------------------|---------------------------|
| <b>Holding Company</b>  |                           |                           |
| 35,80,000 Equity shares of US \$0.02/- and 17,99,240 equity Shares of US \$ 0.10 held by Kernex Microsystem (India) limited | <b>11,830,950</b>         | 11,830,950                |

**NOTE # 3 RESERVES AND SURPLUS**
**Surplus / (Deficit) in Statement of Profit and Loss**

|                                   |                     |              |
|-----------------------------------|---------------------|--------------|
| Opening balance                   | <b>(15,667,287)</b> | (12,274,960) |
| Add: Profit / (Loss) for the year | <b>(2,864,224)</b>  | (3,392,327)  |
| Closing balance                   | <b>(18,531,511)</b> | (15,667,287) |
| Total                             | <b>(18,531,511)</b> | (15,667,287) |

**NOTE # 4 LONG-TERM BORROWINGS**

|                                     |                   |            |
|-------------------------------------|-------------------|------------|
| (a) Other loans and advances        |                   |            |
| Unsecured                           |                   |            |
| Kernex Microsystems (India) Limited | <b>12,206,203</b> | 12,206,203 |
| Total                               | <b>12,206,203</b> | 12,206,203 |

**NOTE # 5 TRADE PAYABLES**

| Particulars            | Rupees                       |                              |
|------------------------|------------------------------|------------------------------|
|                        | As at 31<br>March, 2013<br>₹ | As at 31<br>March, 2012<br>₹ |
| Trade payables:        |                              |                              |
| Acceptances            | -                            | -                            |
| Other than Acceptances | <b>290,878</b>               | 177,271                      |
| Total                  | <b>290,878</b>               | 177,271                      |

**NOTE # 6 OTHER CURRENT LIABILITIES**

|  |                   |            |
|--|-------------------|------------|
| Interest Payable on Loan From Kernex Microsystems(India) Ltd | <b>15,099,371</b> | 12,460,586 |
| Total  | <b>15,099,371</b> | 12,460,586 |

**NOTE # 8 CASH AND CASH EQUIVALENTS**

|  |              |         |
|--|--------------|---------|
| (a) Cash on hand   |              | -       |
| (b) Balances with banks  |              |         |
| (i) In current accounts  | <b>2,937</b> | 109,521 |
| Total  | <b>2,937</b> | 109,521 |
| Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statements is : | <b>2,937</b> | 109,521 |

**NOTE # 9 OTHER CURRENT ASSETS**

|                                |                   |            |
|--------------------------------|-------------------|------------|
| Unamortised expenses           |                   |            |
| Product Development Expenses   | <b>20,835,127</b> | 20,835,127 |
| Organisational & Start up Cost | <b>57,827</b>     | 63,075     |
| Total                          | <b>20,892,954</b> | 20,898,202 |

**NOTE # 10 FINANCE COSTS**

| Particulars  | For the year                 |                              |
|--|------------------------------|------------------------------|
|  | ended 31<br>March, 2013<br>₹ | ended 31<br>March, 2012<br>₹ |
| (a) Other borrowing costs  | <b>1,731,840</b>             | 1,613,737                    |
| (b) Bank Charges   | <b>17,319</b>                | 3,394                        |
| (c) Net (gain) / loss on foreign currency transactions and translation<br>(considered as finance cost) | <b>919,105</b>               | 1,398,303                    |
| Total  | <b>2,668,264</b>             | 3,015,434                    |

**NOTE # 11 OTHER EXPENSES**

|                    |                |         |
|--------------------|----------------|---------|
| Rent               | <b>25,190</b>  | 233,025 |
| Accounting Charges | <b>89,216</b>  | 93,210  |
| Taxes              | <b>53,320</b>  | 45,410  |
| General Expenses   | <b>22,986</b>  | -       |
| Total              | <b>190,712</b> | 371,645 |



| NOTE # 7 FIXED ASSETS                  |                             |           |                              |   |                                   |                              |                              |                              |   | Rupees |   |
|--|-----------------------------|-----------|------------------------------|---|-----------------------------------|------------------------------|------------------------------|------------------------------|---|--------|---|
| Particulars                            | Gross block                 |           |                              | Accumulated depreciation and impairment |                                   |                              | Net block                    |                              |   |        |   |
|  | Balance as at 1 April, 2012 | Additions | Balance as at 31 March, 2013 | Balance as at 1 April, 2012             | Depreciation expense for the year | Balance as at 31 March, 2013 | Balance as at 31 March, 2013 | Balance as at 31 March, 2012 |   |        |   |
| A.                                     | ₹                           | ₹         | ₹                            | ₹                                       | ₹                                 | ₹                            | ₹                            | ₹                            | ₹ | ₹      | ₹ |
| (a) Plant and Equipment Owned          | 560,795                     | -         | 560,795                      | 560,795                                 | -                                 | 560,795                      | -                            | -                            | - | -      | - |
| (b) Furniture and Fixtures Owned       | 430,757                     | -         | 430,757                      | 430,757                                 | -                                 | 430,757                      | -                            | -                            | - | -      | - |
| (c) Office equipment Owned             | 294,535                     | -         | 294,535                      | 294,535                                 | -                                 | 294,535                      | -                            | -                            | - | -      | - |
| Total                                  | 1,286,087                   | -         | 1,286,087                    | 1,286,087                               | -                                 | 1,286,087                    | -                            | 1,286,087                    | - | -      | - |
| Previous year                          | 1,286,087                   | -         | 1,286,087                    | 1,286,087                               | -                                 | 1,286,087                    | -                            | 1,286,087                    | - | -      | - |
| B. Misc. Expenditure to be Written Off |                             |           |                              |   |                                   |                              |                              |                              |   |        |   |
| Startup Cost                           | 244,872                     | -         | 244,872                      | 191,726                                 | 4,062                             | 195,788                      | 49,084                       | 53,146                       |   |        |   |
| Organisational Cost                    | 71,488                      | -         | 71,488                       | 61,558                                  | 1,186                             | 62,744                       | 8,744                        | 9,930                        |   |        |   |

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**AVANT GRADE INFOSYSTEMS INC, U.S.A****Notes forming part of the financial statements****Note****CORPORATE INFORMATION**

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

**1 SIGNIFICANT ACCOUNTING POLICIES****1.1 Basis of accounting and preparation of financial statements**

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis and expressed in equivalent Indian Rupees under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

1.2 The Financial statements are prepared for the period from 1st April 2012 to 31st March,2013

**1.3 Use of estimates**

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

**1.4 Related Party transactions**

The Company has received working capital loan from Kenex Microsystems (India) Limited (Holding Company)

**1.5 Cash and cash equivalents**

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

**1.6 Fixed Assets, Depreciation and amortisation**

Depreciation has been provided on Fixed Assets under WDV method as per the rates prescribed in Schedule XIV to 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 Amortised over a period of its useful life.

**1.7 Foreign currency transactions and translations***Initial recognition*

Transactions in foreign currencies entered into by the Company and its integral foreign operations are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.



Measurement of foreign currency monetary items at the Balance Sheet date

Foreign currency monetary items of the Company and its net investment in non-integral foreign operations outstanding at the Balance Sheet date are restated at the year-end rates.

*Treatment of exchange differences*

"Exchange differences arising on settlement / restatement of short-term foreign currency monetary assets and liabilities of the Company are recognised as income or expense in the Statement of Profit and Loss. "

**1.8** The Financial statements are the responsibility of the Company's management and are not required to be audited as per the existing US laws.

**1.9** The Balance Sheet & Statement of Profit and loss for the year ended 31.03.2013 are prepared based on the financial statements duly certified by the C.P.A

**1.10 Provisions and contingencies**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes.

**1.11** *Previous year figures were re-grouped and rearranged where ever necessary.*



# Kernex Microsystems (India) Limited

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

## ATTENDANCE SLIP

21st Annual General Meeting September 27, 2013

|            |  |
|------------|--|
| 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 21st Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Friday, the September 27, 2013.

\*\* 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 21st Annual General Meeting of the Company to be held at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Friday, the September 27, 2013 and at every adjournment thereof.

Signed this ..... day of ....., 2013.

|                           |
|---------------------------|
| Affix<br>Revenue<br>Stamp |
|---------------------------|

- 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 Signature of the Meeting.

\*Applicable for Investors holding shares in electronic form.



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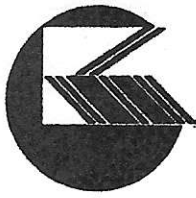
*If undelivered, please return to :*

**Kernex Microsystems (India) Limited**

"THRUSHNA", PLOT No. 7, SOFTWARE UNITS LAYOUT,  
MADHAPUR, HYDERABAD - 500 081, A.P., INDIA.

Tel : 040-23113192, 23113193, Fax : 040-23114187, 23113191

Website : [www.kernex.in](http://www.kernex.in), e-mail : [kernex@kernexmail.in](mailto:kernex@kernexmail.in)



# KERNEX MICROSYSTEMS (INDIA) LTD.

(AN ISO-9001 : 2000 CERTIFIED COMPANY)

Phone: +91-40-23113192-94  
Fax : +91-40-23114187  
: +91-40-23113191  
Email : kernex@kernexmail.in



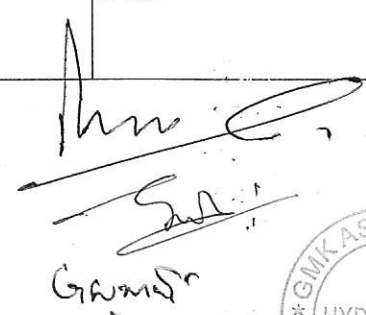

Registered Office :  
'THRUSHNA', Plot No. 7,  
Software Units Layout, Infocity  
Madhapur, Hyderabad - 500 081.  
A.P. India.

File No. \_\_\_\_\_

Date 02-09-2013

## FORM A

Format of covering letter of the annual audit report to be filed with the stock exchanges

|    |   |  |
|----|---|--|
| 1. | Name of the Company:  | KERNEX<br>MICROSYSTEMS(INDIA)<br>LIMITED.  |
| 2. | Annual financial statements for the year ended  | 31st March 2013  |
| 3. | Type of Audit observation   | Un-qualified   |
| 4. | Frequency of observation  | N.A  |
| 5. | To be signed by- <ul style="list-style-type: none"> <li>• CEO/Managing Director</li> <li>• CFO</li> <li>• Auditor of the company</li> <li>• Audit Committee Chairman</li> </ul> | <br> |