

Annual Report 2011-12



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)
Sri S. Nandakumar	Director
Dr. Jyoti Raju	Director
Sri M. Gopalakrishna, IAS (Retd.)	Chairman
Dr. Raju Narasa Mantena	Director
Dr. Janardhana Reddy Vinta	Director

Company Secretary

S. Jasminder Singh

BANKERS

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

PUNJAB NATIONAL BANK
Large Corporate Branch,
Banjara Hills
Hyderabad - 500 034

AUDITORS

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

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd.,
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.

DEVELOPMENT CENTRE

Systems Division, "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.



CONTENTS

Board of Directors	01
Notice of 20th Annual General Meeting	03
Directors' Report	05
Management Discussion and Analysis	09
Corporate Governance Report	12
Auditor's Certificate on Corporate Governance	21
Auditors' Report.....	22
Balance Sheet	25
Statement of Profit & Loss	26
Cash Flow Statement.....	27
Notes Forming part of the Balance Sheet	29
Balance Sheet Abstract	48

CONSOLIDATED FINANCIALS

Auditors' Report.....	51
Balance Sheet	52
Statement of Profit & Loss	53
Cash Flow Statement.....	54
Notes Forming part of the Balance Sheet	56
Statement u/s 212 of Companies Act, 1956	74

AVANT-GARDE INFOSYSTEMS INC., USA

Directors' Report.....	75
Balance Sheet	76
Statement of Profit & Loss	77
Notes Forming part of the Balance Sheet	78

NOTICE

Notice is hereby given that the Twentieth Annual General Meeting of the members of the company will be held on **Thursday the 27th September, 2012 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, 2012 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 declare dividend on the equity shares for the year ended 31st March, 2012.
- 3) To appoint a Director in place of Dr Janardhana Reddy Vinta who retires by rotation and being eligible, offers himself for re-appointment.
- 4) To appoint a Director in place of Dr. Anji Raju Manthena who retires by rotation and being eligible, offers himself for re-appointment.
- 5) To appoint Auditors and fix their remuneration.
M/s GMK Associates, Chartered Accountants, Hyderabad retire at the conclusion of this Annual General Meeting and are eligible for re-appointment.

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

Place : Hyderabad
Date : 28th May, 2012

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

NOTES

1. A member entitled to attend and vote at the meeting, is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. The proxy form duly completed and signed should be deposited at the registered office of the company not later than 48 hours before the commencement of the meeting.
2. The Register of members and share transfer Books of the Company will be closed from September 22, 2012 to September 27, 2012 (Both Days inclusive). If the Dividend as recommended by the Board of Directors is approved at the Annual General Meeting, payment of such dividend will be made on or after September 27, 2012 to those members, whose names appear on the Company's register of members as on September 27, 2012.
3. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of the dividend. The Company or its Registrar cannot act on any request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates, such changes are to be advised only to Depository participant of the shareholders.
4. To avoid the incidence of fraudulent encashment of the warrants, members are requested to intimate the Registrars and Share Transfer Agents of the Company under the signature of the Sole/First joint holder the following information so that the Bank account number and Name and Address of the Bank can be printed on dividend warrants, if and when issued:
5. Name of sole/First joint holder and folio number
 - a. Particulars of Bank Account viz.,
 - b. Name of the Bank
 - i) Name of the Branch
 - ii) Complete address of the Bank with pin code number
 - iii) Account type, whether Savings or Current Account
 - iv) Bank Account number allotted by the Bank



5. Shareholders holding shares in physical form are requested to advise any change of address immediately to company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository participants and not to the Company.
6. At the ensuing Annual General Meeting Dr Anji Raju Mnathena, Dr. Janardhana Reddy Vinta shall retire by rotation and being eligible, offer themselves for re-appointment.
7. Members seeking any information with regard to accounts are requested to write to the Company at least 10 days in advance of the meeting to enable the management to keep the information ready.

Details of Directors Seeking Appointment/ Reappointment at the 20th Annual General Meeting

Particulars	Dr Anji Raju Manthana	Dr. Janardhana Reddy Vinta
Date of Birth	October 13, 1944	August 10, 1946
Date of Appointment	May 20, 2005	September 20, 2008
Qualifications	M.S. (General Surgery) from Andhra University and M.D. (USA)	MBBS and MD (USA)
Expertise in specific Functional area	<p>He has been practicing for the last 35 years in the Space centre, NASA region of Houston, Texas and has been actively involved in software related activities in Corporate hospitals.</p> <p>He has served as a member of various committees in Clear Lake Regional Medical centre as well as managing partner of Anaesthesia Associates and president professional corporation</p>	<p>He has 38 years experience as Physician working in USA. He is a member of Texas Medical Association, USA.</p> <p>He worked as executive vice president TANA. and convener for 7th TANA conference.</p>
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	81,578	1,98,655

DIRECTORS' REPORT

To
The Members,
Kernex Microsystems (India) Ltd.

Your Directors present herewith, the Twentieth Annual Report together with the audited accounts of the company for the year ending 31 March 2012.

Financial Results

Rs in Lakhs

	2011-2012	2010-2011
Sales and Other Income	4598.42	4577.12
Profit before interest and depreciation	1135.26	1124.22
Interest	369.68	311.25
Depreciation	80.54	105.24
Profit before Tax	685.08	707.73
Provision for Taxation	238.11	249.90
Profit after Tax	446.97	457.83
Add: Balance brought forward from previous year	1610.37	1298.30
Profit available for appropriation	2203.09	1756.12
Earnings Per Share (Rs.)		
- Basic	3.58	3.66
- Diluted	3.58	3.66
Appropriations:		
Transfer to General Reserve	-	-
Proposed Dividend	125.00	125.00
Income Tax on proposed Dividend	20.28	20.76
Utilised on Issue of Bonus Shares	-	-
Balance carried to the Balance sheet	1912.07	1610.37

Dividend

Your Directors are pleased to recommend a dividend of 10 % on the paid up capital of the company for the financial year 2011-2012. The dividend if approved at the ensuing Annual General Body Meeting, will be paid to those share holders, whose names appear on the register of members of the company as on September 27th, 2012 as per the rules applicable at that time.

The Company's Business and Operational Results

1. Your company has exclusive license for Manufacturing, Installing and Commissioning of the Networked ACD System "Raksha Kavach", the IP Rights of which are held by Konkan Railway Corporation, CBD Belapur, Navi Mumbai, with whom Kernex has Agreements and MOU.
2. After being commissioned in April 2007, ACD System is deployed over 2480 KMS, that is approx. 1750 KMS in NF Railway and 730 KMS in Konkan Route. Presently the system deployed in NF Railway is being provided Operational and Annual maintenance services by your company.
3. As regards the deployment of ACD System in the rest of Indian Railways, Railways have tested the product and suggested a few changes. These changes and improvements are being implemented in NF Railway as Version 1.1.1 while advanced Version 2.0 is also ready for final trials.
4. Railways are awaiting further study and validation before it is deployed in the rest of the country. IR wants to remove unnecessary breakings and improve maintainability and operability. At present, the advanced version of ACD subject to evaluation and validation awaits release of orders over 8 Railway zones.
5. CMC operations for the year 2011-2012 have been successfully carried out in NF Railways. Over 300 installations which were affected due to theft and vandalism have been restored at a cost of over Rs.6.00 crores to make the system fully functional.
6. As part of CMC, over 1000 ACDs were repaired and recycled into the system and thereby ACD safety system was maintained uninterrupted.
7. Your company's R&D work is reaching its potential with the development of Lx Gates for Egyptian Railway Project, development of new version ACD System 2.0 and improved version of Multi-section Digital Counters.
8. In Software division we have successfully closed version 1.0 and developed a special version for NF Railway Ver 1.1.1. and an improved version 2.0 which is under evaluation.

Cross Approvals, New Designs and Indigenization

Your company was involved in the designs of Lx Gates with Safety Integrity level III for Egyptian National Railways. This has since been approved by Cairo University Consultants and ENR (Egyptian Railways) authorities, The Altpro Multi-section Digital Axle Counters, which have a major market in India, have been gone through trials in Hosur near Bangalore and Pipersand near Lucknow and have performed well. Certain clarifications have been sought by RDSO which work is in progress. The cross approvals are expected shortly.

International Operations and Exports

Your company has completed development, manufacture, testing and factory acceptance tests of all 136 Lx Gates. All the Gates have also been shipped to Egypt. It is to the credit of our Engineers that an Indian product with SIL 3 standard has been accepted by Egypt. It is likely that Egypt may increase the number of Gates to be supplied by Kernex either by procurement by ENR or subcontracts from other contracting MNC's for Egyptian Railways. We may also bid for a share of the orders.

Your Company has been rigorously scanning for international markets in Malaysia, Thailand, Indonesia and Vietnam, Cambodia, Laos and Sri Lanka for Lx Gates market and also Multi-section Axle Counter. It has also participated in Interim tenders in some of these countries.

New areas of business in India

Your company will be participating in all related Railways tenders like TPWS or as component suppliers or Installation & Commissioning agency. Your company is also examining the scope for developing components for Defence needs and also for RDSO, like TCAS 3.10 etc.

Domestic Market

Depending upon the progress of ACD trials and acceptance, new zones like South East, East Coast, Eastern and East Central zone and three zones in the South may be authorized to deploy ACD System during 2012-2013.

Multi-section Digital Axle Counter, if approved, by Railways could provide a growing market for the Company.

The company has since completed development of Version 2.1 ACD System with software and also Lx Gates, Multi-section Digital Axle Counter System, ACD Survey software and ACD Reporting System software

except for a few changes or upgradation, if required by clients.

Research & Development

You are aware that your Company's strengths are strong R&D, professionalism as well as opportunities in related technologies which are in demand.

Progress achieved on the IPO and Company Expansion Projects

As part of IPO related company's expansion projects, establishment of new manufacturing centre for ACDs, ADDs and Advanced Signal System has been completed, and acquisition for Intelligent Transport Technology Centre, planned R&D Projects has been completed. Balance work on Intelligent Transportation Technology is in progress. International marketing office and project offices have since been set up to the extent required and rest will be taken up as and when required.

Overseas 100% Owned Subsidiary

Your Company has one Wholly Owned Subsidiary in USA as on 31st March 2012. 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, 2012 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 Anji Raju and Dr Janardhana Reddy Vinta, Directors retire by rotation and being eligible, offer themselves for reappointment. Sarvashri S.V.Subba Raju and R Sankaran non executive Directors have resigned from the Board on health grounds and Sri Kishore Gottimukkala has resigned from the Board for personal reasons. Your Board records its appreciation of the valuable services

rendered by Sarvashri S.V.Subba Raju, R Sankaran and Kishore Gottimukkala during their tenure as Directors.

Auditors:

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

Acknowledgements:

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

For Kernex Microsystems (India) Limited

M Gopalakrishna
IAS (Retd.)
Chairman

Place : Hyderabad
Date : 28th May, 2012

ANNEXURE TO THE DIRECTORS' REPORT

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

A. Conservation of Energy:

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

B. Technology absorption Adaptation and Innovation:

There is no imported technology involved in the 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 the 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 identified accordingly.

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

c. Foreign exchange earnings and out go:

(Rs. In lacs)

Foreign Exchange Earned for 2011-2012	1514.68
Foreign Exchange Used for 2011-2012	189.26

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

Place : Hyderabad
Date : 28th May, 2012

M Gopalakrishna IAS (Retd.)
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Indian Economy is estimated to register a GDP growth rate of only 6.5% in 2011-2012 due to the slow down in the growth of economy and particularly in the industrial sector. The Economic slow down can be attributed to both domestic and global factors like demand recession in the US and European community and unemployment in industrialized countries, hardening of oil prices and lower inflow of foreign investments. Domestic factors include growing revenue and fiscal deficits, high subsidies demand recession, lower ICOR, tightening of monetary policy, high interest rates, lack of liquidity and reduced Government expenditure.

Indian Exports were at 217.7 billion US\$ while value of imports were higher at 350.9 US Billion dollars leading to a current account deficit. Rise in crude oil prices, gold, & silver and other projects related imports contributed to the steep depreciation in the value of the rupee resulting in financial volatility in the market.

With the commencement of the 12th Five year plan and Government policy measures the Indian Economy is expected to pick up and register better growth in 2012-2013 and thereafter.

Windows of Opportunities for Kernex

Railway Freight revenues has shown an increase of 15% to Rs.1,33,000 crores while defence budget at Rs.1,93,000 crores and R&D expenditure at Rs.10,640 crores by DRDO may open up more avenues and opportunities for growth in the future. Railways have announced a number of projects for the decade up to 2020. Indian Defence Ministry has announced the special plough back arrangements in an off-set policy that calls for 30% reinvestment of the cost of imported projects beyond Rs.300 crores value in India. This opens a big window of opportunity, for your Company.

TCAS and TPWS Development

Corporate safety plan of 2003-2013 was prepared by the Indian Railways in August 2003 and presented to Parliament. The plan envisages reduction in the number of incidents and accidents attributable to human and equipment failures and preventable fatal accidents to an acceptable level. Some of the projects of the safety plan are Train Protection Warning System, TMS, Train Collision Avoidance System (TCAS), MTRC, Digital Axle Counter, Electronic Interlocking Systems, Data

Loggers and Sensor activated Manned Gates, etc. In the next decade plan (2010-2020), TCAS and TPWS are important projects being taken up for development.

Defence Production Plans in India

India has embarked on indigenous production of both offensive and defensive weapon systems with a view to achieving self sufficiency. This year's budget for R&D is over Rs.10,500 crores and production is expected to be over Rs.23,000 crores. There is a big window of opportunity for producing assemblies, sub-assemblies and components required by Indian Defence Industry and Armed forces for DRDO, DRDL, RCI, HAL and BDL. Your Company is on the look out for suitable opportunities.

Period 2011-2012

During the Railway Budget speech in February 2012, the Minister of Railways has emphasized the importance of Railway Safety and deployment of new equipment for controlling the accidents.

In 2011-2012, your Company was engaged in closing old version of ACD S/W 1.0, development of ACD 2.0 version, both hardware and software, and development of special Version 1.1.1 for improving the performance of ACD System in NF Railways. Your company during this period has restored the ACD system over 178 locations in NF Railways, where components were vandalized and in 287 additional sites where Solar Fencing has been provided. All installations have been restored with new Batteries and Solar Panels where required. This has helped restore the system, improve its performance and give safety coverage over 1800 KMS. However, ACD Version 2.0 development has been kept on hold by Konkan Railway Corporation, awaiting instructions from Railway Board.

Your company has completed development of Lx Gates for Egyptian National Railways with all changes suggested by CAIRO University the ENR Consultants, upgraded the equipment, completed manufacturing of balance 96 Lx Gates and shipped them to Egypt. Your company has installed 13 Lx Gates up to 31 March 2012 and with the experience gained expects to complete 15 to 20 Gates every month in the next one year subject to ground realities in Egypt.

Your company is exploring the possibility to supply advanced and modified set models of Lx Gates to Australia, Srilanka, Thailand, Indonesia, Vietnam, Libya, Sudan and other African countries.

Multi-section Digital Axle Counter trials are in final stage except for a few clarifications needed by RDSO.

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 through put/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, improved ACD System, 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.

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 Indian railways have had adverse impacts on our finances, however, technology with continuous up gradations can keep develop indigenous products suited to our needs. 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.

Risks and Concerns

Kernex faces the risk of competition, need for mastery of new technologies, falling prices, loss of key personnel and financial constraints etc. In order to take on the risks, Kernex need to build resilience, with qualified & 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 needs to commission a comprehensive strategic study for future growth prospects interalia, 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, Software Development and CMC Contract of NF Railway and the ACD System restoration work undertaken for NF Railway through Konkan Railways.

However, non-release of ACD project work by Indian Railways and impediments to full scale work of Lx Gates due to disturbances in Egypt and withholding of payments done by the Company on ACD 2.0 software work costing over Rs.16.77 crores has adversely affected our growth.

Income from the above activities was Rs.45.00 crores for the FY 2011-2012, out of which over 60% has come from ENR Project.

After review of its performance, the Company has identified its priority jobs as follows

- a) **ENR Project:** Progress has to be accelerated to install 15 to 20 Gates per month for completion of project and collection of bills in time.
- b) **Hold on Development of ACD Version 2.0 to be lifted:** This is being followed up with KRCL so that work can commence and balance development work completed and handed over to KRCL and to the payments due from them realized.
- c) **Delay in realization of payments due from KRCL on account of CMC and Restoration work in NF Railway:** This is being pursued vigorously with NF Railways and KRCL as they are obliged to release payments according to schedule. Billing and follow up is being streamlined.

- d) **Utilisation of infrastructure or 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 utilisation and also take up outsourced manufacturing works.
- e) **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.
- f) **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.
- g) **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 for could help in understanding the scope for entry into Defence off-set projects and official liaison.
- h) 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 control 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 and 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 systemic 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 2012 is 290 as against 329 of March 31, 2011. During the year, there was no new addition of employees (previous year 128).

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 enables to leverage talents. As an organization which has to constantly upgrade itself, it has been building competence through training, cross training and skill up gradation.

Employee Relations

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

Cautionary Statement

Statements in the Management's Discussion 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 Directors 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 Company has a Non-Executive as Chairman. As Sri S.V.Subba Raju has resigned on health grounds, an Independent Director is elected as Chairman at each Board meeting. The Board of Directors of the Company consists of experienced 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, 2012. Accordingly, the Composition of the Board is in conformity with Clause 49 of the listing agreement entered with Stock Exchanges.
- 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 2011-12		Whether Attended AGM held on 26.09.11	No. of Directorships in other public companies		No. of committee positions held in other public companies	
		Held	Attended		Chairman	Member	Chairman	Member
Sri. S.V. Subba Raju, Chairman	Independent Non-Executive	7	4	Yes	-	-	-	-
Col. L V Raju (Retd.)	Functional Executive Director	7	7	Yes	-	-	-	-
Sri. B Murali Mohan	Functional Executive Director	7	6	Yes	-	-	-	-
Dr. M Anji Raju	Non-Independent Non-Executive	7	1	No	-	-	-	-
Sri. R Sankaran	Independent Non-Executive	7	7	Yes	-	3	-	-
Sri. S Nandakumar	Independent Non-Executive	7	6	Yes	-	-	-	-
Dr. Jyoti Raju	Non-Independent Non-Executive	7	0	No	-	-	-	-
Sri. M.Gopalakrishna, IAS (Retd),	Independent Non-Executive	7	7	Yes	-	6	2	2
Sri Kishore B Gottimukkala	Non-Independent Non-Executive	7	1	No	-	-	-	-
Dr Raju Narasa Mantena	Non-Independent Non-Executive	7	1	No	-	-	-	-
Dr Janaradhana Reddy Vinta	Non-Independent Non-Executive	7	1	No	-	-	-	-

- iv) 7 Board Meetings were held during the year ended March 31, 2012 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 8, 2011, May 11, 2011, August 13, 2011, September 24, 2011, November 8, 2011, February 9, 2012 and March 28, 2012
- 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 Fellow member of the Institute of Chartered Accountants of India and the member of the Institute of Internal Auditors, UK. All the members of the committee are financially literate. Accordingly, the composition of the Audit committee is in conformity with clause 49 of the listing Agreement entered with stock exchanges.
- ii. The terms of reference of the Audit Committee are broadly as under:
 - A. Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement reflects a true and fair position and that sufficient and credible information is disclosed.
 - B. Recommending the appointment and removal of the statutory auditors, fixation of audit fees and also approval for payment for any other services.
 - C. Discussion with external auditors before the audit commences, of the nature and scope of audit as well as post audit discussion to ascertain any area of concern.
 - D. Reviewing, with the management, the annual financial statements before submission to the board, focusing primarily on :
 - a). Matters required to be included in the Director's Responsibility statement to be incorporated in terms of Section 217(2AA) of the Companies Act, 1956
 - b) Any changes in accounting policies and practices
 - c) Major accounting entries based on the exercise of judgment by management
 - d) Significant adjustments arising out of audit;
 - e) Compliance with listing and other legal requirements relating to financial statements
 - f) Disclosure of any related party transactions
 - g) Qualifications in the draft audit report.
 - h) Compliance with accounting standards;
 - i) Management discussion and analysis of financial condition and result of operations
 - E. Reviewing the Quarterly Financial Results before submitting the same for the Board's approval
 - F. Reviewing, with the management, the performance of external and internal auditors and adequacy of the internal control systems.
 - G. Reviewing the adequacy of internal audit function and frequency of internal audit.
 - H. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
 - I. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

- iii. The Audit Committee Meetings are usually held at the Registered office of the Company and are usually attended by the Managing Director, Finance head, Statutory Auditors and representatives of the internal auditors.,
- iv. The last Annual General Meeting of the Company was held on September 26, 2011 and the Chairman of the Audit Committee has attended the AGM.
- v. The composition of the Audit Committee as on March 31, 2012 and particulars of meetings attended by the members are as follows:

Name	Category	No. of Meetings during the year 2011-12	
		Held	Attended
Sri. R Sankaran, Chairman	Independent Non-Executive	5	5
*Sri S V Subba Raju	Independent Non-Executive	5	3
Sri. M. Gopalakrishna, IAS (Retd),	Independent Non-Executive	5	5
**Sri S Nandakumar	Independent Non-Executive	5	1

* Sri S.V Subba Raju resigned from the committee on 11.10.2011

** Sri S Nandakumar was inducted as member on 08.11.2011

Five Audit Committee Meetings were held during the year ended March 31, 2012 i.e. April 8, 2011, May 10, 2011, August 12, 2011, November 8, 2011, and February 8, 2012.

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

4. Remuneration Committee:

1. The Remuneration Committee of the Company consists of two directors, who are independent directors.
2. The broad terms of reference of the Remuneration Committee are :
 - 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. Nandakumar	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 2011-2012

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 2011-12 is follows.

Name	Designation	REMUNERATION (Rs.Lacs)		
		Salary & Benefits	Commission	Total
Col. L. V. Raju (Retd.)	Managing Director	42.00	0.00	42.00
Mr. B. Murali Mohan	Whole time Director	36.00	0.00	36.00

Besides above, the Managing and Whole time Director of the Company are also entitled to Company's contribution to provident Fund and Superannuation Fund or Annuity Fund to the extent, not taxable under the Income Tax Act 1961, Gratuity and encashment of earned leave, as per the rules of the Company. The terms of appointment of 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 2011-12, is as follows.

Name	Sitting fee (Amount in Rs.)
Sri. S V Subba Raju	70,000
Sri R Sankaran	1,20,000
Sri S Nandakumar	70,000
Dr. M Anji Raju	10,000
Dr. Jyoti Raju	-
Sri. M. Gopalakrishna, IAS (Retd)	1,20,000
Sri Kishore B Gottimukkala	10,000
Dr Raju Narasa Mantena	10,000
Dr Janardhana Reddy Vinta	10,000

6. Share holding of the Directors in the Company as on March 31, 2012.

Name	No. of Share of Rs.10/- each
Col. L V Raju (Retd.)	2,25,863
Sri. B Murali Mohan	3,63,071
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:

- The Shareholders/Investors Grievance Committee of Company consists of two directors, who are independent Directors.

- ii. The Composition of the shareholder/ investors Grievance Committee is given below.

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

- iii. S Jasminder Singh, Company Secretary is the Compliance Officer.

- iv. Details of complaints received and redressed:

Opening Balance	Received during the period 01.04.2011 to 31.03.2012	Resolved during the period 01.04.2011 to 31.03.2012	Closing Balance
Nil	13	13	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
2010-11	19 th AGM	Monday, September 26, 2011 at 3.00 P.M	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003
2009-10	18 th AGM	Friday, September 24, 2010 at 2.30 P.M	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003
2008-09	17 th AGM	Tuesday, September 15, 2009 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 passed the following Special resolutions.

19 th AGM	Nil
18 th AGM	Nil
17 th AGM	1. Appointment of sole selling agents for Egypt

All the above resolutions were passed with requisite majority

7. Disclosures:

- 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.
- 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, 2012.
- 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 at 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

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, 2012

28th May, 2012
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 have 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. 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:

i) Annual General Meeting

Date	:	27 th September 2012
Time	:	3.00P.M
Venue	:	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad – 500 003

ii) Financial Calendar

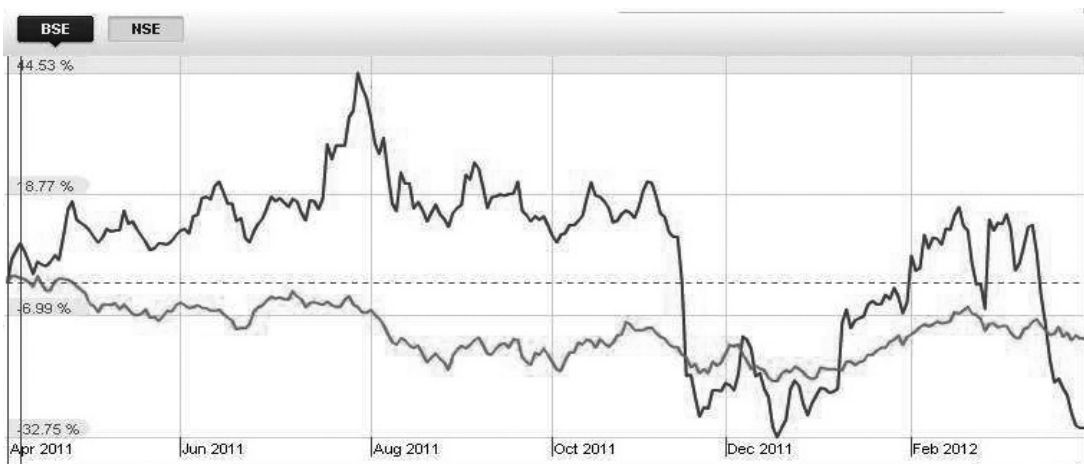
Year ending	:	March 31 st , 2012
AGM	:	September 27 th , 2012

iii) Date of Book Closure	:	September 22 nd , 2012 to September 27 th , 2012 (Both days inclusive)
----------------------------------	---	---

- iv) **Listing on Stock Exchange** : Bombay Stock Exchange Limited
The National Stock Exchange of India Limited
- v) **Stock Code / Symbol**
Bombay Stock Exchange Limited : 532686
(Physical & Demat)
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-11	99.85	78.05	475275	99.95	78.00	1048594
May-11	96.45	85.10	162790	97.70	87.20	416167
June-11	106.00	89.00	220995	103.00	86.95	528865
July-11	120.60	92.80	627396	120.80	90.10	1547084
Aug-11	117.00	88.00	415952	117.95	88.00	1123032
Sep-11	105.90	91.35	275438	105.30	91.10	752615
Oct-11	101.95	88.20	221336	101.80	88.00	517107
Nov-11	102.20	57.05	603068	102.25	56.80	1534059
Dec-11	77.50	54.50	818619	77.30	54.65	1930165
Jan -12	84.00	60.15	1873933	84.00	60.60	4411221
Feb -12	98.40	75.20	3735307	99.95	75.10	7137427
March-12	95.90	56.00	8292875	95.80	56.00	17126941

- 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 31,2012):

a) Distribution of shareholding as on March 31, 2012.

Category	No. of Shares	Holding in Rs	% to Capital	No. of accounts	% of Total Accounts
1-5000		20418230	16.34	21771	92.76
5001-10000		6729250	5.38	870	3.71
10001-20000		6214140	4.97	423	1.80
20001-30000		3374440	2.70	135	0.58
30001-40000		2125860	1.70	60	0.26
40001-50000		2010830	1.61	44	0.19
50001-100000		5146390	4.12	75	0.32
100001& above		78977410	63.18	92	0.39
GRAND TOTAL		124996550	100.00	23470	100.00

b) Categories of Shareholders as on March 31, 2012

Category	No. of Shareholders	No. of shares	Percentage
Indian Promoters	1	225863	1.81
Foreign Promoters	12	2472248	19.78
Persons acting in Concert			
i) Indian	3	116385	0.93
ii) Foreign	6	1459646	11.67
Mutual Funds and UTI	0	0	0.00
Banks, Financial Institutions, Insurance Companies (Central / State Gov. Institutions / Non-government Institutions)	1	50	0.00
Foreign Institutional Investors	0	0	0.00
Private Corporate Bodies	576	1352295	10.82
Indian Public	21824	4567137	36.54
NRI's / OCBs	212	938790	7.51
Individual Shareholders excess 1 Lakh	19	1247867	9.98
Foreign Trust	3	24531	0.20
Clearing Members	122	94843	0.76
TOTAL	23470	1,24,99,655	100



xii) Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 95.27% of the company's share capital are dematerialized as on March 31, 2012.

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, 2012, 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 for 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 2012, 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 thereof, 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 above mentioned 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 Reg. No. 006945S

G Satyanarayana Murty
Partner
Membership No: 29919

Place: Hyderabad
Date: 28th May, 2012

AUDITORS' REPORT

To the Members of

KERNEX MICROSYSTEMS (INDIA) LIMITED

We have audited the attached Balance Sheet of Kernex Microsystems (India) Limited, as at 31st March, 2012 and also the Statement of Profit and Loss and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

- (i) We have obtained all the information and explanations, which to the best of our Knowledge and belief were necessary for the purpose of our audit;
- (ii) In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;
- (iii) The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of accounts.
- (iv) In our opinion , the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report comply with the accounting

standards referred to in sub-section (3C) of Section 211 of the Companies Act,1956 ;

- (v) On the basis of written representations received from the directors as on 31st March, 2012 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2012 from being appointed as a director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act,1956;
- (vi) In our opinion and to the best of our information and according to the explanations given to us , the said accounts give the information required by the Companies Act,1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India ;
 - (a) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2012;
 - (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 Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

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

G. Satyanarayana Murty
Partner
Membership No. : 29919

Place : Hyderabad
Date : 28th May, 2012.

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 TDS Rs 7,20,600/-, Excise Duty Rs 5,31,388/- and Corporate Dividend Tax Rs 20,76,036/- were outstanding at the yearend 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 out standing 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 has no accumulated losses at the end of the financial year ended 31.03.2012 and it has not incurred 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: 28th May,2012

Balance Sheet as at 31 March, 2012

(Rupees)

Particulars	Note No.	As at 31 March, 2012	As at 31 March, 2011
A EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	124,996,550	124,996,550
Reserves and surplus	3	1,169,639,907	1,139,470,036
		1,294,636,457	1,264,466,586
Non-current liabilities			
Long-term borrowings	4	-	364,815
		-	364,815
Current liabilities			
Short-term borrowings	5	179,015,704	224,764,899
Trade payables	6	73,955,340	74,214,974
Other current liabilities	7	96,466,668	85,587,106
Short-term provisions	8	14,527,412	14,575,691
		363,965,124	399,142,670
TOTAL		1,658,601,581	1,663,974,071
B ASSETS			
Non-current assets			
Fixed assets			
Tangible assets	9	278,893,832	264,616,645
Capital work-in-progress		438,118,929	448,004,354
		717,012,761	712,620,999
Non-current investments	10	11,830,950	11,830,950
Deferred tax assets (net)	23.13	3,879,839	11,130,085
Long-term loans and advances	11	113,208,217	100,544,847
		128,919,005	123,505,882
Current assets			
Inventories	12	166,605,992	207,423,263
Trade receivables	13	425,932,410	359,694,839
Cash and cash equivalents	14	118,737,582	139,917,168
Short-term loans and advances	15	88,426,754	105,442,621
Other current assets	16	12,967,077	15,369,299
		812,669,815	827,847,190
TOTAL		1,658,601,581	1,663,974,071
Significant Accounting Policies	1	-	-

See accompanying notes forming part of the financial statements

In terms of our report attached.

For **GMK ASSOCIATES,**

Chartered Accountants

Firm Reg. # 006945S

(G.Satyanarayana Murty)

Partner

Membership # 29919

Place : Hyderabad

Date : 28th May, 2012

For and on behalf of the Board of Directors

B. Murali Mohan
Technical Director**Col. L.V. Raju (Retd.)**
Managing Director**S. Jasminder Singh**
(Company Secretary)

Statement of Profit and Loss for the year ended 31 March, 2012

(Rupees)

Particulars	Note No.	For the year ended 31 March, 2012	For the year ended 31 March, 2011
1 Revenue from operations (gross)	17	438,697,517	441,034,133
Less: Excise duty	17	184,855	772,485
Revenue from operations (net)		438,512,662	440,261,648
2 Other income	18	21,329,347	17,450,906
3 Total revenue (1+2)		459,842,009	457,712,554
4 Expenses			
(a) Cost of materials consumed	19.A	23,796,500	55,036,256
(b) Purchases of stock-in-trade	19.B	43,237,019	86,192,867
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	19.C	34,598,948	(1,568,513)
(d) Employee benefits expense	20	90,024,052	82,872,881
(e) Finance costs	21	36,968,108	31,125,583
(f) Depreciation and amortisation expense	9	8,049,762	10,524,188
(g) Other expenses	22	154,659,783	122,756,577
Total expenses		391,334,173	386,939,839
5 Profit / (Loss) before tax (3 - 4)		68,507,836	70,772,715
6 Tax expense:			
Current tax		16,237,194	14,200,000
(Less): MAT credit (where applicable)		-	(14,200,000)
(b) Current tax expense relating to prior years		323,113	-
(c) Net current tax expense		16,560,307	-
Deferred tax	23.13	7,250,246	24,990,275
		23,810,554	24,990,275
7 Profit / (Loss) for the year (5±6)		44,697,283	45,782,440
8 Earnings per share (of ₹ 10/- each):			
(a) Basic		3.58	3.66
(b) Diluted		3.58	3.66
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 # 29919

Place : Hyderabad

Date : 28th May, 2012

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

S. Jasminder Singh

(Company Secretary)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2012

(Rupees)

Particulars	For the year ended 31 March, 2012	For the year ended 31 March, 2011
A. Cash flow from operating activities		
Net Profit / (Loss) before extraordinary items and tax	68,507,836	70,772,715
Adjustments for:		
Depreciation and amortisation	8,049,762	10,524,188
Finance costs	36,968,108	31,130,472
Interest income	(13,199,596)	(8,510,887)
Net unrealised exchange (gain) / loss	-	-
	31,818,274	33,143,773
Operating profit / (loss) before working capital changes	100,326,110	103,916,488
Changes in working capital:		
<i>Adjustments for (increase) / decrease in operating assets:</i>		
Inventories	40,817,271	(372,689)
Trade receivables	(66,237,571)	(166,266,416)
Short-term loans and advances	17,015,868	(568,792)
Long-term loans and advances	(23,017,152)	(2,492,161)
Other current assets	2,402,222	(7,229,048)
<i>Adjustments for increase / (decrease) in operating liabilities:</i>		
Trade payables	(259,634)	55,726,832
Other current liabilities	10,879,561	(42,405,243)
Short-term provisions	-	-
	(18,399,434)	(163,607,517)
Cash generated from operations	81,926,676	(59,691,029)
Net cash flow from / (used in) operating activities (A)	81,926,676	(59,691,029)
B. Cash flow from investing activities		
Capital expenditure on fixed assets, including capital advances	(12,441,525)	(23,388,423)
Interest received	13,199,596	8,510,887
Net income tax (paid) / refunds	(8,282,561)	(6,500,000)
Net cash flow from / (used in) investing activities (B)	(7,524,490)	(21,377,536)
C. Cash flow from financing activities		
Repayment of long-term borrowings	(364,815)	(651,875)
Net increase / (decrease) in working capital borrowings	(45,749,195)	35,806,091
Finance cost	(36,968,108)	(31,130,472)
Dividends paid	(12,499,655)	-
	(95,581,773)	4,023,744
Net cash flow from / (used in) financing activities (C)	(95,581,773)	4,023,744
Net increase / (decrease) in Cash and cash equivalents (A+B+C)	(21,179,586)	(77,044,821)
Cash and cash equivalents at the beginning of the year	139,917,168	216,961,989
Cash and cash equivalents at the end of the year	118,737,582	139,917,168



Particulars	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Reconciliation of Cash and cash equivalents with the Balance Sheet:		
Cash and cash equivalents as per Balance Sheet	118,737,582	139,917,168
Cash and cash equivalents at the end of the year *	118,737,582	139,917,168
* Comprises:		
(a) Cash on hand	277,461	129,956
(b) Balances with banks		
(i) In current accounts	1,210,908	21,561,525
(ii) In EEFC accounts	37,519	37,519
(iii) In deposit accounts	100,410,252	110,310,252
(iv) In earmarked accounts	16,801,443	7,877,916
	118,737,582	139,917,168

In terms of our report attached.

For **GMK ASSOCIATES,**

Chartered Accountants

Firm Reg. # 006945S

(G.Satyanarayana Murty)

Partner

Membership # 29919

Place : Hyderabad

Date : 28th May, 2012

For and on behalf of the Board of Directors

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

S. Jasminder Singh

(Company Secretary)

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

Particulars	As at 31 March, 2012		As at 31 March, 2011	
	Number of shares	₹	Number of shares	₹
(a) Authorised (Equity shares of ₹ 10/- each with voting rights)	15,000,000	150,000,000	15,000,000	150,000,000
(b) Issued, Subscribed & Paid up Capital	12,499,655	124,996,550	12,499,655	124,996,550
(Equity shares of ₹ 10/- each with voting rights)				
(Company has only one class of Shares i.e, Equity Shares with Voting rights)	12,499,655	124,996,550	12,499,655	124,996,550

Notes:

2.1. 11,36,332 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

Year ended 31 March, 2012

- Number of shares	12,499,655	-	12,499,655
- Amount (₹)	124,996,550	-	124,996,550

Year ended 31 March, 2011

- 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, 2012		As at 31st March, 2011	
	Number of Shares held	% holding in that class of shares	Number of Shares held	% holding in that class of shares

Equity Shares with voting rights

1. Dr Raju Narsa Manthena	854,633	6.84	854,633	6.84
2. Seetharamaraju Manthena	701,894	5.62	701,894	5.62

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 3 RESERVES AND SURPLUS

Particulars	As at 31 March, 2012	As at 31 March, 2011
	₹	₹
(a) General reserve		
Opening balance	61,213,631	61,213,631
Closing balance	61,213,631	61,213,631
(b) Securities premium account		
Opening balance	917,219,545	917,219,545
Closing balance	917,219,545	917,219,545
(c) Surplus / (Deficit) in Statement of Profit and Loss		
Opening balance	161,036,860	129,830,111
Add: Profit / (Loss) for the year	44,697,283	45,782,440
Less: Appropriations		
Dividends proposed to be distributed to equity shareholders (₹ 1 per share)	12,499,655	12,499,655
Tax on dividend	2,027,757	2,076,036
Closing balance	191,206,731	161,036,860
Total	1,169,639,907	1,139,470,036

NOTE # 4 LONG-TERM BORROWINGS

(a) Other loans and advances		
Secured		
State Bank of Hyderabad (Vehicle Loan)	-	364,815
Total	-	364,815
(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, 2012		As at 31 March, 2011	
		Secured	Unsecured	Secured	Unsecured
		₹	₹	₹	₹
Vehicle loans from banks:					
State Bank of Hyderabad	Vehicle Loans are secured by Hypothecation of Vehicles	-	-	364,815	-
Total - Term loans from banks		-	-	364,815	-

(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**

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Loans repayable on demand (Working Capital)		
Secured		
State Bank of Hyderabad	156,855,150	149,715,356
Punjab National Bank	2,160,554	75,049,543
(b) Other loans and advances		
Unsecured		
Inter Corporate Deposits	20,000,000	-
Total	179,015,704	224,764,899

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

Particulars	Nature of security	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
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)	156,855,150	149,715,356
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	75,049,543
Total From Banks		159,015,704	224,764,899

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

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Loans repayable on demand from banks- Personal gurantee of the Managing Director	159,015,704	224,764,899
Inter Corporate Deposits are Secured by the pledge of Directors shares in the Company	20,000,000	-

NOTE # 6 TRADE PAYABLES**Trade payables:**

Acceptances	-	-
Other than Acceptances	73,955,340	74,214,974
Total	73,955,340	74,214,974

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 7 OTHER CURRENT LIABILITIES

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Current maturities of finance lease obligations	364,815	347,566
(b) Unpaid dividends	342,382	170,674
(c) Application money received for allotment of securities and due for refund	193,300	193,300
(d) Statutory remittances :		
Employees Contribution to ESI	33,788	37,116
Employees Contribution to PF	210,154	226,666
Professional Tax Payable	39,410	531,388
Excise Duty Payable	531,388	62,430
Service Tax Payable	22,843,949	22,600,148
TDS Payable	5,229,775	1,181,652
Works Contract Tax	421,018	421,018
(e) Payables on purchase of fixed assets	14,021,391	11,146,277
(f) Advances from customers	52,235,299	48,668,872
Total	96,466,668	85,587,106

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	347,566
Total	364,815	347,566

NOTE # 8 SHORT-TERM PROVISIONS

(i) Proposed dividends	12,499,655	12,499,655
(ii) Provision for tax on Proposed dividends	2,027,757	2,076,036
Total	14,527,412	14,575,691

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

A.	Tangible assets	Gross block			Accumulated depreciation and impairment				Net block	
		Balance as at 1 April, 2011	Additions	Balance as at 31 March, 2012	Balance as at 1 April, 2011	Depreciation expense for the year	Adjustments	Balance as at 31 March, 2012	Balance as at 31 March, 2012	Balance as at 31 March, 2011
		₹	₹	₹	₹	₹		₹	₹	₹
(a)	Land & Land Development Freehold	215,844,647	22,216,719	238,061,366	-	-		238,061,366		215,844,647
(b)	Buildings Own use	43,671,920	-	43,671,920	23,102,375	2,056,954		18,512,591	25,159,329	20,569,545
(c)	Plant and Equipment Owned	114,143,583	110,230	114,253,813	94,641,595	4,359,258		15,252,960	99,000,853	19,501,988
(d)	Furniture and Fixtures Owned	11,610,361	-	11,610,361	8,849,090	499,790		2,261,481	9,348,880	2,761,271
(e)	Vehicles Owned	8,974,770	-	8,974,770	6,396,008	667,529		1,911,233	7,063,537	2,578,762
(f)	Office equipment Owned	9,115,616	-	9,115,616	5,755,184	466,231		2,894,201	6,221,415	3,360,432
	Total	403,360,897	22,326,949	425,687,846	138,744,252	8,049,762		278,893,832	146,794,014	264,616,645
	Previous year	402,335,415	1,025,482	403,360,897	128,220,064	10,524,188		264,616,645	138,744,252	274,115,351
	Capital WIP	448,004,354	8,047,295	456,051,648	-	-	17,932,719	438,118,929	-	403,360,897

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 10 NON-CURRENT INVESTMENTS

Particulars	As at 31 March, 2012			As at 31 March, 2011		
	Quoted #	Unquoted #	Total	Quoted	Unquoted	Total
	₹	₹	₹	₹	₹	₹
Investments (At cost):						
Other investments						
(a) Investment in Equity Shares of Subsidiaries						
Avant-Garde Infosystems inc.USA (100% subsidiary)		11,830,950	11,830,950	-	11,830,950	11,830,950
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	-	11,830,950	11,830,950	-	11,830,950	11,830,950
Aggregate amount of unquoted investments			11,830,950			11,830,950

NOTE # 11 LONG-TERM LOANS AND ADVANCES

Particulars	(Rupees)	
	As at 31 March, 2012	As at 31 March, 2011
(a) Capital advances		
Unsecured, considered good	74,511,670	53,198,300
(b) Security deposits		
Unsecured, considered good	3,125,274	3,427,964
(c) Loans and advances to related parties		
Unsecured, considered good-Avant-Garde info systems	25,205,128	23,198,656
(d) Advance income tax (net of provisions) Unsecured, considered good	10,366,145	6,519,927
(e) MAT credit entitlement # - Unsecured, considered good	-	14,200,000
Total	113,208,217	100,544,847

NOTE # 12 INVENTORIES

(At lower of cost and net realisable value)

(a) Raw materials	51,340,643	57,558,966
(b) Work-in-progress(refer note(i) below)	115,265,349	149,864,297
Total	166,605,992	207,423,263

Note

(i) Work in Progress Comprises		
ACDs	105,982,745	110,835,104
Service Contracts-ENR	9,282,604	39,029,193
	115,265,349	149,864,297

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 13 TRADE RECEIVABLES

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Trade receivables outstanding for a period exceeding six months from the date they were due for payment		
Unsecured, considered good	257,358,826	173,555,455
Doubtful	-	-
<i>Other Trade receivables</i>		
Unsecured, considered good	168,573,584	186,139,384
Total	425,932,410	359,694,839

NOTE # 14 CASH AND CASH EQUIVALENTS

(a) Cash on hand	277,461	129,956
(b) Balances with banks		
(i) In current accounts	1,210,908	21,561,525
(ii) In EEFC accounts	37,519	37,519
(iii) In deposit accounts (Refer Note (i) below)	100,410,252	110,310,252
(iv) In earmarked accounts		
- Unpaid dividend accounts	343,532	171,823
- Share application money received for allotment of securities and due for refund	193,300	193,300
- Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below)	15,536,000	7,174,000
- Escrow accounts (Refer Note (ii) below)	728,611	338,793
Total	118,737,582	139,917,168

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

118,737,582 139,917,168

Notes:

- Balances with banks include deposits amounting to ₹ NIL (As at 31 March, 2011 ₹ NIL) and margin monies amounting to ₹ NIL (As at 31 March, 2011 ₹ NIL) which have an original maturity of more than 12 months.
- Balances with banks - Other earmarked accounts (Escrow A/c) include ₹ NIL (As at 31 March, 2011 ₹ NIL) which have restriction on repatriation.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 15 SHORT-TERM LOANS AND ADVANCES

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Security deposits		
Unsecured, considered good	273,948	630,644
(b) Loans and advances to employees		
Unsecured, considered good	922,885	728,537
(c) Prepaid expenses - Unsecured, considered good	3,025,425	1,813,764
(d) Balances with government authorities		
Unsecured, considered good	20,018,243	26,644,883
(e) Advances to Suppliers and Services		
Unsecured, considered good	64,186,253	75,624,794
Total	88,426,754	105,442,621

NOTE # 16 OTHER CURRENT ASSETS

(a) Accruals		
Interest accrued on deposits	1,588,812	863,682
(b) Others		
(i) Rent Receivables	3,768,557	6,829,658
(ii) Income Tax Refund Receivable	7,575,521	7,575,521
(iii) Deferred Interest on Vehicle Loans	34,187	100,438
	12,967,077	15,369,299

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

Particulars	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 ₹
(a) Sale of products (Refer Note (i) below)	165,901,104	287,447,867
(b) Sale of services (Refer Note (ii) below)	272,796,413	153,586,266
	438,697,517	441,034,133
Less:		
(c) Excise duty	184,855	772,485
Total	438,512,662	440,261,648

Note

- (i) Sale of products comprises :

Manufactured goods

Flashers	5,459,936	8,965,321
ECM	17,891,016	34,309,752
Control Panels	15,053,816	28,521,884
Interlocking	10,035,878	13,008,754
ACDs	-	6,907,343
Bells	685,688	932,045
Others	-	2,211,852
Total - Sale of manufactured goods	49,126,334	94,856,951

Traded goods

DVR & Camera	19,073,705	14,131,284
LCD Display	22,872,879	16,946,008
Wheel Sensors	10,386,915	9,532,580
Battaries	-	12,672,600
Solar Panels & Fencing System	-	32,749,150
Barriers	64,441,271	106,559,294
Total - Sale of traded goods	116,774,770	192,590,916

Total - Sale of products

165,901,104	287,447,867
--------------------	--------------------

- (ii) Sale of services comprises

Software Services	100,909,947	24,286,959
Maintenance Contracts	145,632,459	109,114,753
Instalation & Commissioning	3,107,506	1,036,529
Service Contracts-Egypt	21,611,165	1,927,607
ACD Field Trails	-	17,220,418
Others	1,535,336	
Total - Sale of services	272,796,413	153,586,266

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 18 OTHER INCOME

Particulars	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 ₹
(a) Interest income (Refer Note (i) below)	13,199,596	8,510,887
(b) Net gain on foreign currency transactions and translation (other than considered as finance cost)	1,395,185	-
(c) Other non-operating income (net of expenses directly attributable to such income) (Refer Note (ii) below)	6,734,566	8,940,019
Total	21,329,347	17,450,906

Note

(i) Interest income comprises:		
Interest from banks on:		
deposits	10,475,283	7,059,762
Interest on advances given to Subsidiaries	1,613,737	1,451,125
Interest on income tax refund	1,110,576	-
Total - Interest income	13,199,596	8,510,887
(ii) Other non-operating income comprises:		
Rental Income (inclusive of Servicetax collected)	6,394,930	7,940,296
Other Misc. Income	339,636	999,723
Total - Other non-operating income	6,734,566	8,940,019

NOTE # 19.A COST OF MATERIALS CONSUMED

Opening stock	57,558,966	58,754,791
Add: Purchases	17,578,177	53,840,431
	75,137,143	112,595,222
Less: Closing stock	51,340,643	57,558,966
Cost of material consumed	23,796,500	55,036,256
Material consumed comprises:		
Electronic Components	23,796,500	55,036,256
Total	23,796,500	55,036,256

NOTE # 19.B PURCHASE OF TRADED GOODS

DVR & Axel Counters	1,722,600	16,398,950
Cameras	3,061,058	3,014,594
LCD Monitors	1,563,562	1,506,366
Double Wheel Sensors	20,103,620	4,910,100
Barriers	15,529,500	27,398,000
Solar Power Generating System	-	17,334,000
Batttries	-	8,772,569
Others	1,256,679	6,858,288
Total	43,237,019	86,192,867

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	115,265,349	149,864,297
	115,265,349	149,864,297
Inventories at the beginning of the year:		
Work-in-progress	149,864,297	148,295,784
	149,864,297	148,295,784
Net (increase) / decrease	34,598,948	(1,568,513)

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

Particulars	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 ₹
Salaries and wages	84,596,325	77,174,333
Contributions to provident and other funds (Refer Note 25.8)	4,254,080	3,774,384
Staff welfare expenses	1,173,647	1,924,164
Total	90,024,052	82,872,881

NOTE # 21 FINANCE COSTS

(a) Interest expense on:		
(i) Borrowings	26,224,630	20,390,792
(b) Other borrowing costs	10,746,872	6,079,529
(c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost)	-	4,655,262
Total	36,971,502	31,125,583

NOTE # 22 OTHER EXPENSES

Project Execution Expenses	84,961,420	70,749,689
Sales Tax Paid	41,848	164,053
Service Tax Paid	11,279,782	15,367,405
Rent	1,575,000	2,262,225
Repairs and maintenance - Buildings	57,632	3,874,537
Repairs and maintenance - Others	5,434,347	3,230,946
Insurance	878,150	1,061,651
Rates and taxes	2,398,588	3,108,021
Postate, Telephone and Courier	1,662,914	1,749,552
Travelling and conveyance	3,623,420	3,670,541
Directors Remuneration	7,800,000	6,780,000
Directors Sitting Fee	440,000	370,000
Printing and stationery	555,575	623,135
Freight	13,552	8,956
Business promotion	1,239,487	3,087,360
Professional & Consultancy Fees	4,328,379	2,105,651
Payments to auditors (Refer Note (i) below)	680,900	616,200
Books & Periodicals	6,749	3,500
Security Charges	1,456,727	821,611
Electricity Charges	3,966,618	2,625,388
Bad trade debts written off	21,606,211	-
General Expenses	652,486	476,158
Total	154,659,783	122,756,577
(i) Payments to the auditors comprises (net of service tax input credit, where applicable):		
As auditors - statutory audit	600,000	600,000
Reimbursement of expenses	8,900	16,200
For other services	72,000	-
Total	680,900	616,200

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

(₹ in Lakhs)

Note	Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹	
23.1	CONTINGENCIES			
(i)	Contingent liabilities			
(a)	Claims against the Company not acknowledged as debt (Inrespect Of Income Tax Rs. 8 Lakhs for the Assessment Year 1998-99 for which the companies appeal is pending before the the High Court of Andhra Pradesh and Rs 4.13 Lakhs inrespect of SalesTax for the year 2002-03 for which the Company appeal is pending before STAT	12.13	12.13	
(b)	Bank Guarantees Outstanding	1,860.71	1,720.75	
(ii)	Commitments			
	Estimated amount of contracts remaining to be executed on capital account and not provided for			
	Tangible assets	129.00	460.00	
	Intangible assets	-	-	
23.2	DISCLOSURES REQUIRED UNDER SECTION 22 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006			
	Principal amount remaining unpaid to suppliers as at the end of the accounting year	1.44	3.14	
	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			
23.3	DISCLOSURE AS PER CLAUSE 32 OF THE LISTING AGREEMENTS WITH THE STOCK EXCHANGES			
	Loans and Advances in the nature of Advances given to Subsidiaries, associates and others			
	Name of the Party	Relationship	Amount outstanding as at 31st March,2012	Maximum Balance outstanding during the year
	Avant-Garde info systems	Subsidiary	252.05	252.05
	(Previous Year)		(231.99)	(231.99)
23.4	VALUE OF IMPORTS CALCULATED ON CIF BASIS :	For the year ended 31 March, 2012	For the year ended 31 March, 2011	
	Raw materials	83.86	121.06	
	Spare parts	-	-	
	Capital goods	21.33	-	
23.5	EXPENDITURE IN FOREIGN CURRENCY :			
	Travelling & Other Expenses	28.17	16.69	
	Loans to 100% Subsidiary	3.93	-	
	Consultancy Fees	-	2.20	
	Egypt Branch	42.37	167.86	

23.6 DETAILS OF CONSUMPTION OF IMPORTED AND INDIGENOUS ITEMS

	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 %
Imported		
Raw materials	70.68	0.30
(Previous Year)	280.77	0.51
Sub Total - Imported	70.68	0.30
(Previous Year)	280.77	0.51
Indigenous		
Raw materials	167.28	0.70
(Previous Year)	269.40	0.49
Sub Total - Indigenous	167.28	0.70
(Previous Year)	269.40	0.49
Grand Total	237.96	1.00
(Previous Year)	550.17	1.00

23.7 EARNINGS IN FOREIGN EXCHANGE :

Export of goods calculated on FOB basis and service income	1,949.79	2,348.35
Interest Earned on Advance Given to Subsidiary	16.14	14.51

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

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Amount of Dividend remitted in Foreign Currency	917,427.00	
Total number of Non-resident shareholders (To whom the dividends were remitted in foreign currency)	31	No Dividend paid
Total number of shares held by them on which dividend was due	917,427	
Financial Year to which the dividend relates	2010-11	2009-10

23.9 DISCLOSURES UNDER ACCOUNTING STANDARD - 15

Employee benefit plans

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 ₹ 28.19 Lakhs (Year ended 31 March, 2011 ₹ 24.34 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. Defined benefit plans

- Leave Encashment* : The Company does not have any scheme for Leave Encashment
- 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	Year ended 31 March, 2012	Year ended 31 March, 2011
	Gratuity	Gratuity
Components of employer expense		
Current service cost	742,505	916,641
Total expense recognized in the Statement of Profit and Loss	742,505	916,641
Actual contribution and benefit payments for year		
Actual benefit payments	622,240	449,651
Actual contributions	-	-

23.10 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.

23.11 DISCLOSURES UNDER ACCOUNTING STANDARD - 18

RELATED PARTY TRANSACTIONS

a. Details of related parties:

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

Note: Related parties have been identified by the Management.

b. Details of related party transactions during the year ended 31 March, 2012 and balances outstanding as at 31 March, 2012: ₹ in lakhs

	Subsidiaries	KMP	Total
Receiving of services -- Directors remuneration	NIL	78.00	78.00
(Previous Year)	NIL	(67.80)	(67.80)
Finance --Interest receivable on USL	16.13	NIL	16.13
(Previous Year)	(14.51)	NIL	(14.51)
Finance --USL Given	3.93	-	3.93
(Previous Year)	(10.41)	NIL	(10.41)
Balances outstanding at the end of the year			
Loans and advances (Including Interest on Working Capital)	252.05	NIL	252.05
(Previous Year)	(231.99)	NIL	(231.99)

23.12 DISCLOSURES UNDER ACCOUNTING STANDARD - 20

Particulars	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Earnings per share		
Basic		
a. Continuing operations		
Net profit / (loss) for the year from continuing operations	44,697,283	45,782,440
Less: Preference dividend and tax thereon		
Net profit / (loss) for the year from continuing operations attributable to the equity shareholders	44,697,283	45,782,440
Weighted average number of equity shares	12,499,655	12,499,655
Par value per share	10	10
Earnings per share from continuing operations - Basic	3.58	3.66

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.

b. Continuing operations

Net profit / (loss) for the year from continuing operations	44,697,283	45,782,440
Less: Preference dividend and tax thereon	-	-
Net profit / (loss) for the year attributable to the equity shareholders from continuing operations	44,697,283	45,782,440
Add: Interest expense and exchange fluctuation on convertible bonds (net)	-	-
Profit / (loss) attributable to equity shareholders from continuing operations (on dilution)	44,697,283	45,782,440
Weighted average number of equity shares for Basic EPS	12,499,655	12,499,655
Add: Effect of warrants, ESOPs and Convertible bonds which are dilutive	-	-
Weighted average number of equity shares - for diluted EPS	12,499,655	12,499,655
Par value per share	10	10
Earnings per share, from continuing operations - Diluted	3.58	3.66

23.13 DISCLOSURES UNDER ACCOUNTING STANDARD - 22

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Deferred tax (liability) / asset		
Tax effect of items constituting deferred tax liability		
On difference between book balance and tax balance of fixed assets	1,894,047	2,916,051
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	1,894,047	2,916,051
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	5,773,886	6,047,220
On difference between book balance and tax balance of fixed assets	-	-
Unabsorbed depreciation carried forward	-	7,998,916
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	5,773,886	14,046,136
Net deferred tax (liability) / asset	3,879,839	11,130,085

The Company has recognized deferred tax asset on unabsorbed depreciation to the extent of the corresponding deferred tax liability on the difference between the book balance and the written down value of fixed assets under Income Tax (or) The Company has recognized deferred tax asset on unabsorbed depreciation and brought forward business losses based on the Management's estimates of future profits considering the non-cancellable customer orders received by the Company.

25.14

Particulars	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Details of research and development expenditure recognized as an expense		
Materials	0.54	0.19
Employee benefits expense	55.72	63.05
Total	56.26	63.24

25.15 Trade debtors and Advances are subject to Reconciliation and Confirmation

25.16 PREVIOUS YEAR'S FIGURES

The Revised Schedule VI has become effective from 1 April, 2011 for the preparation of financial statements. During the year ended 31 March 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the company, for preparation and presentation of its financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements. The company has also reclassified the previous year figures in accordance with the requirements applicable in the current year. 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.

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.

0	1	-	1	3	2	1	1	/	1	9	9	1	-	9	2
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

 State Code

0	1
---	---

Balance Sheet Date :

3	1	-	0	3	-	2	0	1	2
---	---	---	---	---	---	---	---	---	---

Capital raised during the year

Public Issue

				N	I	L
--	--	--	--	---	---	---

Rights Issue

				N	I	L
--	--	--	--	---	---	---

Sweat Equity

				N	I	L
--	--	--	--	---	---	---

(Amount in Rs. Thousands)

Bonus Issue

				N	I	L
--	--	--	--	---	---	---

Private Placement

				N	I	L
--	--	--	--	---	---	---

Position of Mobilization and Deployment of Funds:

Total Liabilities

1	6	5	8	6	0	1
---	---	---	---	---	---	---

Total Assets

1	6	5	8	6	0	1
---	---	---	---	---	---	---

Sources of Funds

Paid up Capital

	1	2	4	9	9	6
--	---	---	---	---	---	---

Secured Loan

	1	7	9	0	1	6
--	---	---	---	---	---	---

Deferred Tax Liability

				N	I	L
--	--	--	--	---	---	---

Reserves & Surplus

1	1	6	9	6	3	9
---	---	---	---	---	---	---

Unsecured Loans

		2	0	0	0	0
--	--	---	---	---	---	---

Application of Funds:

Net Fixed Assets

	2	7	8	8	9	4
--	---	---	---	---	---	---

Capital Working Progress

	4	3	8	1	1	9
--	---	---	---	---	---	---

Net Current Assets

	7	9	8	1	4	2
--	---	---	---	---	---	---

Investments

		1	1	8	3	1
--	--	---	---	---	---	---

Misc. Expenditure

				N	I	L
--	--	--	--	---	---	---

Deferred Tax Asset

			3	8	8	0
--	--	--	---	---	---	---

Performance of Company:

Total Revenues

	4	3	8	5	1	3
--	---	---	---	---	---	---

Profit Before Tax

		6	8	5	0	8
--	--	---	---	---	---	---

Earning Per Share

R	s	.	3	.	5	8
---	---	---	---	---	---	---

Total Expenditure

	3	9	1	3	3	4
--	---	---	---	---	---	---

Profit after Tax

		4	4	6	9	7
--	--	---	---	---	---	---

Dividend

				1	0	%
--	--	--	--	---	---	---

Generic Names of three Principal Products / Services of Company

Item Code

8	5	2	4	9	0	0	9	.	1	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

S. Jasminder Singh
(Company Secretary)

Place: Hydrabad
Date: 28th May, 2012

Consolidated Financial Statements



INTENTIONALLY KEPT BLANK

AUDITORS' REPORT

To the Board of Directors on the Consolidated Financial Statements of **KERNEX MICROSYSTEMS (INDIA) LIMITED AND ITS SUBSIDIARY**

1. We have audited the attached Consolidated Balance Sheet of Kernex Microsystems (India) Limited,(the Company) and Avant-garde Info systems inc , USA (subsidiary) as at 31st March, 2012 and also the Consolidated Statement of Profit and Loss and Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of 100% wholly owned overseas subsidiary, whose financial statements reflect total assets of US \$ 4,32,203/- as at 31st March 2012, the total Loss before tax of US \$ 40,960/- for the year ended on that date. These financial statements and other financial information have been compiled by other auditors whose compilation report has been furnished to us, and our opinion is based solely on the compilation report of other auditors.
4. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.
5. In our opinion and to the best of our information and according to the explanations given to us, the

consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- i) In the case of the consolidated Balance Sheet, the state of affairs of the Kernex Microsystems (India) Limited group as at 31st March,2012
- ii) In the case of the consolidated Statement of Profit and Loss, of the profit of the Kernex Microsystems (India) Limited group for the Year ended 31st March, 2012.
- iii) In the case of the consolidated cash flow statement of the Kernex Micro Systems (India) Limited group.

For GMK ASSOCIATES.,
Chartered Accountants
(Firm Regn No.006945S)

G.Satyanarayana Murty
Partner
Membership No.: 29919

Place: Hyderabad
Date: 28th May,2012

Consolidated Balance Sheet as at 31 March, 2012

Particulars	Note No.	As at 31 March, 2012	As at 31 March, 2011
A. EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	124,996,550	124,996,550
Reserves and surplus	3	1,153,434,282	1,125,260,211
		1,278,430,832	1,250,256,761
Non-current liabilities			
Long-term borrowings	4	-	364,815
		-	364,815
Current liabilities			
Short-term borrowings	5	179,015,704	224,764,899
Trade payables	6	74,132,611	74,300,250
Other current liabilities	7	96,466,668	85,587,106
Short-term provisions	8	14,527,412	14,575,691
		364,142,395	399,227,946
TOTAL		1,642,573,227	1,649,849,522
B. ASSETS			
Non-current assets			
Fixed assets			
(i) Tangible assets	9	278,893,832	264,616,645
(iii) Capital work-in-progress		438,118,929	448,004,354
		717,012,761	712,620,999
Non-current investments	10	-	-
Deferred tax assets (net)	23.7	3,879,839	11,130,085
Long-term loans and advances	11	88,003,089	77,346,191
		91,882,928	88,476,276
Current assets			
Inventories	12	166,605,992	207,423,263
Trade receivables	13	425,932,410	359,694,839
Cash and cash equivalents	14	118,847,103	139,918,775
Short-term loans and advances	15	88,426,754	105,442,621
Other current assets	16	33,865,279	36,272,749
		833,677,538	848,752,247
TOTAL		1,642,573,227	1,649,849,522
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 : 28th May, 2012

B. Murali Mohan
Technical Director

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

S. Jasminder singh
(Company Secretary)

Consolidated Statement of Profit and Loss for the year ended 31 March, 2012

Particulars	Note No.	For the year ended 31 March, 2012	For the year ended 31 March, 2011
1 Revenue from operations (gross)	17	438,697,517	441,034,133
Less: Excise duty	17	184,855	772,485
Revenue from operations (net)		438,512,662	440,261,648
2 Other income	18	18,317,307	15,991,656
3 Total revenue (1+2)		456,829,969	456,253,304
4 Expenses			
(a) Cost of materials consumed	19.A	23,796,500	55,036,256
(b) Purchases of stock-in-trade	19.B	43,237,019	86,192,867
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	19.C	34,598,948	(1,568,513)
(d) Employee benefits expense	20	90,024,052	82,872,881
(e) Finance costs	21	36,971,502	31,283,653
(f) Depreciation and amortisation expense	9	8,055,010	10,529,436
(g) Other expenses	22	155,031,428	123,272,930
Total expenses		391,714,459	387,619,510
5 Profit / (Loss) before tax (3 - 4)		65,115,510	68,633,794
6 Tax expense:			
(a) Current tax		16,237,194	14,200,000
(Less): MAT credit (where applicable)		-	(14,200,000)
(b) Current tax expense relating to prior years		323,113	-
(c) Net current tax expense		16,560,307	-
Deferred tax	23.7	7,250,246	24,990,275
		23,810,553	24,990,275
7 Profit / (Loss) for the year (5 +6)		41,304,957	43,643,519
8 Earnings per share (of ` 10/- each):			
(a) Basic		3.30	3.49
(b) Diluted		3.30	3.49
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 : 28th May, 2012**B. Murali Mohan**
Technical Director**Col. L.V. Raju** (Retd.)
Managing Director**S. Jasminder singh**
(Company Secretary)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2012

Particulars	For the year ended 31 March, 2012		For the year ended 31 March, 2011	
	₹	₹	₹	₹
Net Profit / (Loss) before extraordinary items and tax		65,115,510		68,633,794
Adjustments for:				
Depreciation and amortisation	8,055,010		10,529,436	
Finance costs	36,971,502		31,283,653	
Interest income	(11,585,859)		(7,051,637)	
		33,440,653		34,761,452
Operating profit / (loss) before working capital changes		98,556,163		103,395,246
Changes in working capital:				
<i>Adjustments for (increase) / decrease in operating assets:</i>				
Inventories	40,817,271		(372,688)	
Trade receivables	(66,237,571)		(166,266,416)	
Short-term loans and advances	17,015,868		-	
Long-term loans and advances	(21,010,680)		(7,068,792)	
Other current assets	2,402,223		(729,049)	
<i>Adjustments for increase / (decrease) in operating liabilities:</i>				
Trade payables	(167,639)		55,457,307	
Other current liabilities	10,879,561		(42,405,243)	
Other long-term liabilities	-		-	
Short-term provisions	-		-	
Long-term provisions	-		-	
	(16,300,967)	(16,300,967)	(161,384,881)	(161,384,881)
Cash generated from operations		82,255,196		(57,989,635)
Net cash flow from / (used in) operating activities (A)		82,255,196		(57,989,635)
B. Cash flow from investing activities				
Capital expenditure on fixed assets, including capital advances	(12,441,525)		(23,388,423)	
Current investments not considered as Cash and cash equivalents	-		-	
Interest received	11,585,859		7,051,637	
Net income tax (paid) / refunds	(8,282,561)	-	(6,500,000)	-
Net cash flow from / (used in) investing activities (B)		(9,138,227)		(22,836,786)
C. Cash flow from financing activities				
Proceeds from issue of equity shares	-		-	
Proceeds from long-term borrowings	-		-	
Repayment of long-term borrowings	(364,815)		(651,875)	
Net increase / (decrease) in working capital borrowings	(45,749,195)		35,806,091	
Finance cost	(36,971,502)		(31,283,653)	
Dividends paid	(12,499,655)		-	
		(95,585,166)		3,870,563
Net cash flow from / (used in) financing activities (C)		(95,585,166)		3,870,563
Net increase / (decrease) in Cash and cash equivalents (A+B+C)		(22,468,197)		(76,955,858)
Cash and cash equivalents at the beginning of the year		139,918,775		216,962,396
Effect of exchange differences on restatement of foreign currency		1,396,525		(87,763)
Cash and cash equivalents				
Cash and cash equivalents at the end of the year		118,847,103		139,918,775

Particulars	For the year ended 31 March, 2012		For the year ended 31 March, 2011	
	₹	₹	₹	₹
Reconciliation of Cash and cash equivalents with the Balance Sheet:				
Cash and cash equivalents as per Balance Sheet	118,847,103		139,918,775	
Cash and cash equivalents at the end of the year *		118,847,103		139,918,775
* Comprises:				
(a) Cash on hand		277,461		129,956
(b) Balances with banks				
(i) In current accounts		1,320,429		21,563,132
(ii) In EEFC accounts		37,519		37,519
(iii) In deposit accounts		100,410,252		110,310,252
(iv) In earmarked accounts		16,801,443		7,877,916
		118,847,103		139,918,775

In terms of our report attached.

For GMK ASSOCIATES,

Chartered Accountants

Firm Reg.No # 006945S

(G.Satyanarayana Murty)

Partner

Membership # 29919

Place : Hyderabad

Date : 28th May, 2012

For and on behalf of the Board of Directors

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

S. Jasminder Singh

(Company Secretary)

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 2 SHARE CAPITAL

Particulars	As at 31 March, 2012		As at 31 March, 2011	
	Number of shares	₹	Number of shares	₹
(a) Authorised (Equity shares of ₹ 10/- each with voting rights)	15,000,000	150,000,000	15,000,000	150,000,000
(b) Issued, Subscribed & Paid up Capital	12,499,655	124,996,550	12,499,655	124,996,550
(Equity shares of ₹ 10/- each with voting rights)				
(Company has only one class of Shares i.e, Equity Shares with Voting rights)	12,499,655	124,996,550	12,499,655	124,996,550

Notes:

2.1. 11,36,332 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			

Year ended 31 March, 2012

- Number of shares	12,499,655	-	12,499,655
- Amount (₹)	124,996,550	-	124,996,550

Year ended 31 March, 2011

- 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, 2012		As at 31st March, 2011	
	Number of Shares held	% holding in that class of shares	Number of Shares held	% holding in that class of shares

Equity Shares with voting rights

1. Dr Raju Narsa Manthena	854,633	6.84	854,633	6.84
2. Seetharamaraju Manthena	701,894	5.62	701,894	5.62

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 3 RESERVES AND SURPLUS

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) General reserve		
Opening balance	61,213,631	61,213,631
Less: Foreign Currency Translation adjustment	538,351	1,934,877
Closing balance	60,675,280	59,278,754
(b) Securities premium account		
Opening balance	917,219,545	917,219,545
Closing balance	917,219,545	917,219,545
(c) Surplus / (Deficit) in Statement of Profit and Loss		
Opening balance	148,761,912	119,694,084
Add: Profit / (Loss) for the year	41,304,957	43,643,519
Less: Appropriations		
Dividends proposed to be distributed to equity shareholders (₹ 1 per share)	12,499,655	12,499,655
Tax on dividend	2,027,757	2,076,036
Closing balance	175,539,457	148,761,912
Total	1,153,434,282	1,125,260,211

NOTE # 4 LONG-TERM BORROWINGS

(a) Other loans and advances		
Secured		
State Bank of Hyderabad(Vehicle Loan)	-	364,815
Total	-	364,815
(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, 2012		As at 31 March, 2011	
		Secured	Unsecured	Secured	Unsecured
		₹	₹	₹	₹

Vehicle loans from banks:

State Bank of Hyderabad	Vehicle Loans are secured by Hypothecation of Vehicles	-	-	364,815	-
-------------------------	--	---	---	---------	---

Total - Term loans from banks		-	-	364,815	-
--------------------------------------	--	---	---	---------	---

(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

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Loans repayable on demand (Working Capital)		
Secured		
State Bank of Hyderabad	156,855,150	149,715,356
Punjab National Bank	2,160,554	75,049,543
(b) Other loans and advances		
Unsecured		
Inter Corporate Deposits	20,000,000	-
Total	179,015,704	224,764,899

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

Particulars	Nature of security	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
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)	156,855,150	149,715,356
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	75,049,543
Total From Banks		159,015,704	224,764,899

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

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Loans repayable on demand from banks- Personal gurantee of the Managing Director	159,015,704	224,764,899
Inter Corporate Deposits are Secured by the pledge of shares of the Company	20,000,000	-

NOTE # 6 TRADE PAYABLES

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Trade payables:		
Acceptances	-	-
Other than Acceptances	74,132,611	74,300,250
Total	74,132,611	74,300,250

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

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Current maturities of finance lease obligations	364,815	347,566
(b) Unpaid dividends	342,382	170,674
(c) Application money received for allotment of securities and due for refund	193,300	193,300
(d) Statutory remittances :		
Employees Contribution to ESI	33,788	37,116
Employees Contribution to PF	210,154	226,666
Professional Tax Payable	39,410	531,388
Excise Duty Payable	531,388	62,430
Service Tax Payable	22,843,949	22,600,148
TDS Payable	5,229,775	1,181,652
Works Contract Tax	421,018	421,018
(e) Payables on purchase of fixed assets	14,021,391	11,146,277
(f) Advances from customers	52,235,299	48,668,872
Total	96,466,668	85,587,106

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	347,566
Total	364,815	347,566

NOTE # 8 SHORT-TERM PROVISIONS

(i) Proposed dividends	12,499,655	12,499,655
(ii) Provision for tax on Proposed dividends	2,027,757	2,076,036
	14,527,412	14,575,691
Total	14,527,412	14,575,691



NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 9 FIXED ASSETS

A.	Tangible assets	Gross block			Accumulated depreciation and impairment					Net block	
		Balance as at 1 April, 2011	Additions	Balance as at 31 March, 2012	Balance as at 1 April, 2011	Depreciation expense for the year	Adjustments	Balance as at 31 March, 2012	Balance as at 31 March, 2012	Balance as at 31 March, 2011	Balance as at 31 March, 2011
		₹	₹	₹	₹	₹	₹	₹	₹	₹	₹
	(a) Land & Land Development Freehold	215,844,647	22,216,719	238,061,366	-	-		-	238,061,366	215,844,647	215,844,647
	(b) Buildings Own use	43,671,920	-	43,671,920	23,102,375	2,056,954		25,159,329	18,512,591	20,569,545	20,569,545
	(c) Plant and Equipment Owned	114,704,378	110,230	114,814,608	95,202,390	4,359,258		99,561,648	15,252,960	19,501,988	19,501,988
	(d) Furniture and Fixtures Owned	12,041,118	-	12,041,118	9,279,847	499,790		9,779,637	2,261,481	2,761,271	2,761,271
	(e) Vehicles Owned	8,974,770	-	8,974,770	6,396,008	667,529		7,063,537	1,911,233	2,578,762	2,578,762
	(f) Office equipment Owned	9,410,151	-	9,410,151	6,049,719	466,231		6,515,950	2,894,201	3,360,432	3,360,432
	Total	404,646,984	22,326,949	426,973,933	140,030,339	8,049,762		148,080,101	278,893,832	264,616,645	264,616,645
	Previous year	402,335,415	1,025,482	403,360,897	128,220,064	10,524,188		138,744,252	264,616,645	274,115,351	274,115,351
	Capital WIP	448,004,354	8,047,295	456,051,648	-	-	17,932,719	-	438,118,929	403,360,897	403,360,897

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

Particulars	As at 31 March, 2012			As at 31 March, 2011		
	Quoted #	Unquoted #	Total	Quoted	Unquoted	Total
	₹	₹	₹	₹	₹	₹
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	-	-	-	-	-	-
Aggregate amount of unquoted investments			-			-

NOTE # 11 LONG-TERM LOANS AND ADVANCES

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Capital advances		
Unsecured, considered good	74,511,670	53,198,300
(b) Security deposits		
Unsecured, considered good	3,125,274	3,427,964
(c) Loans and advances to related parties		
Unsecured, considered good-Avant-Garde info systems	-	-
(d) Advance income tax (net of provisions) Unsecured, considered good	10,366,145	6,519,927
(e) MAT credit entitlement # - Unsecured, considered good	-	14,200,000
Total	88,003,089	77,346,191

NOTE # 12 INVENTORIES

(At lower of cost and net realisable value)

(a) Raw materials	51,340,643	57,558,966
(b) Work-in-progress	115,265,349	149,864,297
Total	166,605,992	207,423,263

Note

(i) Work in Progress Comprises		
ACDs Development	105,982,745	110,835,104
Service Contracts-ENR	9,282,604	39,029,193
	115,265,349	149,864,297

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 13 TRADE RECEIVABLES

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Trade receivables outstanding for a period exceeding six months from the date they were due for payment		
Unsecured, considered good	257,358,826	173,555,455
Doubtful	-	-
Other Trade receivables		
Unsecured, considered good	168,573,584	186,139,384
Total	425,932,410	359,694,839

NOTE # 14 CASH AND CASH EQUIVALENTS

(a) Cash on hand	277,461	129,956
(b) Balances with banks		
(i) In current accounts	1,320,429	21,563,132
(ii) In EEFC accounts	37,519	37,519
(iii) In deposit accounts (Refer Note (i) below)	100,410,252	110,310,252
(iv) In earmarked accounts		
- Unpaid dividend accounts	343,532	171,823
- Share application money received for allotment of securities and due for refund	193,300	193,300
- Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below)	15,536,000	7,174,000
- Escrow accounts (Refer Note (ii) below)	728,611	338,793
Total	118,847,103	139,918,775

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

Notes:

- Balances with banks include deposits amounting to ₹ NIL (As at 31 March, 2011 ₹ NIL) and margin monies amounting to ₹ NIL (As at 31 March, 2011 ₹ NIL) which have an original maturity of more than 12 months.
- Balances with banks - Other earmarked accounts (Escrow A/c) include ₹ NIL (As at 31 March, 2011 ₹ NIL) which have restriction on repatriation.

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

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Security deposits		
Unsecured, considered good	273,948	630,644
(b) Loans and advances to employees		
Unsecured, considered good	922,885	728,537
(c) Prepaid expenses - Unsecured, considered good	3,025,425	1,813,764
(d) Balances with government authorities		
Unsecured, considered good	20,018,243	26,644,883
(e) Advances to Suppliers and Services		
Unsecured, considered good	64,186,253	75,624,794
Total	88,426,754	105,442,621

NOTE # 16 OTHER CURRENT ASSETS

(a) Unamortised expenses		
Product Development Expenses	20,835,127	20,835,127
Organisational & Start up Cost	63,075	68,323
(a) Accruals		
Interest accrued on deposits	1,588,812	863,682
(b) Others		
(i) Rent Receivables	3,768,557	6,829,658
(ii) Income Tax Refund Receivable	7,575,521	7,575,521
(iii) Deferred Interest on Vehicle Loans	34,187	100,438
	33,865,279	36,272,749

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 17 REVENUE FROM OPERATIONS

Particulars	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 ₹
(a) Sale of products (Refer Note (i) below)	165,901,104	287,447,867
(b) Sale of services (Refer Note (ii) below)	272,796,413	153,586,266
	438,697,517	441,034,133
Less:		
(c) Excise duty	184,855	772,485
Total	438,512,662	440,261,648

Note

(i) Sale of products comprises :

<i>Manufactured goods</i>		
Flashers	5,459,936	8,965,321
ECM	17,891,016	34,309,752
Control Panels	15,053,816	28,521,884
Interlocking	10,035,878	13,008,754
ACDs	-	6,907,343
Bells	685,688	932,045
Others	-	2,211,852
Total - Sale of manufactured goods	49,126,334	94,856,951
<i>Traded goods</i>		
DVR & Camera	19,073,705	14,131,284
LCD Display	22,872,879	16,946,008
Wheel Sensors	10,386,915	9,532,580
Battaries	-	12,672,600
Solar Panels & Fencing System	-	32,749,150
Barriers	64,441,271	106,559,294
Total - Sale of traded goods	116,774,770	192,590,916
Total - Sale of products	165,901,104	287,447,867

(ii) Sale of services comprises

Software Services	100,909,947	24,286,959
Maintenance Contracts	145,632,459	109,114,753
Instalation & Commissioning	3,107,506	1,036,529
Service Contracts-Egypt	21,611,165	1,927,607
ACD Filed Trails	-	17,220,418
Others	1,535,336	-
Total - Sale of services	272,796,413	153,586,266

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

Particulars	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 ₹
(a) Interest income (Refer Note (i) below)	11,585,859	7,051,637
(b) Net gain on foreign currency transactions and translation (other than considered as finance cost)	(3,118)	-
(c) Other non-operating income (net of expenses directly attributable to such income) (Refer Note (ii) below)	6,734,566	8,940,019
Total	18,317,307	15,991,656

Note

(i) Interest income comprises:		
Interest from banks on:		
deposits	10,475,283	7,051,637
Interest on advances given to Subsidiaries	-	-
Interest on income tax refund	1,110,576	-
Total - Interest income	11,585,859	7,051,637
(ii) Other non-operating income comprises:		
Rental Income (inclusive of Servicetax collected)	6,394,930	7,940,296
Other Misc. Income	339,636	999,723
Total - Other non-operating income	6,734,566	8,940,019

NOTE # 19. A COST OF MATERIALS CONSUMED

Opening stock	57,558,966	58,754,791
Add: Purchases	17,578,177	53,840,431
	75,137,143	112,595,222
Less: Closing stock	51,340,643	57,558,966
Cost of material consumed	23,796,500	55,036,256
Material consumed comprises:		
Electronic Components	23,796,500	55,036,256
Total	23,796,500	55,036,256

NOTE # 19.B PURCHASE OF TRADED GOODS

DVR & Axel Counters	1,722,600	16,398,950
Cameras	3,061,058	3,014,594
LCD Monitors	1,563,562	1,506,366
Double Wheel Sensors	20,103,620	4,910,100
Barriers	15,529,500	27,398,000
Solar Power Generating System	-	17,334,000
Batttries	-	8,772,569
Others	1,256,679	6,858,288
Total	43,237,019	86,192,867

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	115,265,349	149,864,297
	115,265,349	149,864,297
Inventories at the beginning of the year:		
Work-in-progress	149,864,297	148,295,784
	149,864,297	148,295,784
Net (increase) / decrease	34,598,948	(1,568,513)

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 20 EMPLOYEE BENEFITS EXPENSE

Particulars	For the year ended 31 March, 2012 ₹	For the year ended 31 March, 2011 ₹
Salaries and wages	84,596,325	77,174,333
Contributions to provident and other funds (Refer Note 25.8)	4,254,080	3,774,384
Staff welfare expenses	1,173,647	1,924,164
Total	90,024,052	82,872,881

NOTE # 21 FINANCE COSTS

(a) Interest expense on:		
(i) Borrowings	26,224,630	20,390,792
(b) Other borrowing costs	10,746,872	6,094,346
(c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost)	-	4,798,515
Total	36,971,502	31,283,653

NOTE # 22 OTHER EXPENSES

Project Execution Expenses	84,961,420	70,749,689
Sales Tax Paid	41,848	164,053
Service Tax Paid	11,279,782	15,367,405
Rent	1,808,025	2,652,182
Repairs and maintenance - Buildings	57,632	3,874,537
Repairs and maintenance - Others	5,434,347	3,230,946
Insurance	878,150	1,061,651
Rates and taxes	2,443,998	3,146,860
Postate, Telephone and Courier	1,662,914	1,749,552
Travelling and conveyance	3,623,420	3,670,541
Directors Remuneration	7,800,000	6,780,000
Directors Sitting Fee	440,000	370,000
Printing and stationery	555,575	623,135
Freight	13,552	8,956
Business promotion	1,239,487	3,087,360
Professional & Consultancy Fees	4,421,589	2,193,206
Payments to auditors (Refer Note (i) below)	680,900	616,200
Books & Periodicals	6,749	3,500
Security Charges	1,456,727	821,611
Electricity Charges	3,966,618	2,625,388
Bad trade debts written off	21,606,211	-
General Expenses	652,486	476,160
Total	155,031,428	123,272,930
(i) Payments to the auditors comprises (net of service tax input credit, where applicable):		
As auditors - statutory audit	600,000	600,000
Reimbursement of expenses	8,900	16,200
For other services	72,000	-
Total	680,900	616,200

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

(₹ in Lakhs)

Note	Particulars	As at 31 March, 2012	As at 31 March, 2011
23.1 CONTINGENCIES			
(i) Contingent liabilities			
(a) Claims against the Company not acknowledged as debt (In respect Of Income Tax Rs. 8 Lakhs for the Assessment Year 1998-99 for which the companies appeal is pending before the the High Court of Andhra Pradesh and Rs 4.13 Lakhs in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT	12.13	12.13	
(b) Bank Guarantees Outstanding	1,860.71	1,720.75	
(ii) Commitments			
Estimated amount of contracts remaining to be executed on capital account and not provided for			
Tangible assets	129.00	460.00	
Intangible assets	-	-	
23.2 DISCLOSURES REQUIRED UNDER SECTION 22 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006			
Principal amount remaining unpaid to suppliers as at the end of the accounting year	1.44	3.14	
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			
23.3 DISCLOSURES UNDER ACCOUNTING STANDARD - 15			
Employee benefit plans			
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 ₹ 28.19 Lakhs (Year ended 31 March, 2011 ₹ 24.34 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. Defined benefit plans			
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 March, 2012	Year ended 31 March, 2011
	Gratuity	Gratuity
Components of employer expense	742,505	916,641
Current service cost		
Total expense recognized in the Statement of Profit and Loss	742,505	916,641
Actual contribution and benefit payments for year		
Actual benefit payments	622,240	449,651
Actual contributions	-	-


23.4 DISCLOSURES UNDER ACCOUNTING STANDARD - 17

Particulars

Segment information

Since the Company has only one Business Segment namely "Instant Coffee", Hence, "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, 2012 and balances outstanding as at 31 March, 2012:

₹ in lakhs

23.5.b	Subsidiaries	KMP	Total
Receiving of services -- Directors remuneration	NIL	78.00	78.00
(Previous Year)	NIL	(67.80)	(67.80)
Finance - Interest receivable on USL	16.13	NIL	16.13
(Previous Year)	(14.51)	NIL	(14.51)
Finance - USL Given	3.93	-	3.93
(Previous Year)	(10.41)	NIL	(10.41)
Finance - USL Taken	-	-	-
(Previous Year)	NIL	NIL	-
Balances outstanding at the end of the year			
Loans and advances(including interest on Working Capital)	252.05	NIL	252.05
(Previous Year)	(231.99)	NIL	(231.99)

23.6 DISCLOSURES UNDER ACCOUNTING STANDARD - 20

Particulars

**For the year
ended
31 March,
2012**

 For the year
ended
31 March,
2011

₹

₹

Earnings per share

Basic

23.6.a Continuing operations

Net profit / (loss) for the year from continuing operations	41,304,957	43,643,519
Less: Preference dividend and tax thereon		
Net profit / (loss) for the year from continuing operations attributable to the equity shareholders	41,304,957	43,643,519
Weighted average number of equity shares	12,499,655	12,499,655
Par value per share	10.00	10.00
Earnings per share from continuing operations - Basic	3.30	3.49

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 Continuing operations

Net profit / (loss) for the year from continuing operations	41,304,957	43,643,519
Less: Preference dividend and tax thereon	-	-
Net profit / (loss) for the year attributable to the equity shareholders from continuing operations	41,304,957	43,643,519
Add: Interest expense and exchange fluctuation on convertible bonds (net)	-	-
Profit / (loss) attributable to equity shareholders from continuing operations (on dilution)	41,304,957	43,643,519
Weighted average number of equity shares for Basic EPS	12,499,655	12,499,655
Add: Effect of warrants, ESOPs and Convertible bonds which are dilutive	-	-
Weighted average number of equity shares - for diluted EPS	12,499,655	12,499,655
Par value per share	10.00	10.00
Earnings per share, from continuing operations - Diluted	3.30	3.49

23.7 DISCLOSURES UNDER ACCOUNTING STANDARD - 22

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
Deferred tax (liability) / asset		
Tax effect of items constituting deferred tax liability		
On difference between book balance and tax balance of fixed assets	1,894,047	2,916,051
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	1,894,047	2,916,051



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	5,773,886	6,047,220
---	------------------	-----------

On difference between book balance and tax balance of fixed assets	-	-
--	---	---

Unabsorbed depreciation carried forward	-	7,998,916
---	---	-----------

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	5,773,886	14,046,136
--	------------------	------------

Net deferred tax (liability) / asset	3,879,839	11,130,085
--------------------------------------	------------------	------------

The Company has recognized deferred tax asset on unabsorbed depreciation to the extent of the corresponding deferred tax liability on the difference between the book balance and the written down value of fixed assets under Income Tax (or) The Company has recognized deferred tax asset on unabsorbed depreciation and brought forward business losses based on the Management's estimates of future profits considering the non-cancellable customer orders received by the Company.

Particulars	For the year ended 31 March, 2012	For the year ended 31 March, 2011
	₹	₹

23.8 Details of research and development expenditure recognized as an expense

Materials	0.54	0.19
Employee benefits expense	55.72	63.05
Total	56.26	63.24

23.9 PREVIOUS YEAR'S FIGURES

The Revised Schedule VI has become effective from 1 April, 2011 for the preparation of financial statements. During the year ended 31 March 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the company, for preparation and presentation of its financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements. The company has also reclassified the previous year figures in accordance with the requirements applicable in the current year. 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

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, USA on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting un-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.

1.2 Inventories

Inventories are valued at the lower of weighted average cost and the net realisable value after providing for obsolescence and other losses, where considered necessary. The basis of determining cost for various categories of inventories are as follows: (a) Raw Materials, packing materials, stores and spare parts are valued at weighted Average Cost and (b) Finished Goods are valued at estimated cost of Production or Net realizable value whichever is lower and Goods-in-transit are valued at Cost of Production plus transit expenses.

1.3 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.



1.4 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.

1.5 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.

1.6 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.

1.7 Other income

Interest income is accounted on accrual basis.

1.8 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

1.9 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. "

1.10 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.

1.11 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.

1.12 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.

1.13 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. "

1.14 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 31-03-2012
3.	Holding Company's Interest	100%
4.	Number of Shares held by Kernex Microsystems (India) Limited in the Subsidiary Company The net aggregate of Profits for the current financial year of Subsidiary Company, so far it concerns to the members of the Company	35,80,000 Ordinary Shares of \$0.02 each and 17,99,240 Equity Shares of US \$ 0.10 each
5.	a) Dealt with in the accounts of Holding Company) b) Not Dealt with in the accounts of Holding Company	– \$40960
6.	The net aggregate of losses for the previous financial years of the Subsidiary Company, so far it concerns to the members of the Holding Company: Dealt with in the accounts of Holding Company Not Dealt with in the accounts of Holding Company	– \$304751

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, 2012.

For and on behalf of the Board of Directors

B. Murali Mohan
Technical Director

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

Place: Hydetrabad
Date: 28th May, 2012

S. Jasminder Singh
(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 Tenth Annual Report in respect of the period from 1st April, 2011 to 31st March, 2012.

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. 33.92 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 Systesms" 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: 25th May, 2012

AVANT GRADE INFOSYSTEMS INC, U.S.A

Balance Sheet as at 31 March, 2012

Particulars	Note No.	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
A EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	11,830,950	11,830,950
Reserves and surplus	3	(15,667,288)	(12,274,961)
		(3,836,338)	(444,011)
Non-current liabilities			
Long-term borrowings	4	12,206,203	11,815,271
		12,206,203	11,815,271
Current liabilities			
Trade payables	5	177,271	85,276
Other current liabilities	6	12,460,586	9,448,521
		12,637,857	9,533,797
TOTAL		21,007,722	20,905,057
B ASSETS			
Non-current assets			
Fixed assets			
Tangible assets	7	-	-
Current assets			
Cash and cash equivalents	8	109,521	1,607
other current assets	9	20,898,201	20,903,450
		21,007,722	20,905,057
TOTAL		21,007,722	20,905,057
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 : 25th May, 2012

AVANT GRADE INFOSYSTEMS INC, U.S.A**Statement of Profit and Loss for the year ended 31 March, 2012**

Particulars		Note No.	For the year ended 31 March, 2012	For the year ended 31 March, 2011
			₹	₹
1	Revenue from operations (gross)		-	-
	Less: Excise duty		-	-
	Revenue from operations (net)		-	-
2	Other income		-	-
3	Total revenue (1+2)		-	-
4	Expenses			
(a)	Cost of materials consumed		-	-
(b)	Purchases of stock-in-trade		-	-
(c)	Changes in inventories of finished goods, work-in-progress and stock-in-trade		-	-
(d)	Employee benefits expense		-	-
(e)	Finance costs	10	3,015,434	1,617,319
(f)	Depreciation and amortisation expense	7	5,248	5,248
(g)	Other expenses	11	371,645	516,351
	Total expenses		3,392,327	2,138,918
5	Profit / (Loss) before tax (3 - 4)		(3,392,327)	(2,138,918)
6	Tax expense:			
7	Profit / (Loss) for the year (5 +6)		(3,392,327)	(2,138,918)
	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: 25th May, 2012

AVANT GRADE INFOSYSTEMS INC, U.S.A

Notes forming part of the financial statements

NOTE # 2 SHARE CAPITAL

Particulars	As at 31 March, 2012		As at 31 March, 2011	
	Number of shares	₹	Number of shares	₹
(a) Authorised (Common Shares at no par Value)	50,000,000	-	50,000,000	-
(b) Issued, Subscribed & Paid up Capital	5,379,240	11,830,950	5,379,240	11,830,950
(35,80,000 Equity shares of US \$0.02/- and 17,99,240 equity Shares of US \$ 0.10)				
(Company has only one class of Shares i.e, Equity Shares with Voting rights)	5,379,240	11,830,950	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			
Year ended 31 March, 2012			
- Number of shares	5,379,240	-	5,379,240
- Amount (₹)	11,830,950	-	11,830,950
Year ended 31 March, 2011			
- 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, 2012	As at 31 March, 2011
	₹	₹
Holding Company		
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	11,830,950	11,830,950

NOTE # 3 RESERVES AND SURPLUS

Surplus / (Deficit) in Statement of Profit and Loss

Opening balance	(12,274,961)	(10,136,043)
Add: Profit / (Loss) for the year	(3,392,327)	(2,138,918)
Closing balance	(15,667,288)	(12,274,961)
Total	(15,667,288)	(12,274,961)

NOTE # 4 LONG-TERM BORROWINGS

Particulars	As at 31 March, 2012 ₹	As at 31 March, 2011 ₹
(a) Other loans and advances		
Unsecured		
Kernex Microsystems (India) Limited	12,206,203	11,815,271
Total	12,206,203	11,815,271

NOTE # 5 TRADE PAYABLES

Acceptances	-	-
Other than Acceptances	177,271	85,276
Total	177,271	85,276

NOTE # 6 OTHER CURRENT LIABILITIES

Interest Payable on Loan From Kernex Microsystems(India) Ltd	12,460,586	9,448,521
Total	12,460,586	9,448,521

NOTE # 8 CASH AND CASH EQUIVALENTS

(a) Cash on hand		-
(b) Balances with banks		
(i) In current accounts	109,521	1,607
Total	109,521	1,607
Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statements is :	109,521	1,607

NOTE # 9 OTHER CURRENT ASSETS

Unamortised expenses		
Product Development Expenses	20,835,126	20,835,127
Organisational & Start up Cost	63,075	68,323
Total	20,898,201	20,903,450

NOTE # 10 FINANCE COSTS

(a) Other borrowing costs	1,613,737	1,459,250
(b) Bank Charges	3,394	14,816
(c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost)	1,398,303	143,253
Total	3,015,434	1,617,319

NOTE # 11 OTHER EXPENSES

Rent	233,025	389,957
Accounting Charges	93,210	87,555
Taxes	45,410	38,839
Total	371,645	516,351


AVANT GRADE INFOSYSTEMS INC, U.S.A
Notes forming part of the financial statements
NOTE # 7 FIXED ASSETS

	Gross block			Accumulated depreciation and impairment			Net block	
	Balance as at 1 April, 2011	Additions	Balance as at 31 March, 2012	Balance as at 1 April, 2011	Depreciation expense for the year	Balance as at 31 March, 2012	Balance as at 31 March, 2011	
	₹	₹	₹	₹	₹	₹	₹	
A. (a) Plant and Equipment								
	560,795	-	560,795	560,795	-	560,795	-	
(b) Furniture and Fixtures								
	430,757	-	430,757	430,757	-	430,757	-	
(c) Office equipment								
	294,535	-	294,535	294,535	-	294,535	-	
	1,286,087	-	1,286,087	1,286,087	-	1,286,087	-	
	1,286,087	-	1,286,087	1,286,087	-	1,286,087	-	
	244,872	-	244,872	187,664	4,062	191,726	53,146	
	71,488	-	71,488	60,372	1,186	61,558	9,930	
							57,208	
							11,116	

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 2011 to 31st March, 2012

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 31.03.2012 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

20th Annual General Meeting September 27, 2012

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 20th Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Thursday, the September 27, 2012.

** 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 20th 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 Thursday, the September 27, 2012 and at every adjournment thereof.

Signed this day of , 2012.

Affix
Revenue
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.

PRINTED MATTER

BOOK - POST



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, e-mail : rajulv@kernex.in