

BOARD OF DIRECTORS

Sri. S V Subba Raju	Chairman
Sri. R Sankaran	Director
Col. L V Raju (Retd.)	Managing Director
Dr. M Anji Raju	Director
Col. S S Rajan (Retd.)	Director
Sri. B Murali Mohan	Director - (Technical)
Sri. S Nandakumar	Director
Dr. Jyoti Raju	Director

Chief Financial Officer

V Badarinarayana

BANKERS

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

AUDITORS

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

INTERNAL AUDITORS

DZR & CO.,
104, Praveen Residency,
#2-2-14/2/104, D.D. Colony,
Hyderabad - 500 007

REGISTRAR AND TRANSFER AGENT

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

REGISTERED OFFICE

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

DEVELOPMENT CENTRE

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

PROJECTS DIVISION

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

OVERSEAS SUBSIDIARY

Avant - Garde Infosystems Inc.,
#39158, Paseo Padre Parkway,
#230, Fremont, California, USA - 94538.

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NOTICE

Notice is hereby given that the Sixteenth Annual General Meeting of the members of the company will be held **on Friday, the September 19, 2008 at 03.30 p.m.** at Hotel Minerva Grand, Sarojinidevi Road, Secunderabad-500 003 to transact the following business.

ORDINARY BUSINESS

- 1) To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2008 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, 2008.
- 3) To appoint a Director in place of Dr Jyoti Raju who retires by rotation and being eligible, offers herself for re-appointment.

4) To appoint a Director in place of Sri. S.V.Subba Raju 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 : 27th June, 2008

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 transfer Books of the Company will be closed from September 15, 2008 to September 19, 2008 (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 19th, 2008 to those members, whose names appear on the Company's register of members as on September 19th, 2008. In respect of shares held in Electronic form, the Dividend will be payable to the beneficial owners of shares as at the end of business hours on September 15th, 2008 as per the details furnished by the depositories for this purpose.
3. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of the dividend. The Company or its Registrar cannot act on any

request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates, such changes are to be advised only to Depository participant of the shareholders.

4. To avoid the incidence of fraudulent encashment of the warrants, members are requested to intimate the Registrars and Share Transfer Agents of the Company under the signature of the Sole/First joint holder the following information so that the Bank account number and name and address of the Bank can be printed on dividend warrants, if and when issued:

- a. Name of sole/First joint holder and folio number
- b. Particulars of Bank Account viz.,
 - i) Name of the Bank
 - ii) Name of the Branch
 - iii) Complete address of the Bank with Pin Code Number
 - iv) Account type, whether Savings or Current Account
 - v) Bank Account number allotted by the Bank

5. Shareholders holding shares in physical form are requested to advise any change of address immediately to company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository participants and not to the Company.
6. At the ensuing Annual General Meeting Dr Jyoti Raju and Sri.S.V.Subba Raju shall retire by rotation and being eligible, offer themselves for re-appointment. Pursuant to clause 49 of the listing agreement, the particulars of Dr Jyoti Raju and Sri.S.V.Subba Raju are given hereunder
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 16th Annual General Meeting

Particulars	Dr. Jyoti Raju	Dr. S V Subba Raju
<i>Date of Birth</i>	<i>January 14, 1974</i>	<i>December 20, 1932</i>
<i>Date of Appointment</i>	<i>January 16, 2004</i>	<i>September 16, 1991</i>
<i>Qualifications</i>	<i>Bachelor of Engineering in computer science from Birla Institute of Technologies & Science, Pilani, MS in Computer Science with Phd in computer Science from university of California USA.</i>	<i>Commerce graduate</i>
<i>Expertise in specific Functional area</i>	<i>Seven years experience in defining, designing and developing Wireless Networking products.</i>	<i>40 years experiences in finance, Planning & Budgeting. He was Financial advisor to AP State Government for world Bank projects of approximately Rs.11000 Crores. He was additional secretary, Government of Andhra Pradesh for their financial department, primarily responsible for preparing Annual Budget for the state ways & means position of state Government.</i>
<i>Directorship held in other public companies (excluding foreign companies)</i>	<i>Nil</i>	<i>Nil</i>
<i>Memberships / Chairmanships of committees of other Public companies (includes only Audit and Shareholders/ Investors Grievance Committee)</i>	<i>Nil</i>	<i>Nil</i>
<i>Number of shares held in the company</i>	<i>2,48,329</i>	<i>1158</i>

DIRECTORS' REPORT

To
The Members
Kernex Microsystems (India) Limited

Your directors present herewith, the Sixteenth Annual Report together with the audited accounts of the company for the year ended 31st March, 2008.

Financial Results

Rs. in lacs

	2007-08	2006-07
Sales and Other Income	2487.92	2955.19
Profit before interest and depreciation	1032.47	1447.05
Interest	100.49	171.46
Depreciation	253.58	209.84
Profit before Tax	678.40	1065.75
Provision for Taxation	243.65	428.26
Profit after Tax	434.75	637.49
Add: Balance brought forward from previous year	1706.85	1218.31
Profit available for appropriation	2141.61	1855.80
Earnings Per Share (Rs.)		
- Basic	3.48	5.61
- Diluted	3.48	5.61
Appropriations:		
Transfer to General Reserve	11.00	16.00
Proposed Dividend	125.00	113.63
Income Tax on proposed Dividend	21.24	19.31
Utilised on Issue of Bonus Shares	113.63	-
Balance carried to the Balance sheet	1870.74	1706.86

Dividend:

Your Directors are pleased to recommend a dividend of 10% on the paid up capital of the company for the financial year 2007-2008. The dividend if approved at the ensuing Annual General Meeting, will be paid to those share holders, whose names appear on the register of members of the company as on September 19th, 2008 as per the rules applicable at that time.

Company's Business and Operating Results

Your company's product "the networked ACD System" for which exclusive rights for manufacturing and improvement are held has been finally approved in principle for deployment all over Indian Railways. Honourable Minister during a Railway Budget speech on 26th February, 2008, stated that ACD is found working satisfactory and therefore, proposed to be deployed in South Central and South Westren and Southern Railways. According to Railways Corporate Safety Plan, ACD deployment is to be completed all over Indian Railways by 2013-2014.

Action to release the proposed orders for 3 zones and connected loco sheds, along with the balance of NF Railways is being planned by Railways and are expected very soon.

In the last one year, the company was involved in number of operational trials of ACD System in North Frontier Railways and also in Konkan Railways. In NFR, performance analysis and data analysis was done by RDSO in March 2007, followed by spot evaluation by Safety Advisor, Indian Railways. Further to satisfy NF Railways and Railway Board further Performance was done in November 2007 and January 2008. In all, the performance levels achieved were very satisfactory and all functionalities of FRS were achieved.

In Konkan Route November-December 2007 and further February-March 2008, an epoch-making trials on Radio Data propagation in tunnels over 1.6 KMS was done for use along with ACD system by using ACD Repeaters and special protocols. It is found that results were satisfactory and the design was adequate to detect an impending head-on or rear-end collision and initiate the required actions.

As part of adding additional features to ACD System, in NF Railways, Solar Electric Fencing with split arrangements was successfully carried out. Single Board and Disc on Module were also experimented. This will further improve the ACD's working.

During the financial year, Operational Maintenance and Annual Maintenance Contracts was signed for NF Railways, which entitles maintenance of ACD System over 1750 KMS, employing over a manpower of 150 to 170 personnel. We have also started full fledged project office

in Guwahati, repair centres at Guwahati, New Jalpaiguri, Burdwan and also in Mughalsarai.

During this period, 375 ACDs with ABUs were fitted in Locos at Howrah, Andal, Patratu, Jamalpur, Mughalsarai, and Gonda after being duly manufactured at our facility except the ABUs.

We have also fitted additional Loco Bahar line ACDs and TID Assignment ACDs wherever required. Meanwhile, new BG line from Siliguri to Alipurduar has been fitted with ACDs and commissioned for use.

In Konkan Route, over 98 Repeaters were fitted in tunnels and also 11 Nos. Loco ACDs in Loco sheds after portable Loco ACD were converted into full size Loco ACDs. In Konkan Route based on "Go-ahead", AMC & OMC were carried out involving 750 KMS track route and 56 Loco sheds with over 145 Loco ACDs.

During this period we have also undertaken the study of WG4 locos for interfacing their braking system with ACDs. Study is still in progress. Further, ABU units required for Electric locos were also tried out.

Besides above, our R&D Division has done number of improvements and changes in the application software and hardware as required by the Konkan Railway Corporation. This includes AMSS, upgradation of ACD Reporting System & ACD survey automation system.

International Operations

Your company's International Marketing division continued marketing operation for selling the ACD and related systems in Egypt, South Africa, Brazil, Pakistan, Australia and South Asian countries.

As part of this marketing operation, your company has taken active part in the International Railway Safety Conference that was held in Goa from 29th Sept, 2007 to 3rd Oct, 2007 and also Industrial exhibition that was held in New Delhi in Nov 2007 to propagate ACD Systems.

Consequently the ACD System is short listed as one of the viable system for Egyptian Railways. South African Railways is also examining the possibility of integrating the ACD system with OBC system already installed in South African Railways, spoornet.

Research and Development and strategic Plan for acquiring new technologies

Main focus of the company is R&D and also acquiring of new technologies that are in Demand in India, especially related to railway safety and operations. The following R&D projects are continuing and making good progress:

- a) Up gradation of the ACD system by redesigning to withstand higher levels of vibrations that is up to of 5 to 10 Gs
- b) Improving Track ID determining system by use of different techniques especially with the help of DGPs and Vector Systems which give rate of turn.
- c) Integration RFID with the ACD technology for use in straight routes and multi-line corridors, urban Metros, etc.
- d) ACD self diagnostics and performance monitoring system
- e) Up gradation of ACD system to achieve higher levels of safety integrity level
- f) International Certification
- g) Use of online Data acquisition System for unloading of data.
- h) Based on the ACD performance opting of Lloyd Rail (UK)'s Independent performance verification and assessment.

The company has also been working on development of "Multi Section Digital Axle Counter" in collaboration with M/s Altpro, Zerob, Croatia. Complete test data, technical details, company details and Safety case has been submitted to RDSO, Indian Railways. Discussions with Altpro, to jointly manufacturing the product and KMIL to Market the product to Indian Railways is in progress.

Your company has already created facilities in the company for the following.

- a) Testing facilities
- b) Manufacturing facilities
- c) Design & Plan for customization.
- d) Grounds to manufacture in India with over 80% of indigenous component.



Meanwhile M/s Altpro, Croatia has appointed Kernex as their Sole technology partner / Altpro Agent / Joint Venture partner in Indian subcontinent for their product range like Digital Axle Counter, Train detection System, ATPS, SIFA, incident recorder and for other safety system.

Further your company has entered in to Technology partnership with Tiffien Batch, Germany for providing Automatic & Semi Automatic Level crossing system, up to Sil 3 levels. This should help Kernex to enter into International markets in semi developed and under developed countries like Africa and South East Asia and Australia for the supply a Level Crossing Systems.

Status of utilization of Initial Public offering proceeds

Out of Rs.99.01 Crores, collected through initial public offering of 39,60,444 equity shares of Rs.10/- each, the company has utilized Rs. 4237.95 lakhs for acquisition of Land, Manufacturing and purchase of equipment, creation of infrastructure for manufacturing of ACDs and allied safety systems on R&D, opening project offices in India. Balance of funds have been deposited with the State Bank of Hyderabad, the monitoring agency for the project expansion.

Progress achived on the expansion projects

- a) Establishment of new manufacturing centre for ACDs, ADDs and Advanced Signal Systems:** Construction of various buildings, including, Machinery and external services, Electrical supply, roads, sewage and compound walls, gates and other related security arrangements and also training centre, cafeteria and transit accommodation for trainees, R&D Block, Administration and manufacturing facility is nearing completion. The delay beyond the scheduled time of completion is attributed to non-availability of water supply by APIIC and shortage of power and labour.
- b) Establishment of Intelligent Transportation Technology Centre**

The company has so far purchased over 243 Acres of land at the Warangal highway near Yadagirigutta and has also acquired over 157 Acres land at Amanagul, Mehboobnagar District and acquisition

of further Land, in the area is planned and likely to be completed by October, 2008. Immediately, there after further works will start. Meanwhile, a few buildings of ITTC has been relocated in Hardware Park for security, administrative convenience, control and economy. All equipments required for this project have been fully acquired.

c) Special R&D Projects

The planning, Design and Execution is in progress at various levels on the following projects.

- i) Up-gradation of ACDs to International standard is in progress and is expected to be completed by Dec 2009 as the requirements have been changed as against the revised scheduled month of June, 2007, due to delay in availability of input details.
- ii) ADDs for Metro Sky-Bus: This is likely to get delayed as KRCL has not completed further trial on Sky Bus Metro, which is in progress.
- iii) SPAD: Planning is in progress and is expected to be completed by Dec, 2009 as against the revised scheduled month of June, 2008. This is due to delay in finalization of specifications and requirements by Indian Railways.
- iv) TAWD: Your Company dropped this product consequent to the dropping of the same by the Indian Railways Alternatively, in view of anticipated huge demand for the product called "Digital Axle Counter", your company is developing the same in the place of TWAD, as envisaged in the prospectus dated 06.12.2005 and would be completed by June, 2009.
- v) Hot Box and Wheel Vibration Detection systems is in progress and is expected to be completed by 31st Dec, 2009 as against the revised scheduled month of Nov, 2008. This is due to delay in finalization of specifications.

- d) International Marketing of ACD & other products:** At Head Quarters, International Marketing section has been established and required software, brochures and hardware has been provisioned. Besides, 40 ACDs are manufactured

as prototypes to be placed at client's site, your Company has appointed marketing agents in Egypt. Projects in the following countries are being closely followed:-

- a) Egypt - Egyptian National Railways
- b) Brazilian Railways
- c) Venezuela
- d) Indonesia
- e) South Africa

e) Establishing of Project Centres / Maintenance Centres

- i) Project Offices established in Guwahati and additionally at Margao in Goa.
- ii) Warranty Maintenance centres have been established in Margao, New Jalpaiguri, Guwahati and Burdwan, Mughalsarai, Karwar and Erode.
- iii) New Offices are being established in Delhi, Chennai, Guntakal and Hubli based on the release of new orders and also central survey centre at Hyderabad.
- iv) Other locations will be taken up in phased manner as per the commencement of work ordered by Indian Railways.

Overseas 100% Owned Subsidiary:

Your company has one wholly Owned Subsidiary in USA as on 31st March, 2008. 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, 2008 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:

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

Corporate Governance Report and Management Discussions and Analysis Report:

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

Fixed Deposits:

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

Conservation of Energy, Technology Absorption, etc.:

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



Employee Relations:

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

Particulars of Employees:

Information as per Section 217(2A) of The Companies Act, 1956 read with the Companies (particulars of employees) Rules, 1975 forming part of this Report is enclosed.

Directors:

Sri S V. Subba Raju and Dr.Jyoti Raju, Directors retire by rotation and being eligible, offer themselves for reappointment.

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, Central and State Government Authorities for their continued support during the year. Your Directors would like to place on record their appreciation of the contribution made by employees at all levels for their commendable team work, dedicated and whole hearted efforts made during the year.

For Kernex Microsystems (India) Limited

Place : Hyderabad

Date : 27th June, 2008

*S V Subba Raju
Chairman*

ANNEXURE TO THE DIRECTORS' REPORT

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

A. Conservation of Energy:

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

B. Technology absorption Adaptation and Innovation:

There is no imported technology involved in the operations of the company. The company continues to focus its attention towards the rapid technological changes in the fields of its activity and train the man power continuously to improve the productivity. The technologies being used are indigenous and the company has evolved a training methodology to measure the extent of adaptation by 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., which will become import substitute at economical prices suitable to Indian Railways and other railways working in developing countries.

C. Foreign exchange earnings and out go:

Foreign Exchange Earned

(Rs. In lacs)

Foreign Exchange Used

Nil

163.03

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

Place : Hyderabad
Date : June 27, 2008

S V Subba Raju
Chairman

Annexure to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of employees) Rules, 1975 and forming part of the Directors' report for the year ended March 31, 2008

Name	Designation	Remuneration (Rs. lacs)	Qualification	Date of Joining	Experience	Age (Years)	Previous Employment
Col L V Raju (Retd.)	Managing Director	38.09	M Tech	25.08.94	40 Years	63	Served in army and retired as Colonel
Sri. B Murali Mohan	Director- (Technical)	33.67	B.E in Elec.&Comm.	01.07.99	36 Years	60	General Manager, Electronics Coporation of India Ltd.

Remuneration includes salary and allowances, commission, company's contribution to Provident Fund.



MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to clause 49 of the listing Agreement, the Management discussion and analysis report covering the performance and outlook of the Company is given below:

A) INDUSTRY STRUCTURE, DEVELOPMENT AND OUTLOOK:

According to the corporate safety plan of Indian Railways, deployment of Anti-Collision system over 52,500 kms is to be completed by 2013-2014; taking the delay in proliferating the project, it may go to 2015 at the best. Honorable Minister of Railway announced on 26 Feb, 2008 during the presentation of Railway Budget, that the performance of ACD system was found to be satisfactory from the trials of NF Project and consequently, in three zones, where ACD survey has already been completed during 2003-2004 will be taken up for installation of ACD system and will be completed in about two years covering over 1750 track kms and also affiliated Loco sheds and SLRs.

During this period, the RDSO Site Acceptance was conducted in March, 2007 and Nov, 2007 data analysis was done in Jan, 2008. In all tests and data analysis, the ACD system has outperformed the parameters laid down. At present administrative and departmental procedures are in progress for the commencement of the actual Project. Further, it is also envisaged that in NF Zone of Railways, an additional ACDs over 1300 to 1500 nos., will be required, to complete the Zone and also all locos to be fitted. This portion of the project is on the anvil.

In case of Metro Sky Bus System, KRCL is still to complete the modifications and trials on their test track. It may take over two years for completing trials and certification. Meanwhile, your company has succeeded in submitting relevant technical and administrative details required by RDSO, to register Kernex as a supplier for "Digital Multiple Section

Axle Counter". The data has been accepted and awaiting the initial order of nearly 15 Nos for trial purpose. The Digital Axle Counters are planned to be indigenized and made by your company. Your company is also pursuing the technological acquisition path, to obtain latest technologies in signal system, acoustic track Circuiting system, Hot Bearing Detecting system, Automatic Level Crossing System, Rail defect detection system and RFID technology for use in railways. In about 12 months tangible results would be seen.

Your Company continues to explore the overseas markets for the sale of ACD System and also acquisition of new systems with a view to grow to become a major supplier of safety systems for the Indian Railways.

Meanwhile, for ACD market, we have a great scope in South Africa and its neighboring countries, Egypt, Sudan, Lybya, Brazil, Argentina, Pakistan, Bangladesh and South East Asia, We are on continuous look out for solid state interlocking system, Automatic Level Crossing equipment, Hot Box Detection System, Ultromic rail flaw detection system and ATPS.

B) OPPORTUNITIES, THREATS, RISKS AND CONCERNS

Your Company is an unique player in the market in manufacturing, erection, installation and commission, Operational Maintenance and Annual Maintenance Support for providing Anti-Collision systems for Indian Railways on turnkey basis. The market share can only be retained by constantly striving to improve the product and add new features, thus providing comprehensive benefits to users in comparison with similar products in the world market.

ACD Deployment in Indian Railways can bring down the fatal accidents and losses and damages to a bear minimum. However, one aspect that is to be appreciated and reported is the use of ACD system for providing the maximum safety at gates by use of Flashers and Hooters that are actuated by ACD fitted Trains, in rural areas.

Indian Railways is also a great market for a product like Digital Axle Counters and Multi Section Axle Counters.

Further in house development and acquisition of number of railway technologies which are in hot demand are our prime focus. These are solid state inter locking system, Hot Box Detection System, Automatic Control system for Crossings, Signal passing at Danger- Prevention system and rail flaw detection system, etc. Your Company is continuously striving to achieve the desired break through in technology resourcing.

Further, End of Train Device, loco control for use with Multiple Diesel Locos and use of RFID for tracking and monitoring of Wagons and for track Identification. Manufacturing RFID tags and Readers are also our focus areas.

Other opportunity waiting in the wings is the provision of ATP system for Metro Trains that are planned in major cities of the country. With technological collaboration, your company can become one of the important player in this field too.

Biggest threat the company faces is from Multi Nationals, who want to sell their equipment in India. To get over this competition, your Company is up grading the technology at fast pace.

Risk and concern are the delays in decision making, administrative and departmental procedures which

delay the receipt of orders, making our facilities idle and under productive.

C) ANALYSIS OF FINANCIAL PERFORMANCE OF THE COMPANY

During the financial year under review, the total revenues of the company are generated from the manufacture and turnkey execution of net worked ACDs and related works. The total revenues earned are Rs. 2487.92 lacs as compared to the revenues of previous year Rs. 2955.19 lacs, lower by 15.81%. In fiscal 2007-08 Company's profit before taxes aggregated Rs.678.40 lacs as compared to Rs. 1065.75 lacs in the previous year, lower by 36.35%. The Profit after Tax aggregated to Rs.434.75 lacs as against previous year's of Rs. 637.49 lacs, lower by 31.80%.

In 2007-08, the Company's consolidated total income aggregated Rs.2484.47 lacs as compared to Rs 2958.90 lacs in 2006-07. The Company's consolidated profit before taxes aggregated Rs. 619.45 lacs in 2007-08 as compared to Rs. 1068.21 lacs in 2006-07. The Profit after Tax aggregated to Rs. 375.80 Lacs for 2007-08 as against previous year's of Rs. 639.95 Lacs.

The Company's revenue recognition method in case of product sales is net of returns and applicable trade discounts. In case of service income, it is as per the terms of the Contract with the client, Service rates and services performed like Erection, Installation & Commissioning, Incubation, Provision of Operational support, Annual Maintenance contractual support or software development services.

During the financial year under review, the decrease in revenues is mainly attributable to the facts like additional features being incorporated in the



Networked ACD Systems and continuous postponement of SAT by Railways and consequently, Indian Railways rescheduled their release of order program, thus ultimately affected the revenue streams of the Company.

D) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has in place systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from un-authorized 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, IT Process in the Company. Safeguarding of assets and their protection against un-authorized 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. Suggestion for the improvements are considered and the Audit Committee follows up on the implementation of corrective actions. The Committee also meets the Company's statutory auditors and Internal Auditors to ascertain, interalia, 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.

E) MATERIAL DEVELOPMENTS IN HR/ INDUSTRIAL RELATIONS FRONT INCLUDING NUMBER OF PEOPLE EMPLOYED

During the fiscal, the Company has added substantial number to human resources. The company had an addition of 71 and the total number of employees as on March 31, 2008 is 474 as against 403 of March 31, 2007

The Company has created a favourable work environment that encourages innovation and meritocracy besides having a vibrant work atmosphere that provides its employees with an opportunity to work on new technologies, which enables to leverage talents. As a future focused organization, the Company has continuously rejuvenated competence through training, cross training and skill up-gradation.

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

F) CAUTIONARY STATEMENT:

Statements in the Management's Discussion & Analysis Report, which seek to describe the Company's objectives, projections, estimates, expectations or predictions may be considered to be "forward looking statements" and are stated as required by applicable laws and regulations. Actual results could differ from those expressed or implied. Many factors including global and domestic demand-supply conditions, prices, raw-materials availability, technological changes, changes in Government Regulations and policies, tax laws and other statutes may effect the actual results, which can be different from what the 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 it self 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 Chairman. The Board of Directors of the Company consists of eminent persons with professional expertise. The Board comprises of two Executive Directors and six Non-executive Directors, of whom four are independent Directors as on March 31, 2008. 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 2007-08		Whether Attended AGM held on 06.09.07	No. of Directorships in other public companies		No. of committee positions held in other public companies	
		Held	Attended		Chairman	Member	Chairman	Member
Sri. S.V. Subba Raju, Chairman	Independent Non-Executive	6	6	Yes	-	-	-	-
Col. L V Raju (Retd.)	Non-Independent Executive	6	6	Yes	-	-	-	-
Sri. B Murali Mohan	Non-Independent Executive	6	4	Yes	-	-	-	-
Dr. M Anji Raju	Non-Independent Non-Executive	6	3	Yes	-	-	-	-
Sri. R Sankaran	Independent Non-Executive	6	6	Yes	-	1	1	2
Col S S Rajan(Retd.)	Independent Non-Executive	6	6	Yes	-	-	-	-
Sri. S Nandakumar	Independent Non-Executive	6	5	Yes	-	-	-	-
Dr. Jyoti Raju	Non-Independent Non-Executive	6	0	-	-	-	-	-



- iv) 6 Board Meetings were held during the year ended March 31, 2008 and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows. May 14, 2007; June 29, 2007; July 27, 2007; September 7, 2007; October 29, 2007; and January 30, 2008.*
- v) None of the Non-Executive Directors have any material pecuniary relationship or transaction with the Company.*
- vi) Necessary information as mentioned in Annexure 1A to clause 49 of the listing agreement has been placed before the Board for their consideration.*

3. Audit Committee:

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

- iii. The Audit Committee Meetings are usually held at the Registered office of the Company and are usually attended by the Managing Director, Finance head, Statutory Auditors and representatives of the internal auditors.,
- iv. The last Annual General Meeting of the Company was held on September 6, 2007 and the Chairman of the Audit Committee has attended the AGM.
- v. The composition of the Audit Committee as on March 31, 2008 and particulars of meetings attended by the members are as follows:

Name	Category	No. of Meetings during the year 2007-08	
		Held	Attended
Sri. R Sankaran, Chairman	Independent Non-Executive	5	5
Col. S S Rajan (Retd.)	Independent Non-Executive	5	5
S V Subba Raju	Independent Non-Executive	5	5

Five Audit Committee Meetings were held during the year ended March 31, 2008 i.e. May 14, 2007; June 28, 2007; July 26, 2007; October 29, 2007; and January 30, 2008.

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

4. Remuneration Committee

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

Name	Category	No. of Meetings during the year 2007-08	
		Held	Attended
Sri R Sankaran, Chairman	Independent Non-Executive	2	2
Col. S S Rajan (Retd.)	Independent Non-Executive	2	2
Sri. S Nandakumar	Independent Non-Executive	2	2

During the year ended March 31, 2008, two meetings of the Remuneration Committee were held on June 28, 2007 and October 29, 2007.

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

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

6. Details of Remuneration and other terms of appointment of Directors:

A) Managing/Whole-time Directors:

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

Compensation to Managing Director and Whole time Director for the financial year 2007-08 is as follows.

Name	Designation	REMUNERATION (Rs. Lacs)		
		Salary & Benefits	Commission	Total
Col. L. V. Raju (Retd.)	Managing Director	36.09	2.00	38.09
Mr. B. Murali Mohan	Whole time Director	22.89	9.00	31.89

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

B. Non- Executive Directors:

The Non-Executive Directors (NEDs) are paid sitting fee at the rate of Rs.10000/- For each meeting of the Board and Rs. 7500/- for attending each of committee meetings of the Board. The Company also reimburses the out of pocket expenses incurred by the Directors for attending meetings.

Apart from the sitting fee, commission on the net profits of the company amounting Rs. 7.60 lacks, is provided in the accounts for the financial year 2007-2008 to be payable to Non-Executive directors, subject to the approval and as may be decided by the Board.

Sitting fee paid and commission to non executive Directors for the Financial Year 2007-08, is as follows.

Name	Sitting fee (Amount in Rs)	*Commission (Amount in Rs.)	Total (Amount in Rs.)
Sri. S V Subba Raju	97,500	1,77,872	2,75,372
Sri R Sankaran	1,12,500	2,10,213	3,22,713
Col S S Rajan	1,12,500	2,10,213	3,22,713
Sri M Anji Raju	30,000	48,510	78,510
Sri S Nandakumar	65,000	1,13,192	1,78,192
Dr. Jyoti Raju	0	-	-

7. Share holding of the Directors in the Company as on March 31, 2008.

Name	No. of Shares of Rs.10/- each
Sri S V Subba Raju, Chairman	1158
Col. L V Raju (Retd.)	2,25,863
Sri. B Murali Mohan	29,156
Dr. Anji Raju	4,31,578
Dr. Jyoti Raju	1,73,329

5. Shareholders/Investors Grievance Committee:

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

Name	Category
Sri S V Subba Raju, Chairman	Independent Non-Executive
Col. S S Rajan (Retd.)	Independent Non-Executive
Sri. S Nandakumar	Independent Non-Executive

- iii. Col.L.V.Raju (Retd.) Managing Director is the Compliance Officer.
- iv. Details of complaints received and redressed:

Opening Balance	Received during the period 01.04.2007 to 31.03.2008	Resolved during the period 01.04.2007 to 31.03.2008	Closing Balance
Nil	45	45	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
2006-07	15th AGM	Tuesday, September, 06, 2007 at 11.00 A.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003
2005-06	14th AGM	Tuesday, September, 19, 2006 at 11.00 A.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003
2004-05	13th AGM	Friday, June 17, 2005 at 11.00 A.M.	"THRUSHNA", Plot No:7, Software Units Layout, Madhapur, HYDERABAD -81



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

No. of AGM	Item on which special resolution passed
15th AGM	1. Appointment of sole selling agents for Egypt 2. Appointment of sole selling agent for Brazil & Venezuela 3. Approval for issue of Bonus shares.
14th AGM	1. Alteration of articles of Association of the Company. 2. Keeping the register of members along with the index thereto etc., at place Other than the registered office of the company. 3. Payment of commission to Non-executive Directors
13th AGM	Nil

All the above resolutions were passed with requisite majority

- iii. For the past three years there were no ordinary or special resolutions passed that require a postal ballot. No Special Resolution, which requires approval through postal ballot, is proposed to be conducted at the ensuing Annual General Meeting.

7. Disclosures

- i. There are no materially significant related party transactions of the Company with Promoters, directors or the Management or their relatives or the Subsidiary Company which have potential conflict with the interest of Company at large. Transactions with related parties as per requirements of Accounting Standards - (AS-18) - "Related Party Disclosures" issued by the Institute of Chartered Accountants of India are disclosed in Note 12 of Schedule: S to the accounts in the Annual Report.
- ii. There were no cases of non-compliance by the Company, penalties, strictures imposed on the Company by stock exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the year ended March 31, 2008.
- iii. The Company is in compliance with all the mandatory requirements and has fulfilled the non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreement with Stock Exchanges to the extent of setting up a remuneration committee. Please see the para on Remuneration Committee for details.
- iv. **Code of conduct:** The code of conduct as adopted by the Board of Directors is applicable to all directors, senior management and employees in above officers' level. The prime purpose of the code is to create an environment wherein all the Board Members and Senior Management of the Company maintain ethical standards and to ensure compliance to the laid down ethical standards. The code is available on the Company's website: www.kernex.in

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, 2008

Place : Hyderabad

Date : June 27, 2008

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 and Chief Financial Officer 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.*

8. 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, Business standard, Andhrabhoomi and Andhrajyothi. The results are also displayed on the Company's web site www.kernex.in. Official press releases made by the Company from time to time are also displayed on the website. Presentations made to the institutional investors and analysts after the declaration of quarterly, half-year and annual results are displayed on the Company's website. The Management's Discussion and Analysis is a part of the Company's annual report.

9. General Shareholders information

i) Annual General Meeting

Date	: September 19, 2008
Time	: 3.30 P.M.
Venue	: Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003.

ii) Financial Calendar

Year ending	: March 31, 2008
AGM	: September 19, 2008
Dividend Payment	: With in 30 Days of declaration by the Shareholders

iii) Date of Book Closure

: September 15, 2008 to September 19, 2008
(Both days inclusive)

iv) Listing on Stock Exchange

: Bombay Stock Exchange Limited
The National Stock Exchange of India Limited

v) Stock Code/Symbol

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

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

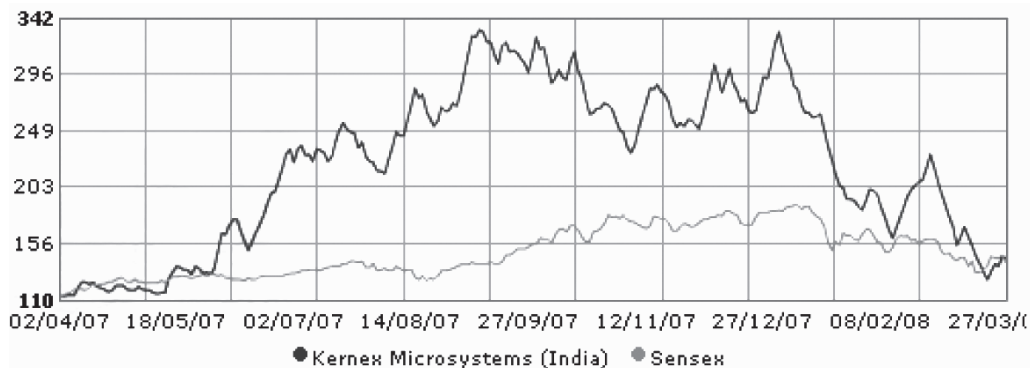
: INE202H01019.Vv

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-07	142.90	123.00	284126	142.95	123.00	177438
May-07	157.90	124.80	643004	159.70	127.00	418503
June-07	264.00	147.00	1956747	252.95	147.00	1506919
July-07	292.00	232.70	938858	291.00	232.15	672082
Aug-07	324.40	225.10	821516	327.00	224.70	475410
Sep-07	373.00	300.00	654776	375.00	300.00	349313
Oct-07	369.90	253.25	365652	369.90	254.55	203665
Nov-07	297.80	230.00	202663	297.70	228.00	115655
Dec-07	318.75	253.30	391322	319.00	250.05	274793
Jan-08	336.35	183.05	327268	339.60	184.00	272360
Feb-08	241.80	159.25	603930	241.80	157.30	486490
March-08	202.00	122.80	318634	201.00	123.15	263628

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

Historic Graphs



- ix) Registrar and Transfer Agents : Karvy Computershare Pvt Ltd.,
Name & Address : 46, Avenue 4, Street
1, Banjara Hills,
Hyderabad - 500 034
Tel: 91 - 40 233 12454
Fax: 91 - 40 233 11968 / 23049
E-mail: ksreddy@karvy.com
Contact Person: Mr. K S Reddy

- 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, 2008):

a) Distribution of shareholding as on March 31, 2008

No. of Shares	Holding	% to Capital	No. of accounts	% to Total Accounts
1 - 500	11473660	9.17	17015	93.76
501 - 1000	3817460	3.05	541	2.98
1001 - 2000	3557350	2.85	263	1.45
2001 - 3000	2325720	1.86	95	0.52
3001 - 4000	1319200	1.06	37	0.20
4001 - 5000	1282230	1.03	28	0.15
5001 - 10000	4063910	3.25	58	0.32
10001 & above	97157020	77.73	111	0.62
GRAND TOTAL	124996550	100.00	18148	100.00

b) Categories of Shareholders as on March 31, 2008

Category	No. of shareholders	No. of shares	Percentage
Indian Promoters	1	225863	1.81
Foreign Promoters	6	2550947	20.41
Persons acting in Concert			
- Indian	4	338115	2.70
- Foreign	11	4064699	32.52
Mutual Funds and UTI	3	1,52738	1.22
Banks, Financial Institutions,	1	50	-
Insurance Companies (Central / State Gov.	-	-	-
Institutions / Non-government Institutions)	-	-	-
Foreign Institutional Investors	-	-	-
Private Corporate Bodies	603	1254004	10.03
Indian Public	17224	2954643	23.64
NRIs / OCBs	198	852197	6.82
Any other (Trust) / Foreign Trust	4	49.360	0.39
Clearing Members	78	57039	0.46
TOTAL	18113	12499655	100.00

xii) Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 56% of the company's share capital are dematerialized as on March 31, 2008.

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, 2008, the company did not have any outstanding GDRs / ADRs / Warrants or any convertible instruments



- xiv) *Manufacture facility Locations* : *Kernex Microsystem (India) Ltd.
THRUSHNA" Plot No.7,
Software Units Layout
Infocity, Madhapur
Hyderabad-500 081*
- xv) *Address for Correspondence* : *Kernex Microsystem (India) Ltd.
THRUSHNA" Plot No.7,
Software Units Layout
Infocity, Madhapur
Hyderabad-500081*
-

AUDITORS' CERTIFICATE REGARDING CORPORATE GOVERNANCE

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

We have examined the compliance of the conditions of Corporate Governance by Kernex Microsystems(India) Ltd., for the year ended 31st March 2008, 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 a review of the procedures and implementation there of, adopted by the Company for ensuring the compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

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

For GMK ASSOCIATES.,
Chartered Accountants

G Satyanarayana Murty
Partner
Membership No.:29919

*Place : Hyderabad
Date : 27th June, 2008*

AUDITOR'S REPORT

To the members of Kernex Microsystems (India) Limited

We have audited the attached Balance Sheet of Kernex Microsystems (India) Limited, as at March, 31, 2008 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

- (iv) In our opinion , the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ;
- (v) On the basis of written representations received from the directors as on March 31, 2008 and taken on record by the Board of Directors , we report that none of the directors is disqualified as on March 31, 2008 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, 2008;
 - (b) In the case of Profit and Loss Account, 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

G Satyanarayana Murty

Place : Hyderabad

Partner

Date : 27th June, 2008

Membership No.: 29919



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) *It is informed to us that management has a policy of verifying fixed assets physically once in every three years. Verification of Fixed assets is not due during the year. The Frequency of Verification is Satisfactory.*
- (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) *In our opinion the Company has maintained proper records of inventory. There are no discrepancies between the physical stocks and the book stocks;*
- (III) (a) *During the year, the Company has not granted any loans, secured or unsecured, to the companies, firms or other parties covered in the register maintained under Section 301 of The Companies Act, 1956. Hence Clauses (iii) (b), (c) & (d) of the Order are not applicable.*
- (b) *The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence Clauses (iii) (f) & (g) of the Order are not applicable.*
- (IV) *In our opinion and according to the information and explanations provided to us there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and*
- for sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control.*
- (V) *Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 have been entered and the transactions are made at prices which are reasonable with regard to the prevailing market prices at the relevant time;*
- (VI) *The Company has not accepted any deposits from the public during the year under review falling under section 58A and 58AA of The Companies Act 1956;*
- (VII) *The Company has an internal audit conducted by external auditors, which, in our opinion is commensurate with the size and nature of the business of the company;*
- (VIII) *We have broadly reviewed the books of account maintained by the Company in respect of the products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of Sub Section 1 of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.*
- (IX) (a) *According to the records, information and explanations provided to us, the Company is generally regular in depositing with appropriate authorities undisputed amount of Provident Fund, Investor Education and Protection Fund, Employee's State Insurance, Income-Tax, Sales-Tax, Wealth-Tax, Service Tax, Customs Duty, Excise Duty, Cess and other statutory dues applicable to it and no undisputed amounts payable were outstanding as at 31st March, 2008 for a period of more than six months from the date they became payable ;*
- (b) *According to the information and explanations provided to us, particulars of out standing dues of Income tax have not been deposited on account of any dispute are given below:*

Name of Statute	Nature of the Dues	Period to which the amount relates	Amount (Rupees in Lakhs)	Forum where dispute is pending
Income Tax Act	Income Tax	A. Y 1998-99	8.00	High Court
Income Tax Act	Income Tax	A Y 1998-99	8.59*	ITAT
Income Tax Act	Income Tax	A Y 1999-00	27.07*	ITAT
Income Tax Act	Income Tax	A Y 2000-01	26.80*	ITAT
Income Tax Act	Income Tax	A Y 2001-02	7.13*	ITAT

* Out of the above an amount of Rs.34.80 lakhs has been paid and is shown under Current Assets.

- (X) The Company neither has accumulated losses at the end of the financial year nor has incurred cash losses during the year, and 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

Place : Hyderabad
Date : 27th June, 2008

G Satyanarayana Murty
Partner
Membership No.:29919



Balance Sheet as at March 31, 2008

(Amount in Rupees)

	Schedule Reference	AS AT 31.03.2008	AS AT 31.03.2007
I. SOURCES OF FUNDS			
(1) Shareholders' funds :			
(a) Capital	A	124,996,550	113,633,230
(b) Reserves and Surplus	B	1,164,806,851	1,147,318,741
(2) Deferred Tax Liability		1,121,059	6,844,916
(3) Loan funds			
(a) Secured Loans	C	44,792,025	115,316,846
TOTAL		<u>1,335,716,485</u>	<u>1,383,113,733</u>
II. APPLICATION OF FUNDS			
(1) Fixed Assets :	D		
(a) Gross block		314,424,630	287,443,687
(b) Less : Depreciation		<u>96,033,841</u>	<u>70,675,591</u>
(c) Net block		218,390,789	216,768,096
(d) Capital Work-in-progress (Including advances)		349,981,370	162,651,708
(2) Investments	E	11,830,950	11,830,950
(3) Current Assets, Loans and advances			
(a) Inventories	F	142,644,731	109,708,195
(b) Sundry Debtors	G	233,176,416	237,579,706
(c) Cash and bank balances	H	379,287,222	651,594,798
(d) Loans and Advances		<u>57,398,381</u>	<u>70,580,943</u>
		812,506,750	1,069,463,642
Less :			
Current Liabilities and Provisions	J		
(a) Current Liabilities		42,105,299	55,383,009
(b) Provisions		<u>14,888,075</u>	<u>22,217,654</u>
Net Current Assets		<u>755,513,376</u>	<u>991,862,979</u>
TOTAL		<u>1,335,716,485</u>	<u>1,383,113,733</u>
Notes on Accounts	S		

Schedules form part of the Accounts

As per our report of even date

for **GMK ASSOCIATES,**

Chartered Accountants

For and on behalf of the Board

(G Satyanarayana Murty)

Partner

Membership No. 29919

S V Subba Raju

Chairman

Col. L V Raju (Retd.)

Managing Director

Place : Hyderabad

Date : 27th June, 2008

V. Badarinarayana

Chief Financial Officer

Profit and Loss Account for the year ended March 31, 2008

(Amount in Rupees)

	Schedule Reference	For the Year ended 31.03.2008	For the Year ended 31.03.2007
INCOME			
Sales and Services	K	228,007,719	251,863,078
Less: Duties and Taxes	M	24,944,721	25,257,692
Net Sales and Services		203,062,998	226,605,386
Other Income	L	45,728,989	68,913,866
TOTAL		248,791,987	295,519,252
EXPENDITURE			
Cost of Materials and Services	N	49,915,507	95,273,671
(Increase) / Decrease in Stocks	O	(24,613,168)	(54,059,718)
Personnel Expenses	P	67,367,082	62,515,721
Operating, Admn and Selling Expenses	Q	56,794,968	47,084,535
Finance Charges	R	10,048,781	17,145,766
Depreciation	D	25,358,248	20,984,209
TOTAL		184,871,418	188,944,184
Prior Period Income		3,919,509	–
Profit before Tax		67,840,078	106,575,068
Less : Provision for Taxation:			
(a) Current Year		29,159,003	31,700,000
(b) Fringe Benefit Tax		908,422	953,760
(c) Deferred Tax		(5,723,858)	9,837,359
(d) Earlier Years		21,107	334,735
Profit after Tax		43,475,404	63,749,214
Add : Profit brought forward from Previous Year		170,685,565	121,830,871
Profit Available for Appropriation		214,160,969	185,580,085
Less : Provision for Dividend		12,499,655	11,363,323
Less : Tax on distributed Profits		2,124,316	1,931,197
Less : Utilized on Issue of Bonus Shares		11,363,323	–
Less : Transfer to General Reserve		1,100,000	1,600,000
Balance Carried to Balance Sheet		187,073,675	170,685,565
Earning Per Share- Basic		3.48	5.61
Diluted		3.48	5.61
Notes on Accounts	S		

Schedules form part of the Accounts

As per our report of even date

for **GMK ASSOCIATES,**

Chartered Accountants

For and on behalf of the Board

(G Satyanarayana Murty)

Partner

Membership No. 29919

S V Subba Raju

Chairman

Col. L V Raju (Retd.)

Managing Director

Place : Hyderabad

Date : 27th June, 2008

V. Badarinarayana

Chief Financial Officer

Schedules to the Balance Sheet
(Amount in Rupees)

	As at 31.03.2008	<i>As at 31.03.2007</i>
SCHEDULE - A		
SHARE CAPITAL		
AUTHORISED CAPITAL		
<i>1,50,00,000 Equity Shares of Rs.10/- each</i>	150,000,000	<i>150,000,000</i>
ISSUED SUBSCRIBED AND PAID UP CAPITAL		
<i>12,499,655 EQUITY SHARES OF Rs.10/- each (11,363,323 Equity Shares of Rs.10/- each for the Previous Year) (Of the above shares 5,522,177 number of Equity Shares of Rs 10/- each were allotted by way of bonus shares by capitalizing free reserves of the company)</i>	124,996,550	<i>113,633,230</i>
	124,996,550	<i>113,633,230</i>
SCHEDULE - B		
RESERVES AND SURPLUS		
Securities Premium		
<i>As at the commencement of the year</i>	917,219,545	<i>917,219,545</i>
<i>Add: Received during the year</i>	-	<i>-</i>
	917,219,545	<i>917,219,545</i>
General Reserve		
<i>At the commencement of the year</i>	59,413,631	<i>57,813,631</i>
<i>Add: Transfer from the Profit & Loss account</i>	1,100,000	<i>1,600,000</i>
	60,513,631	<i>59,413,631</i>
<i>Balance in Profit & Loss A/c</i>	187,073,675	<i>170,685,565</i>
	1,164,806,851	<i>1,147,318,741</i>
SCHEDULE - C		
SECURED LOANS		
<i>Short Term loan from SBH</i>	43,519,215	<i>71,259,000</i>
<i>Interest accrued and due</i>	-	<i>428,578</i>
<i>Cash Credit from SBH</i>	-	<i>41,767,738</i>
<i>Vehicle loans</i>	1,272,810	<i>1,861,530</i>
	44,792,025	<i>115,316,846</i>

Schedules to the Balance Sheet

SCHEDULE "D"

FIXED ASSETS

(Amount in Rupees)

Name of the Asset	Gross Block			Depreciation			Net Block		
	As on 1-Apr-07	Additions during the Year	Deductions /Deletions	As on 31-Mar-08	Upto 1-Apr-07	During the year	Adjustments	Upto 31-03-08	As on 31-Mar-07
Land & Land development	107,989,108	24,828,675	-	132,817,783	-	-	-	-	107,989,108
Building	43,671,920	-	-	43,671,920	12,320,685	3,135,125	-	15,455,810	31,351,235
Plant & Machinery including Computers	110,896,213	975,069	-	111,871,282	46,214,338	19,792,289	-	66,006,627	64,681,875
Office Equipment	8,535,506	26,828	-	8,562,334	3,186,806	745,925	-	3,932,731	5,348,700
Furniture	10,631,253	91,426	-	10,722,679	6,032,236	840,287	-	6,872,523	4,599,017
Vehicles	5,719,687	1,058,945	-	6,778,632	2,921,527	844,623	-	3,766,150	2,798,160
Total	287,443,687	26,980,943	-	314,424,630	70,675,592	25,358,249	-	96,033,841	216,768,095
As On 31-03-07	169,406,531	118,037,156	-	287,443,687	49,691,382	20,984,209	-	70,675,591	119,715,149
Capital Work-in-Progress									162,651,708
									349,981,370

Schedules to the Balance Sheet

(Amount in Rupees)

	As at 31.03.2008	As at 31.03.2007
SCHEDULE - E		
INVESTMENTS		
<i>Long Term, Trade (Unquoted)</i>		
<i>35,80,000 equity shares of US\$0.02 and</i>	11,830,950	11,830,950
<i>17,99,240 equity shares of Us\$0.10 in</i>		
<i>Avant-Garde Infosystems Inc.USA (Fully Paid)</i>		
<i>100% subsidiary</i>	11,830,950	11,830,950
SCHEDULE - F		
INVENTORIES (As certified by Management)		
<i>Work in progress</i>	109,369,168	84,756,000
<i>Closing Stock of Materials</i>	33,275,563	24,952,195
	142,644,731	109,708,195
SCHEDULE - G		
SUNDRY DEBTORS		
<i>(Unsecured and considered good)</i>		
<i>Outstanding for a period exceeding Six months</i>	85,645,362	70,100,303
<i>Other Debts</i>	147,531,054	167,479,403
	233,176,416	237,579,706
SCHEDULE - H		
CASH AND BANK BALANCES		
<i>Cash in Hand</i>	41,616	54,891
<i>Cash at Bank :</i>		
<i>in Current Account with scheduled Banks</i>	53,340,790	145,967,741
<i>in Fixed Deposits</i>	325,904,816	505,572,166
	379,287,222	651,594,798
SCHEDULE - I		
LOANS AND ADVANCES		
<i>(Considered good, recoverable in cash or</i>		
<i>in kind or for value to be received)</i>		
<i>Advances to Suppliers & Services</i>	7,855,455	9,710,464
<i>Deposits</i>	20,212,485	27,255,060
<i>Deferred Interest</i>	138,763	258,109
<i>Loan to Avant-Garde Infosystems inc. (USA 100% WOS)</i>	19,160,503	13,839,270
<i>Other Current Assets</i>	10,031,175	19,518,040
	57,398,381	70,580,943

Schedules to the Balance Sheet

(Amount in Rupees)

	As at 31.03.2008	As at 31.03.2007
SCHEDULE - J		
CURRENT LIABILITIES AND PROVISIONS		
(A) CURRENT LIABILITIES		
<i>Creditors for Supplies</i>	2918966	17827389
<i>Creditors for Expenses</i>	38,725,700	37,064,837
<i>Share Application Money unpaid refund A/c</i>	418,300	424,550
<i>Unclaimed Dividend</i>	42,333	66,233
	42,105,299	55,383,009
(B) PROVISIONS		
<i>Income Tax (Net)</i>	2,64,104	4239728
<i>Dividend</i>	12,499,655	11,363,323
<i>Dividend Distribution Tax</i>	2,124,316	1,931,197
<i>Gratuity</i>	-	3,793,006
<i>Warranty Costs</i>	-	890,400
	14,888,075	22,217,654

Schedules to the Profit and Loss Account

	For the Year ended 31.03.2008	<i>Amount in Rupees.</i> <i>For the Year ended 31.03.2007</i>
SCHEDULE - K		
SALES AND SERVICES		
(A) Sales Domestic	3,550,569	33,585,581
(B) Service income	224,457,150	218,277,497
	228,007,719	251,863,078
 SCHEDULE - L		
OTHER INCOME		
Interest Received: Banks	39,739,199	55,826,880
Others	1,401,725	-
Excess provisions made in earlier years written back	-	9,308,089
Miscellaneous Income	4,588,065	3,778,897
	45,728,989	68,913,866
 SCHEDULE - M		
DUTIES AND TAXES		
Central Excise Duty	336,749	3,899,087
Service Tax	24,504,103	18,934,264
Sales Tax	83,157	1,160,397
Works Contract Tax	20,712	1,263,944
	24,944,721	25,257,692
 SCHEDULE - N		
COST OF MATERIALS & SERVICES		
Consumption of raw materials and bought-out items		
Opening Stock of raw materials	24,952,195	20,124,529
Add : Purchases	14,089,160	67,230,909
Less: Closing Stock	33,275,563	24,952,195
Material consumed	5,765,792	62,403,243
Accessories purchased	1,867,212	8,005,908
Project Execution Expenses	42,282,503	42,553,520
	49,915,507	112,962,671
Less: Value of Internal Consumption	-	17,689,000
Net Cost of Materials & Services	49,915,507	95,273,671

Schedules to the Profit And Loss Account

	Amount in Rupees.	
	For the Year ended 31.03.2008	For the Year ended 31.03.2007
SCHEDULE - O		
(INCREASE) / DECREASE IN STOCKS		
Opening Work in progress	84,756,000	30,696,282
Closing work in progress	109,369,168	84,756,000
	<u>(24,613,168)</u>	<u>(54,059,718)</u>
SCHEDULE - P		
PERSONNEL EXPENSES		
Salaries and Other Benefits	59,804,307	56,568,570
Contribution to PF & Other funds	3,649,009	3,064,986
Staff Welfare	3,913,766	2,882,165
	<u>67,367,082</u>	<u>62,515,721</u>
SCHEDULE - Q		
OPERATING, ADMINISTRATIVE AND SELLING EXPENSES		
Rent	2,400,000	1,597,200
Rates and Taxes	2,157,923	1,329,708
Printing & Stationery	656,339	691,626
Directors Remuneration	7,740,000	9,098,720
Directors sitting fees	417,500	375,000
Communication Expenses	2,037,991	2,023,140
Repairs and Maintenance	2,691,032	3,443,946
Electricity Charges	1,803,320	2,129,356
Professional & Consultancy Fees	1,580,601	3,415,913
Security Charges	941,508	742,148
Books and Periodicals	43,730	54,682
Traveling & Conveyance Expenses	7,492,777	7,707,612
Insurance	1,070,466	2,557,612
General Expenses	969,230	477,091
Auditors remuneration	600,480	604,540
Business Promotion	2,537,241	1,617,648
Research and Development expenses	21,629,526	8,957,326
Freight	25,304	261,267
	<u>56,794,968</u>	<u>47,084,535</u>
SCHEDULE - R		
FINANCE CHARGES		
Interest on term Loan	-	1,899,959
Interest on Working Capital	6,402,236	11,767,691
Bank Commission & Other Financial Charges	3,646,546	3,478,116
	<u>10,048,782</u>	<u>17,145,766</u>

SCHEDULE 'S': Notes forming part of the Accounts for the year ended March 31, 2008**Significant Accounting Policies and notes on accounts :****Company Overview :**

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

A Significant Accounting Policies :**1. Basis of preparation of financial statements**

The financial statements have been prepared to comply with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956 (the 'Act'). The financial statements have been prepared under the historical cost convention on accrual basis. The Accounting policies have been consistently applied by the Company unless otherwise stated.

2. Revenue Recognition :

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

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

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

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

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

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

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

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

Valuation and recognition:

As per the new standard, the company has changed the method of computing provision for Gratuity and Leave Encashment, from the method prescribed under estwhile AS 15 (Employee Benefit) to AS 15 (Employee Benefit - Revised, 2005) the companies Net Obligation in respect of A Plan, Service Cost, Interest Cost and Actuarial Gains and Losses are recognised in the Profit and Loss Account in the year in which they arise.

4. Foreign Currency Transactions:

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

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

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

5.2 Deferred Tax :

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

A provision is made for Income tax annually based on the Tax Liability computed. The difference that result between the profit offered for income taxes and the Profit as per the Financial Statements are

identified and thereafter a deferred tax asset or deferred tax liability for timing differences, namely the difference that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered.

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

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

5.3 Fringe Benefit Tax :

The company has made provision for FBT in accordance with applicable Income-tax laws.

6. Fixed Assets

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

Capital expenditure incurred on Expansion Project including advances are shown in Capital Work-in-Progress

7. Research and Development Expenditure:

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

8. Depreciation

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

9. Inventories

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

10. Warranty Expenses

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

11. Segment Reporting :

Since the Company has only one Business and Geographic Segment namely Sales, Service and Software for Safety Equipment for Railways, "Segment Reporting " under "Accounting Standard 17" issued by the "ICAI" is not applicable .

12. Related Party Disclosures:

a) There are no related parties where control exists other than 100% Wholly Owned subsidiary.

b) Other related parties with whom transactions have taken place during the year are :

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

Consultancy services on Procurement & Inspection of goods in USA .

Total Transaction during the year Rs.14.54 lacs (Rs.26.15 lacs during the Previous Year)

Outstanding at the year end Mar,08 Rs 1.45 lacs (Outstanding at the year end Mar,07 Rs 15.95 lacs)

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

(Amt Rs. in lacs)

Particulars	Year ended March 31	
	2008	2007
1. Capital Transactions : Working Capital Loan	Nil	Nil
2. Revenue Transactions : Interest receivable	53.20	Nil
3. Sale of Services :	Nil	Nil

(Amt Rs. in lacs)

d) Key Management Personnel :				2007-08	2006-07
Col. L.V.Raju (Retd)	-	Managing Director	Remuneration	38.09	50.49
B. Murali Mohan	-	Whole-time Director	Remuneration	31.89	28.89

13. Impairment Of Assets :

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

B Notes to Accounts :

1. All Amounts in the financial statements are presented in Rupees.

The Previous Year's figures have been regrouped / reclassified, wherever necessary to confirm to the current year's presentation.

Figures are rounded off to the nearest rupee.

2. Sundry Debtors are Subject to Confirmation.

3. Contingent Liabilities in respect of :

- Claims against the Company not acknowledged as debt Rs. 8 lakhs in respect of Income Tax for the Assessment Year 1998-99 for which the company's appeal is Pending before the High court of Andhra Pradesh
- Estimated amount of contracts remaining to be executed on capital account and not accounted are Rs.4.62 crores(Previous Year: Rs. 5.9 crores)
- Claims against the company not acknowledged as debt of Rs 69.59 Lakhs in respect of Income Tax for the assessment Years 1998-99,99-00,2000-01,2001-02 for which the company has preferred appeal to The Income Tax Appellate Tribunal (ITAT) is Pending at ITAT.
- Bank guarantees outstanding Rs.256.49 lakhs as on 31st March, 2008 (Previous Year : Rs.648.89 lakhs)

4. Term Loans and Cash Credits:

Cash Credit facility from SBH is primarily secured by hypothecation of current assets of the company and collaterally secured by first charge on fixed assets of the company and equitable mortgage of land & buildings situated at Madhapur.

	2007-08	2006-07	Secured by
a) Other Short term Loans	435.19	716.88	Fixed and Term deposits
b) Vehicle Loans are secured by Hypothecation of Vehicles.			

(Amt Rs. in lacs)

	2007-08	2006-07
5. Auditors remuneration relates to		
Statutory and Tax Audits	6.00	6.00
Other Services	1.72	3.91
6. Directors remuneration relates to		
Managing Director		
Salary including PF Contribution	36.09	25.29
Commission	2.00	25.20
Whole Time Director		
Salary including PF Contribution	22.89	19.29
Commission	9.00	9.60
Non-Whole Time Directors		
Sitting Fees	4.17	3.75
Commission	7.60	11.60

- a) Computation of net profit in accordance with Section 198 read with Section 349 of the Companies Act, 1956

		(Amt Rs. in lacs)	
		2007-2008	2006-2007
Profit Before Taxes		678.40	1065.75
Add: a) Managerial Remuneration	83.53		94.74
b) Depreciation Charged in books	253.58	337.11	209.84
		1015.51	1370.33
Less: Depreciation as per Section 350		253.58	209.84
Net Profit for Section 198 of Companies Act, 1956		761.93	1160.49
Commission Payable :			
Wholetime Directors	11.00		34.80
Non wholetime Directors	7.60		11.60
Total		18.60	46.40
b) Managerial remuneration comprises:			
Remuneration to Wholetime Directors			
Salary	58.80		44.40
Commission on Profits	11.00		34.80
Contribution to PF and other funds	0.19		0.19
Other Perquisites	1.77		-
Directors sitting fee	4.17		3.75
Remuneration to non-wholetime directors	7.60		11.60
		83.53	94.74

7. The Company has initiated the process of identifying the parties and is in the process of obtaining information with respect to parties covered, If any, under the Micro, Small and Medium Enterprises Development Act, 2006 (or the "Act").

The Company would account for significant interest obligations in this regard, If any, subsequently. Accordingly required disclosures in this regard have not been given in the current year.

8. Loans and Advances :

Loans and advances include Rs. 1,91,60,503/- (Previous year Rs.1,38,39,270/-) including interest on working capital loan to Avant-Garde Infosystems Inc, a 100% subsidiary in USA.

9. Earning Per Share :

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

(Amount in Rupees)		
	2007-08	2006-07
Earning Per Share	3.48	5.61
Diluted Earning Per Share	3.48	5.61

10. Disclosure required by Clause 32 of the Listing Agreement

Amount of Loans and advances in nature of loans outstanding from subsidiaries in the year ended March 31, 2008.

Name of Subsidiary Company	Outstanding as at March 31, 2008 (Rs. In Lacs)	Maximum Amt Outstanding during the year (Rs. In Lacs)	Investment in shares of the Company (No. of shares)	Investment in shares of subsidiaries of the Company (No. of shares)
Avant-Garde Info systems Inc	191.61	191.61	–	5,379,240

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

(I) Installed Capacity **4200 ACD's p.a.***

(*as certified by the management as on date)

(II) Production and Sales :

Item Description	For The Year 2007-08				For The Year 2006-07			
	Production		Sales		Production		Sales	
	Unit	Qty.	Qty.	Amount Rs.in lacs	Unit	Qty.	Qty.	Amount Rs.in lacs
Anti-Collision Devices	No's	-	-	-	No's	101	101	209.92
Acid Test Units	No's	8	8	19.77	No's	-	-	-
Logic Controllers	No's	-	-	-	No's	125	125	12.27
Charge Control Units	No's	-	-	-	No's	-	-	-
Heavy Duty RF								
Tags/ Reader	No's	-	-	-	No's	-	-	-
Others*	No's	LS	LS	15.73	No's	LS	LS	113.66

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

(III) Purchases For Trading :

Item Description	For The Year 2007-2008			For The Year 2006-2007		
	Unit	Qty.	Amount Rs.in lacs	Unit	Qty.	Amount Rs.in lacs
Towers	No's	-	-	No's	74	18.13
Location Boxes	No's	68	4.39	No's	40	6.50
Solar Panels	No's	-	-	No's	95	6.70
Battery	No's	118	4.83	No's	92	4.87
Battery chargers	No's	70	0.46	No's	-	-
Planar Antenna	No's	28	5.66	No's	316	16.92
PVC Cables	Mtrs		1.45	Mtrs	-	-
Others *	No's	*	1.89	No's	*	26.94

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

(IV) Raw material Consumed :

Item Description	For The Year 2007-08			For The Year 2006-07		
	Unit	Qty.	Amount Rs.in lacs	Unit	Qty.	Amount Rs.in lacs
Radio Modems - 5 watts	No's	39	15.33	No's	45	17.69
Radio Modems - 2 watts	No's	57	20.47	No's	842	302.39
GPS Receivers	No's	90	2.25	No's	204	5.39
GPS Antennae	No's	56	0.96	No's	107	2.30
Disk On chip	No's	711	6.79	No's	1,370	18.20
RS 232 Module/48 Channel dio	No's	24	0.52	No's	36	1.39
CPU Boards	No's	203	7.35	No's	1,203	43.56
VF Displays	No's	40	0.90	No's	51	1.36
Noise Filters	No's	59	0.13	No's	983	2.28
LCD's	No's	118	1.40	No's	134	1.50
Radio Modems-5Wt-70 Deg	No's	-	-	No's	45	22.17
Others *		*	1.56		*	205.80

(V) Value of Imported and Indigenous materials consumed :

Item Description	For The Year 2007-08		For The Year 2006-07	
	%	Rs.in lakhs	%	Rs.in lakhs
Raw Material				
Imported	97.29%	56.10	55.02%	399.19
Indigenous	2.71%	1.56	44.98%	224.84

(Amount/Value in Rs. lacs)

Item Description	2007-08	2006-07
(VI) Opening Stock :- *		
Work-in-progress	847.56	306.96
Components	249.52	201.25
(VII) Closing Stock :- *		
Work-in-progress	1093.69	847.56
Components	332.75	249.52
* Inventory values at the year end are as certified by the Management of the Company.		
(VIII) CIF value of Imports :		
Raw materials/Components:	100.45	375.92
Consumables :	-	-
Capital Goods :	-	-
(IX) Foreign Exchange :		
a) Earnings in Foreign Exchange :	0.00	0.00
(On receipt basis)		
b) Expenditure in Foreign Exchange : (On payment basis)		
Traveling & Other Expn	6.40	10.52
Capital Goods	-	18.74
Components / Materials	122.13	369.78
Dividends	19.97	34.52
Consultancy Fees	14.53	26.85

(X) Deferred Taxation :
(Amount Rs. in lacs)

Particulars	As on 31.03.08	As on 31.03.07
<i>Provision for Gratuity</i>	-	1,276,726
<i>Provision for Warranties</i>	-	299,709
<i>Adjustments U/Sec. 43B</i>	7,734,448	<u>2,938,440</u>
<i>Total Deferred Tax Asset</i>	7,734,448	<u>4,514,875</u>
<i>Deferred Tax Liability</i>		
<i>Difference in Block of Assets</i>	8,855,507	<u>11,359,791</u>
<i>Total Deferred tax liability</i>	8,855,507	<u>11,359,791</u>
<i>Net Deferred tax (Asset)/Liability</i>	1,121,059	<u>6,844,916</u>

Note :

As per the Accounting Standard-22 "Accounting for Taxes on Income" issued by ICAI, The Net deferred tax Asset for the year Rs.57,23,858/- is Credited to P&L A/c.

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

For and on behalf of the Board

(G Satyanarayana Murty)
Partner
Membership No. 29919

S V Subba Raju
Chairman

Col. L V Raju (Retd.)
Managing Director

Place : Hyderabad
Date : 27th June, 2008

V. Badarinarayana
Chief Financial Officer

Cash Flow Statement for the year ended March 31, 2008.

(Amount in Rupees)

Particulars	March 31, 2008	March 31, 2007
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Flow from operating activities		
<i>Profit before tax</i>	67,840,077	106,575,068
Adjustments to reconcile profit before tax to cash provided by operating activities:-		
<i>Depreciation and amortisation</i>	25,358,249	20,984,209
<i>Interest and other income</i>	(45,728,989)	(68,913,866)
Changes in current assets and liabilities:-		
<i>Sundry debtors</i>	4,403,290	12,406,659
<i>Inventories</i>	(32,936,536)	(53,384,944)
<i>Loans and Advances</i>	13,182,563	(22,870,495)
<i>Current liabilities and provisions</i>	(17,961,117)	(40,796,237)
<i>Income-taxes paid during the year</i>	(34,064,157)	(9,636,784)
Net cash generated by operating activities	(19,906,620)	(55,636,390)
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Secured Loans Received/ (Repayment)</i>	(70,524,821)	(40,831,581)
<i>Dividends paid during the year, including dividend tax</i>	(13,294,520)	(19,435,544)
Net cash used in financing activities	(83,819,341)	(60,267,125)
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Purchases of fixed assets and change in capital work-in-progress</i>	(214,310,605)	(130,223,345)
<i>Interest and Dividend income</i>	45,728,989	68,913,866
<i>Net cash used in investing activities</i>	(168,581,616)	(61,309,479)
Net (decrease)/increase in cash and cash equivalents during the year	(272,307,577)	(177,212,994)
<i>Cash and cash equivalents at the beginning of the period/year</i>	651,594,798	828,807,793
Cash and cash equivalents at the end of the year	379,287,222	651,594,798

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

For and on behalf of the Board

(G Satyanarayana Murty)
Partner
Membership No. 29919

S V Subba Raju
Chairman

Col. L V Raju (Retd.)
Managing Director

Place : Hyderabad
Date : 27th June, 2008

V. Badarinarayana
Chief Financial Officer



Balance Sheet Abstract and Company's General Business Profile

Registration No. - / -

State Code:

Balance sheet Date:

Capital raised during the year

(Amount in Rs. Thousands)

Public Issue N I L

Bonus Issue

Rights Issue N I L

Private Placement N I L

Sweat Equity N I L

Position of Mobilization and Deployment of Funds:

Total Liabilities

Total Assets

Sources of Funds:

Paid up Capital

Reserves & Surplus

Secured Loan

Unsecured Loans N I L

Deferred Tax Liability

Application of Funds:

Net Fixed Assets

Investments

Capital Work in Progress

Misc. Expenditure N I L

Net Current Assets

Deferred Tax Asset N I L

Performance of Company:

Total Revenues

Total Expenditure

Profit Before Tax

Profit after Tax

Earning Per Share . .

Dividend %

Generic Names of three Principal Products / Services of Company

Item Code .

Product Description Computer Software

Item Code —

Product Description Electronic Safety Devices for Indian Railways

For and on behalf of the Board

S V Subba Raju
Chairman

Col. L V Raju (Retd.)
Managing Director

Place : Hyderabad
Date : 27th June, 2008

V. Badarinarayana
Chief Financial Officer

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors on the Consolidated Financial Statements of

KERNEX MICROSYSTEMS (INDIA) LIMITED AND ITS SUBSIDIARY.

We have audited the attached Consolidated Balance Sheet of Kernex Microsystems (India) Limited,(the Company) and Avant-garde Info systems inc , USA (subsidiary) as at March,31, 2008 and also the Consolidated Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not audit the financial statements of 100% wholly owned overseas subsidiary, whose financial statements reflect total assets of US \$ 498,696 as at 31st March 2008, the total Loss before tax of US \$ 1,24,532.76 for the year ended on that date. These financial statements and other financial information have been

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

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

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

- (i) in the case of the consolidated Balance Sheet, the state of affairs of the Kernex Microsystems (India) Limited group as at 31st March,2008.
- (ii) in the case of the consolidated Profit and Loss account, of the profit of the Kernex Microsystems (India) Limited group for the Year ended 31st March,2008.
- (iii) in the case of the consolidated cash flow statement of the Kernex Micro Systems (India) Limited group.

For **GMK ASSOCIATES.,**
Chartered Accountants

G. Satyanarayana Murty
Partner
Membership No.: 29919

Place: Hyderabad
Date : 27th June, 2008

Consolidated Balance Sheet as at March 31, 2008
(Amount in Rupees.)

	Schedule Reference	AS AT 31.03.2008	AS AT 31.03.2007
I. SOURCES OF FUNDS			
(1) Shareholders' funds :			
(a) Capital	A	124,996,550	113,633,230
(b) Reserves and surplus	B	1,156,135,758	1,144,157,366
(2) Deferred Tax Liability		1,121,059	6,844,916
(3) Loan funds :			
(a) Secured Loans	C	44,792,025	115,316,846
TOTAL		1,327,045,392	1,379,952,358
II. APPLICATION OF FUNDS			
(1) Fixed Assets:	D		
(a) Gross block		315,567,678	288,586,735
(b) Less: Depreciation		97,176,890	71,668,379
(c) Net block		218,390,788	216,918,356
(d) Capital Work-in-progress		349,981,370	162,651,708
(2) Investments :	E	-	-
(3) Current Assets, Loans and advances :			
(a) Inventories	F	142,644,731	109,708,195
(b) Sundry Debtors	G	234,575,366	237,640,732
(c) Cash and bank balances	H	379,289,436	652,227,350
(d) Loans and advances	I	38,237,878	57,434,101
Less :		794,747,411	1,057,010,378
Current Liabilities and Provisions :	J		
(a) Current Liabilities		42,105,298	55,343,778
(b) Provisions		14,888,075	22,217,654
Net current assets		737,754,038	979,448,946
(4) (a) Miscellaneous expenditure to the extent not written off or adjusted	K	84,068	98,221
(b) Product Development Expenses		20,835,128	20,835,127
TOTAL		1,327,045,392	1,379,952,358
Notes on Accounts	T	-	-

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

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

for **GMK ASSOCIATES,**
Chartered Accountants

For and on behalf of the Board

(G Satyanarayana Murty)
Partner
Membership No. 29919

S V Subba Raju
Chairman

Col. L V Raju (Retd.)
Managing Director

Place : Hyderabad
Date : 27th June, 2008

V. Badarinarayana
Chief Financial Officer

Consolidated Profit and Loss Account for the year ended March 31, 2008

(Amount in Rupees)

	Schedule Reference	For the Year ended 31.03.2008	For the Year ended 31.03.2007
INCOME			
Sales and Services	L	229,461,969	252,001,996
Less: Duties and Taxes	N	24,944,721	25,257,692
Net Sales and Services		204,517,248	226,744,304
Other Income	M	43,929,440	69,145,032
TOTAL		248,446,688	295,889,336
EXPENDITURE			
Cost of Materials and Services	O	49,915,507	95,273,671
(Increase)/ Decrease in Stocks	P	(24,613,168)	(54,059,718)
Personnel Expenses	Q	67,367,082	62,515,721
Operating, Admn and Selling Expenses	R	58,247,562	47,199,923
Finance Charges	S	10,062,493	17,154,771
Depreciation & Amortization	D	25,522,663	20,984,209
TOTAL		186,502,139	189,068,577
Prior Period Income		-	-
Profit before Tax		61,944,549	106,820,759
Less : Provision for Taxation :			
(a) Current Year		29,159,002	31,700,000
(b) Fringe Benefit Tax		908,422	953,760
(c) Deferred Tax		(5,723,858)	9,837,359
(d) Earlier Years		21,107	334,735
Profit after Tax		37,579,876	63,994,905
Add : Profit brought forward from Previous year		170,439,878	121,339,492
Profit Available for Appropriation		208,019,754	185,334,397
Less : Provision for Dividend		12,499,655	11,363,323
Less : Tax on distributed Profits		2,124,316	1,931,196
Less : Utilized on Issue of Bonus Shares		11,363,323	-
Less : Transfer to General Reserve		1,100,000	1,600,000
Balance Carried to Balance Sheet		180,932,460	170,439,878
Earning Per Share:- Basic		3.01	5.63
Diluted		3.01	5.63

Notes on Accounts

T

Schedules referred above and notes thereon form part of Consolidated Profit and Loss Account.

This is the consolidated Profit and Loss Account referred to in our report of even date

for **GMK ASSOCIATES,**

For and on behalf of the Board

Chartered Accountants

(G Satyanarayana Murty)

Partner

Membership No. 29919

S V Subba Raju

Chairman

Col. L V Raju (Retd.)

Managing Director

Place : Hyderabad

Date : 27th June, 2008

V. Badarinarayana

Chief Financial Officer

Schedules to the Consolidated Balance Sheet
(Amount in Rupees)

	AS AT 31.03.2008	AS AT 31.03.2007
SCHEDULE - A		
SHARE CAPITAL		
AUTHORISED CAPITAL		
<i>1,50,00,000 Equity Shares of Rs.10/- each</i>	150,000,000	<i>150,000,000</i>
ISSUED SUBSCRIBED AND PAID UP CAPITAL		
<i>12,499,655 EQUITY SHARES OF RS.10/- each (11,363,323 Equity Shares Previous Year) (Of the above shares 5,522,177 number of Equity shares of Rs 10/- each were allotted by way of bonus shares by capitalizing free reserves of the company)</i>	124,996,550	<i>113,633,230</i>
	124,996,550	<i>113,633,230</i>
 SCHEDULE - B		
RESERVES AND SURPLUS		
Securities Premium		
<i>As at the commencement of the year</i>	917,219,545	<i>917,219,545</i>
<i>Add : received during the year</i>	-	<i>-</i>
	917,219,545	<i>917,219,545</i>
 General Reserve		
<i>At the commencement of the year</i>	59,413,631	<i>57,813,631</i>
<i>Add: Transfer from the profit & Loss account</i>	1,100,000	<i>1,600,000</i>
	60,513,631	<i>59,413,631</i>
<i>Less : Foreign Currency translation adjustment</i>	2,529,878	<i>2,915,688</i>
	57,983,753	<i>56,497,943</i>
<i>Balance in Profit & Loss A/c</i>	180,932,460	<i>170,439,878</i>
TOTAL	1,156,135,758	<i>1,144,157,366</i>
 SCHEDULE - C		
SECURED LOANS		
<i>Short Term loan from SBH</i>	43,519,215	<i>71,259,000</i>
<i>Interest Accrued and due</i>	-	<i>428,578</i>
<i>Cash Credit from SBH</i>	-	<i>41,767,738</i>
<i>Vehicle loan</i>	1,272,810	<i>1,861,530</i>
	44,792,025	<i>115,316,846</i>

Schedules To The Consolidated Balance Sheet

SSCHEDULE "D"

FIXED ASSETS

(Amount in Rupees)

Name of the Asset	Gross Block			Depreciation			Net Block			
	As on 1-Apr-07	Additions during the Year	Deductions /Deletions	As on 31-Mar-08	Upto 1-Apr-07	During The year	Adjustments	Upto 31-03-08	As on 31-03-08	As on 31-Mar-07
Land & Land development	107,989,108	24,828,675	-	132,817,783	-	-	-	-	132,817,783	107,989,108
Building	43,671,920	-	-	43,671,920	12,320,685	3,135,125	-	15,455,810	28,216,110	31,351,235
Software Division Plant & Machinery including Computers	111,313,969	975,069	-	112,289,038	46,594,940	19,792,289	-	66,387,229	45,901,809	64,719,029
Office Equipment	8,830,041	26,828	-	8,856,869	3,464,357	887,966	-	4,352,323	4,504,546	5,365,684
Furniture	11,062,010	91,426	-	11,153,436	6,366,870	848,508	-	7,215,378	3,938,058	4,695,140
Vehicles	5,719,687	1,058,945	-	6,778,632	2,921,527	844,623	-	3,766,150	3,012,482	2,798,160
Total	288,586,735	26,980,943	-	315,567,678	71,668,379	25,508,511	-	97,176,890	218,390,788	216,918,356
As On 31.3.07	170,549,579	118,037,156	-	288,586,735	50,684,169	20,984,210	-	71,668,379	216,918,356	119,865,410
Capital Work-in-Progress									349,981,370	162,651,708

Schedules to the Consolidated Balance Sheet
(Amount in Rupees)

	AS AT 31.03.2008	AS AT 31.03.2007
SCHEDULE - E		
INVESTMENTS :	NIL	NIL
	-	-
SCHEDULE - F		
INVENTORIES (As certified by Management)		
<i>Work in progress</i>	109,369,168	<i>84,756,000</i>
<i>Closing Stock of Components</i>	33,275,563	<i>24,952,195</i>
	142,644,731	<i>109,708,195</i>
SCHEDULE - G		
SUNDRY DEBTORS		
<i>(Unsecured and considered good)</i>		
<i>Outstanding for a period exceeding six months</i>	87,044,312	<i>70,161,329</i>
<i>Other Debts</i>	147,531,054	<i>167,479,403</i>
	234,575,366	<i>237,640,732</i>
SCHEDULE - H		
CASH AND BANK BALANCES		
<i>Cash in Hand</i>	41,616	<i>54,891</i>
<i>Cash at Bank :</i>		
<i>in current Account with scheduled Banks</i>	53,343,004	<i>146,600,293</i>
<i>in Fixed Deposits</i>	325,904,816	<i>505,572,166</i>
	379,289,436	<i>652,227,350</i>
SCHEDULE - I		
LOANS AND ADVANCES		
<i>(Considered good, recoverable in cash or in kind or for value to be received)</i>		
<i>Advances to Suppliers & Services</i>	7,855,455	<i>10,313,532</i>
<i>Deposits</i>	20,212,485	<i>27,344,420</i>
<i>Deferred Interest</i>	138,763	<i>258,109</i>
<i>Other Current Assets</i>	10,031,175	<i>19,518,040</i>
	38,237,878	<i>57,434,101</i>

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	AS AT 31.03.2008	AS AT 31.03.2007
SCHEDULE - J		
CURRENT LIABILITIES AND PROVISIONS		
(A) CURRENT LIABILITIES		
Creditors for Supplies	2918965	17,827,389
Creditors for Expenses	38,725,700	37,025,606
Share Application Money unpaid refund A/c	418,300	424,550
Unclaimed Dividend	42,333	66,233
	42,105,298	55,343,778
(B) PROVISIONS		
Provision for taxation (Net)	2,64,104	42,39,728
Provision for dividend	12,499,655	11,363,323
Provision for dividend Tax	2,124,316	1,931,197
Provision for gratuity	-	3,793,006
Product warranty costs	-	890,400
	14,888,075	22,217,654
SCHEDULE - K		
<i>Miscellaneous expenditure to the extent not written off or adjusted</i>		
a. Organisational Costs	143,039	143,039
Start-Up Costs	244,872	244,872
Computer Software	71,488	71,488
	4,59,399	4,59,399
Less : Amortized During the Year	14,153	-
Less : already Amortized	361,178	361,178
	84,068	98,221
b. Product Development Expenses	20,835,127	20,835,127

Schedules to Consolidated Profit and Loss Account
(Amount in Rupees)

	For the Year ended 31.03.2008	<i>For the Year ended 31.03.2007</i>
SCHEDULE - L		
SALES AND SERVICES		
(A) Sales Domestic	5,004,819	33,724,499
(B) Service Income	224,457,150	218,277,497
	229,461,969	252,001,996
SCHEDULE - M		
OTHER INCOME		
Interest Received : Banks	39,739,199	55,826,880
Excess provisions made in earlier years written back	-	9,308,089
Miscellaneous Income	4,190,241	4,010,063
	43,929,440	69,145,032
SCHEDULE - N		
DUTIES AND TAXES		
Central Excise Duty	336,749	3,899,087
Service Tax	24,504,103	18,934,264
Sales Tax	83,157	1,160,397
Work Contract tax	20,712	1,263,944
	24,944,721	25,257,692
SCHEDULE - O		
Cost of Materials & Services		
Consumption of raw materials and bought-out items		
Opening Stock of raw materials	24,952,195	20,124,529
Add : Purchases	14,089,160	67,230,908
Less: Closing Stock	33,275,563	24,952,194
Material consumed	5,765,792	62,403,243
Accessories purchased	1,867,212	8,005,908
Project Execution Expenses	42,282,503	42,553,520
	49,915,507	112,962,671
Less: Value of Internal Consumption	-	17,689,000
Net Cost of Sales & Services	49,915,507	95,273,671
SCHEDULE - P		
(INCREASE) / DECREASE IN STOCKS		
Opening Work in progress	84,756,000	30,696,282
Closing work in progress	109,369,168	84,756,000
	(24,613,168)	(54,059,718)

Schedules to Consolidated Profit and Loss Account

(Amount in Rupees)

	For the Year ended 31.03.2008	For the Year ended 31.03.2007
SCHEDULE - Q		
PERSONNEL EXPENSES		
Salaries and Other Benefits	59,804,307	56,568,570
Contribution to PF & Other funds	3,649,009	3,064,986
Staff Welfare	3,913,766	2,882,165
	<u>67,367,082</u>	<u>62,515,721</u>
SCHEDULE - R		
OPERATING, ADMINISTRATIVE AND SELLING EXPENSES		
Rent	2,522,573	1,597,200
Rates and Taxes	2,210,941	1,365,908
Printing & Stationery	656,339	691,626
Directors Remuneration	7,740,000	9,098,720
Directors Sitting fee	417,500	375,000
Communication Expenses	2,037,991	2,023,140
Repairs and Maintenance	2,691,032	3,443,946
Electricity Charges	1,803,320	2,129,356
Professional & Consultancy Fees	2,857,605	3,495,101
Security Charges	941,508	742,148
Books and Periodicals	43,730	54,682
Traveling & Conveyance Expenses	7,492,777	7,707,612
Insurance	1,070,466	2,557,612
General Expenses	969,230	477,091
Auditor Remuneration	600,480	604,540
Business Promotion	2,537,241	1,617,648
Research and Development Expenses	21,629,526	8,957,326
Freight	25,304	261,267
	<u>58,247,563</u>	<u>47,199,923</u>
SCHEDULE - S		
FINANCE CHARGES		
Interest on term Loan	-	1,899,959
Interest on Working Capital	6,402,236	11,767,691
Bank Commission & Other Financial Charges	3,660,258	3,487,121
	<u>10,062,494</u>	<u>17,154,771</u>

SCHEDULE ' T ' : Notes forming part of the Accounts for the year ended March 31, 2008**Significant Accounting Policies and notes on accounts :****Company Overview :**

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

A Significant Accounting Policies :**1. Basis of preparation of financial statements**

The financial statements have been prepared to comply with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956 (the 'Act'). The financial statements have been prepared under the historical cost convention on accrual basis. The Accounting policies have been consistently applied by the Company unless otherwise stated.

Management evaluates the effect of accounting standards issued on an on-going basis and ensures they are adopted as mandated by the ICAI. There are no recently issued Accounting Standards that management believes have a material impact on the financial statements of the Company. The Consolidated Financial statements have been prepared on the following basis :

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

2. Fixed Assets ,Depreciation and Amortization

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

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

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

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

Capital expenditure incurred on Expansion Project including advances are shown in Capital Work-in-Progress

3. Revenue Recognition :

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

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

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

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

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

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

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

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

Valuation and recognition:

As per the new standard, the company has changed the method of computing provision for Gratuity and Leave Encashment, from the method prescribed under erstwhile AS 15 (Employee Benefit) to AS 15 (Employee Benefit - Revised, 2005) the companies Net Obligation in respect of A Plan, Service Cost, Interest Cost and Actuarial Gains and Losses are recognised in the Profit and Loss Account in the year in which they arise.

5. Foreign Currency Transactions :

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

6. Income Tax :**6.1 Current Tax :**

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

6.2 Deferred Tax :

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

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

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

6.3 Fringe Benefit Tax :

The company has made provision for FBT in accordance with applicable Income-tax laws.

7. Fixed Assets

Fixed assets are valued at original cost including incidental expenditures, taxes and duties net of CENVAT and VAT credit availed. Capital expenditure incurred on Expansion Project including advances are shown in Capital Work-in-Progress

8. Research and Development Expenditure:

For Stand alone purpose Revenue expenditure incurred on Research and Development is charged to Profit and Loss Account in the year it is incurred. Capital expenditure is included in the respective heads under Fixed Assets. For Avant-Garde Inc, USA Product Development Costs were Capitalized.

9. Depreciation

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

10. Inventories

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

11. Warranty Expenses

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

12. Segment Reporting :

Since the Company has only one Business and Geographic Segment namely Sales, Service and Software for Safety Equipment for Railways, "Segment Reporting" under "Accounting Standard 17" issued by the "ICAI" is not applicable.

13. Related Party Disclosures:

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

Cova Technologies Inc, USA Enterprise owned by relative of Managing Director;
 Consultancy services on Procurement & Inspection of goods in USA.
 Total Transaction during the year Rs.14.54 lacs (Rs.26.15 lacs during the Previous Year)
 Outstanding at the year end Mar,08 Rs.1.45 lacs (During the previous year Rs.15.95 lacs)

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

(Amt Rs. in lacs)

Particulars	Year ended March 31	
	2007-2008	2006-2007
1. Capital Transactions : Working Capital Loan	—	—
2. Revenue Transactions : Interest receivable	53.20	—
3. Sale of Services :	—	—

(Amt Rs. in lacs)

d) Key Management Personnel :

			2007-08	2006-07	
Col. L.V.Raju (Retd.)	-	Managing Director	Remuneration	38.09	50.49
B. Murali Mohan	-	Whole-time Director	Remuneration	31.89	28.89

14. Impairment Of Assets :

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

B. Notes to Accounts:

- All amounts in the financial statements are presented in Rupees. The Previous Year's figures have been regrouped/reclassified, wherever necessary to confirm to the current year's presentation. Figures are rounded off to the nearest rupee.
- Sundry Debtors are Subject to Confirmation.

3. Contingent Liabilities in respect of :

- a) Claims against the Company not acknowledged as debt Rs. 8 lakhs in respect of Income Tax for the Assessment Year 1998-99 for which the company's appeal is pending before the HC of AP.
- b) Claims against the company not acknowledged as debt of Rs 69.59 Lakhs in respect of Income Tax for the assessment Years 1998-99, 99-00, 2000-01, 2001-02 for which the company has preferred appeal to The Income Tax Appellate Tribunal (ITAT) and is pending at ITAT.
- c) Estimated amount of contracts remaining to be executed on capital account and not accounted are Rs.4.62 crores (Previous Year: Rs.5.9 crores)
- d) Bank guarantees outstanding Rs.256.49 lakhs as on 31st March, 2008 (Previous Year: Rs.648.89 lakhs)

4. Exchange Differences:

Miscellaneous Income includes Exchange Fluctuation difference of Rs.397,824/- (Previous Year Rs.231,166)

5. Term Loans and Cash Credits:

Cash credit facility from SBH is primarily secured by hypothecation of current assets of the company and collaterally secured by first charge on fixed assets of the company and equitable mortgage of land & buildings situated at Madhapur.

	2007-08	2006-07	Secured by
a) Other Short term Loans	435.19	716.88	Fixed and Term deposits
b) Vehicle Loans are secured by Hypothecation of Vehicles.			

(Amount in Rupees)

2007-08	2006-07
---------	---------

6. Auditors Remuneration relates to

Statutory and Tax Audits	:	6.00	6.00
Other Services	:	1.72	3.91

7. Earning Per Share :

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

(Amount in Rupees)

	2007-08	2006-07
Earning Per Share	3.01	5.63
Diluted Earning Per Share	3.01	5.63

8. Disclosure required by Clause 32 of the Listing Agreement

Amount of Loans and advances in nature of loans outstanding from subsidiaries in the year ended March 31, 2008.

Name of Subsidiary Company	Outstanding as at March 31, 2008 (Rs. In Lacs)	Maximum Amt Outstanding during the year (Rs. In Lacs)	Investment in shares of the Company (No. of shares)	Investment in shares of subsidiaries of the Company (No. of shares)
Avant-Garde Info systems Inc	191.61	191.61	-	5,379,240

9. Deferred Taxation :
(Amount Rs. in lacs)

Particulars	As on 31.03.08	As on 31.03.07
<i>Provision for Gratuity</i>	-	1,276,726
<i>Provision for Warranties</i>	-	299,709
<i>Adjustments U/Sec. 43B</i>	7,734,448	2,938,440
<i>Total Deferred Tax Asset</i>	7,734,448	4,514,875
<i>Deferred Tax Liability</i>		
<i>Difference in Block of Assets</i>	8,855,507	11,359,791
<i>Total Deferred tax liability</i>	8,855,507	11,359,791
<i>Net Deferred tax (Asset)/Liability</i>	1,121,059	6,844,916

Note :

As per the Accounting Standard-22 "Taxes on Income" issued by ICAI, The Net deferred tax Liability for the year Rs.57,23,858/- is Credited to P&L A/c.

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

for **GMK ASSOCIATES,**
Chartered Accountants

(G Satyanarayana Murty)
Partner
Membership No. 29919

Place : Hyderabad
Date : 27th June, 2008

For and on behalf of the Board

S V Subba Raju
Chairman

Col. L V Raju (Retd.)
Managing Director

V. Badarinarayana
Chief Financial Officer

Consolidated Cash Flow Statement for the year ended March 31, 2008.*(Amount in Rupees)*

Particulars	March 31, 2008	March 31, 2007
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit before tax</i>	61,944,549	106,820,759
Adjustments to reconcile profit before tax to cash provided by operating activities:-		
<i>Depreciation and amortisation</i>	25,508,511	20,984,209
<i>Interest and other income</i>	(43,929,440)	(69,145,032)
Changes in current assets and liabilities:-		
<i>Sundry debtors</i>	3,065,366	12,881,073
<i>Inventories</i>	(32,936,536)	(53,384,944)
<i>Loans and Advances</i>	19,196,223	(22,714,027)
<i>Current liabilities and provisions</i>	(17,961,117)	(40,795,310)
<i>Income-taxes paid during the year</i>	(34,064,157)	(9,636,784)
Net cash generated by operating activities	(19,176,601)	(54,990,056)
Cash flows from financing activities		
<i>Secured Loans Received/ (Repayment)</i>	(70,524,821)	(40,831,581)
<i>Dividends paid during the year, including dividend tax</i>	(13,294,520)	(19,435,544)
Net cash used in financing activities	(83,819,341)	(60,267,125)
<i>Cash flows from investing activities</i>		
<i>Purchases of fixed assets and change in capital work-in-progress</i>	(214,310,605)	(130,223,346)
<i>Interest and Dividend income</i>	43,929,440	69,145,032
Net cash used in investing activities	(170,381,165)	(61,078,314)
Net (decrease)/increase in cash and cash equivalents during the year	(273,377,107)	(176,335,495)
<i>Effect of exchange difference on translation</i>	439,192	(248,090)
<i>Cash and cash equivalents at the beginning of the period/year</i>	652,227,350	828,810,935
Cash and cash equivalents at the end of the year	379,289,436	652,227,350

As per our report of even date

for **GMK ASSOCIATES,**
Chartered Accountants**(G Satyanarayana Murty)**
Partner
Membership No. 29919Place : Hyderabad
Date : 27th June, 2008

For and on behalf of the Board

S V Subba Raju
Chairman**Col. L V Raju (Retd.)**
Managing Director**V. Badarinarayana**
Chief Financial Officer

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 31-03-2008
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
	a) Dealt with in the accounts of Holding Company)	-
	b) Not Dealt with in the accounts of Holding Company	\$124533
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	- \$55119

- Notes:
1. Avant - Garde Infosystems Inc, USA was incorporated on September 25, 2000 as a 100% subsidiary of Kernex Microsystems (India) Limited.
 2. The Financial Year of the Holding Company and the Subsidiary ended on March 31, 2008.

For and on behalf of the Board

S V Subba Raju
Chairman

Col. L V Raju (Retd.)
Managing Director

Place : Hyderabad
Date : 27th June, 2008

V. Badarinarayana
Chief Financial Officer

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

Directors' Report

To

The Members

The Board of Directors of Avant-Garde Infosystems Inc., has pleasure in submitting the Seventh Annual Report in respect of the period from April 1, 2007 to March 31, 2008.

Directors

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

<u>Names</u>	<u>Position</u>
COL. L V Raju (Retd.)	Director and President
Kishore B Gottimukkala	Director, Chief Financial Officer and Secretary

Principal Activity

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

Financial Year

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

Financial Results

The net loss of the company for the financial year was Rs. 58.95 lacs due to provision of interest on the loan availed from Kernex Microsystems (India) Limited.

Operations

During the year the Company received an income of Rs. 14.54 lacs.

Future Prospects

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

For Avant - Garde Infosystems, Inc.,

Col. L V Raju (Retd.)

Director

Date : 24th June, 2008

Avant - Garde Infosystems Inc, U.S.A.**Balance Sheet as at March 31, 2008**

(Amount in Rupees)

	Schedule No.	AS AT 31.03.2008	AS AT 31.03.2007
SOURCES OF FUNDS:			
Share Capital	I	11,830,950	11,830,950
Reserves and Surplus	II	-	-
Secured Loans		-	-
Un-secured Loans	III	10,774,236	10,774,236
TOTAL SOURCES		22,605,186	22,605,186
APPLICATION OF FUNDS:			
<i>Fixed Assets (Net Block)</i>			
Gross Block	IV	1,143,048	1,143,048
Less: Depreciation		1,143,048	992,787
Net Block		-	150,261
CURRENT ASSETS, LOANS & ADVANCES			
Sundry debtors		-	-
Cash and bank balances	V	2,214	632,552
Advances & Deposits	VI	1,398,950	753,453
TOTAL CURRENT ASSETS		1,401,164	1,386,005
Less: Current Liabilities	VII	5,856,404	110,116
NET CURRENT ASSETS		(4,455,240)	1,275,889
<i>Miscellaneous Expenditure (To the extent not written off)</i>			
Organisational Costs and Start-Up Costs	VIII	84,067	98,221
Research and Development Costs		20,835,127	20,835,127
Debit Balance in Profit & Loss Account		6,141,232	245,688
Notes on accounts	IX		
Forming part of accounts		22,605,186	22,605,186

For Avant - Garde Infosystems, Inc.,**Col. L V Raju (Retd.)****Director**

Place: Fremont

Date : 24th June, 2008.

Profit and Loss Account for the year ending March 31, 2008*(Amount in Rupees)*

	For the Year ended 31.03.2008	<i>For the Year ended 31.03.2007</i>
INCOME		
Sales	1,454,250	138,918
Total	1,454,250	138,918
EXPENDITURE		
Rent	122,573	-
Accounting	137,115	79,188
Bank Charges	13,712	9,005
Interest	5,321,250	-
Depreciation	150,262	-
Amortization Expenses	14,153	-
Licence & Fees	-	36,200
Outside Services	1,139,889	-
Taxes	53,018	-
Total Expenses	6,951,970	124,393
<i>Profit / (Loss) before Tax and extraordinary items</i>	(5,497,720)	14,525
<i>Add / (Less) : Net Exchange Difference</i>	(397,824)	244,545
<i>Profit / (Loss) before Tax</i>	(5,895,544)	259,070
<i>Provision for Tax</i>	-	-
<i>Profit after Tax</i>	(5,895,544)	259,070
<i>Profit / (Loss) brought forward from earlier years</i>	(245,688)	(504,758)
<i>Profit / (Loss) carried to Balance Sheet</i>	(6,141,232)	(245,688)

For Avant - Garde Infosystems, Inc.,**Col. L V Raju (Retd.)****Director***Place: Fremont**Date : 24th June, 2008*

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

Schedules forming part of Balance Sheet

(Amount in Rupees)

	AS AT 31.03.2008	AS AT 31.03.2007
SCHEDULE 'I'		
<i>SHARE CAPITAL</i>		
<i>Authorised Capital</i>		
<i>Common Shares at no par value</i>	50,000,000	50,000,000
	Shares	Shares
<i>Issued, Subscribed and Paid-up Capital</i>		
<i>35,80,000 equity shares of US\$0.02</i>	11,830,950	11,830,950
<i>and 17,99,240 equity shares of US\$0.10</i>		
	11,830,950	11,830,950
 SCHEDULE 'II'		
<i>Reserves and Surplus</i>	—	—
 SCHEDULE 'III'		
<i>Unsecured Loans :-</i>		
<i>Loan from Kernex Microsystems (India) Ltd</i>	10,774,236	10,774,236
	10,774,236	10,774,236
 SCHEDULE 'V'		
<i>Cash and Bank Balances</i>		
<i>California Pacific Bank</i>	2,214	632,552
	2,214	632,552
 SCHEDULE 'VI'		
<i>Loans and Advances</i>		
<i>(Considered Good unless otherwise stated)</i>		
<i>Rent Deposit</i>	—	89,360
<i>Accounts Receivables</i>	1,398,950	61,026
<i>Advance for suppliers</i>	—	603,067
	1,398,950	753,453
 SCHEDULE 'VII'		
Current Liabilities and Provisions		
<i>Rent Payable</i>	—	(39,231)
<i>Interest Payable</i>	5,856,404	149,347
	5,856,404	110,116

Schedules forming part of Balance Sheet

SCHEDULE "IV"

FIXED ASSETS

(Amount in Rupees)

PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK	
	As on 01-04-2007	Additions during the year	As on 31-03-2008	Up to 01-04-2007	During the year	As on 31-03-2008	As on 31-03-2008	As on 31-03-2007
Computer Equipment	417,756	-	417,756	380,602	7,972	388,574	29,182	37,154
Equipment - Others	294,535	-	294,535	277,551	5,621	283,172	11,363	16,983
Furniture & Fixtures	430,757	-	430,757	334,634	8,221	342,855	87,903	96,124
	1,143,048	-	1,143,048	992,787	21,814	1,014,601	128,448	150,261
Computer Software	143,039	-	143,039	143,039	-	143,039	-	-
Start-Up costs	244,872	-	244,872	164,523	10,955	175,478	69,394	80,349
Organisational Costs	71,488	-	71,488	53,616	3,198	56,814	14,674	17,872
	459,399	-	459,399	361,178	14,153	375,331	84,068	98,221

Schedules forming part of Balance Sheet

(Amount in Rupees.)

	AS AT 31.03.2008	AS AT 31.03.2007
SCHEDULE 'VIII'		
<i>Miscellaneous Expenditure to the Extent not written off or Adjusted</i>		
Research & Development Expenses	20,835,127	20,835,127
Organisational Costs	143,039	143,039
Start-up Costs	244,872	244,872
Computer Software	71,488	71,488
Total	459,399	459,399
Less: Already Amortized	361,178	361,178
Less Amortized during the year	14,154	-
Balance	84,067	98,221

Schedule-IX : Notes to Accounts - March 31, 2008

A. Significant Accounting Policies

1. Basis of Accounting

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

2. PRINCIPAL ACTIVITIES

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

3. SHARE CAPITAL

No of Shares as on 31.03.2008

Authorised Common shares at no par value 50000000

4. HOLDING COMPANY

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

5. ACCOUNTING PERIOD

The Financial Statements are prepared for the period from 1st April, 2007 to 31st March, 2008

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

7. Fixed Assets ,Depreciation and Amortization

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

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

8. Foreign Currency Transactions :

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

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

- a *Revenue items, except opening and closing inventories and depreciation are translated at the respective monthly average rates. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated.*
 - b *Monetary items are translated using the closing rate.*
 - c *Non-monetary items, other than inventories and fixed assets, are translated using the exchange rate at the date of transaction i.e., the date when they were acquired.*
 - d *Fixed assets are translated using the exchange rate at the date of their acquisition.*
 - e *The net exchange difference resulting from the translation of items in the financial statements of foreign subsidiary is recognized as income or as expense for the year.*
9. *The accounts are reclassified to conform as near as to the Schedule VI of the Companies Act, 1956.*
 10. *The Financial Statements are the responsibility of the Company's Management and are not required to be Audited as per the existing US Laws.*
 11. *Previous Years Figures were re-grouped and re-arranged wherever necessary.*
 12. *The Balance Sheet and Profit & Loss Account for the year ended 31.03.2008 are prepared based on the Financial Statements duly certified by C.P.A*

For Avant - Garde Infosystems, Inc.,

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

Place: Fremont

Date : 24th June, 2008

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Kernex Microsystems (India) Limited

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

ATTENDANCE SLIP

16th Annual General Meeting September 19, 2008

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 16th Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.30 P.M. on Friday, the September 19, 2008.

** 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 16th Annual General Meeting of the Company to be held at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.30 P.M. on Friday, the September 19, 2008 and at every adjournment thereof.

Signed this day of , 2008.

Note : 1. Proxy need not be a member.

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

Affix 15
paise
Revenue
Stamp

Signature

* Applicable for Investors holding shares in electronic form.



