

BOARD OF DIRECTORS

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

Company Secretary

S. Jasminder Singh

BANKERS

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

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

AUDITORS

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

REGISTRAR AND TRANSFER AGENT

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

REGISTERED OFFICE

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

DEVELOPMENT CENTRE

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

PROJECTS DIVISION

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

OVERSEAS SUBSIDIARY

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

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NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the members of the company will be held on **Monday the September 26, 2011 at 3.00 P.M** at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad to transact the following business.

ORDINARY BUSINESS

- 1) To receive, consider and adopt the audited Balance Sheet as at 31st March, 2011 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, 2011.
- 3) To appoint a Director in place of Sri S.V.Subba Raju who retires by rotation and being eligible, offers himself for re-appointment.
- 4) To appoint a Director in place of Sri M Gopalakrishna IAS (Retd.), who retires by rotation and being eligible, offers himself for re-appointment.
- 5) To appoint a Director in place of Dr. Raju Narasa Mantena who retires by rotation and being eligible, offers himself for re-appointment.
- 6) To appoint Auditors and fix their remuneration.

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

SPECIAL BUSINESS

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

"RESOLVED THAT in pursuance of provisions of section 198, 269, 309 and 311, schedule XIII and other applicable provisions, if any, of Companies Act, 1956 (including any statutory modifications thereof for the time being in force) consent of the Company be and is hereby accorded for the reappointment of Sri B Murali Mohan, Director as Director - (Technical) of the Company, not liable to retirement by rotation, till he attains the age of 65 years with effect from 21st January, 2011 as per the terms and conditions set out hereunder".

1. Remuneration:

- A) Salary:

On a salary of Rs. 1,75,000/- per month with authority to the Board of Directors and/or a Committee of the board, to fix his salary from time to time up to a maximum of Rs. 2,75,000/-. The annual increments will be merit-based and take into account the Company's performance.

- B) Perquisites & Allowances:

In addition to the salary payable, Sri B Murali Mohan shall also be entitled to following perquisites and allowances

- a) House Rent Allowance @ 40% of the salary.
- b) Special Monthly allowance @ 60% of the salary.
- c) Reimbursement of Medical expenses incurred for self and his family not exceeding one month salary in a year or three months salary in a block of three years.
- d) Leave travel assistance: Expenses incurred for self and family in accordance with company rules.
- e) Car: The Company shall provide a car for company's business.
- f) Phone/cell phone: free except for personal long distance calls which shall be billed.
- g) Club Fee: Subject to a maximum of two clubs. This will not include admission and life membership.
- h) Group Medical Insurance and Personal Accident Insurance Premium as per the rules of the Company.
- i) Such other perquisites and allowances in accordance with the rules of the Company or as may be agreed to by the Board of



Directors and/or Committee of the Board and Sri B Murali Mohan. Such perquisites and allowances will be restricted to 50% of his salary

- I. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per the Income-tax rules, wherever applicable. In the absence of any such rules, perquisites shall be evaluated at actual cost.
- II. Company's contribution to provident fund and Superannuation Fund or annuity Fund, to the extent these, either singly or together are not taxable under the Income-tax Act, Gratuity payable as per rules of the company and encashment of leave as per rules of the Company, shall not be included in the computation of limits for the remuneration or perquisites aforesaid.
- III. In addition, he shall be entitled to reimbursement of entertainment expenditure actually and properly incurred for the business of the Company.
2. Commission: Such remuneration by way of commission, in addition to the Salary and perquisites and allowance payable, as may be determined by the Board of Directors of the company at the end of each financial year, subject to the overall ceilings stipulated in section 198 and 309 of the Companies Act' 1956, and subject to amendments, therein if any. The specific amount of commission payable to Sri B Murali Mohan would be upto 50% of his annual salary, will be based on

certain performance criteria to be laid down by the Board of Directors and/or a Committee of the Board and will be payable annually after the Annual accounts have been approved by the Board of Directors and adopted by the shareholders.

3. Minimum remuneration: Notwithstanding anything to the contrary herein contained, if any in financial year during the currency of the tenure of Sri B Murali Mohan, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, perquisites and allowance as specified above, subject to the limits specified in Part II in Section II to the Scheduled XIII of the Companies Act' 1956 including amendments made thereto.
4. The terms and conditions of the appointment and / or Agreement may be altered or varied from time to time by the Board of Directors and/or a Committee of the Board as it may, in its discretion, deem fit, within the Maximum amount payable to Sri B Murali Mohan in accordance with Schedule XIII to the Companies Act' 1956, subject to amendments, if any, or any amendments made hereinafter in this regard.

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

Place : Hyderabad
Date : 13th August, 2011

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

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. The proxy form duly completed and signed should be deposited at the registered office of the company not later than 48 hours before the commencement of the meeting.
2. The Register of members and share transfer Books of the Company will be closed from September 21, 2011 to September 26, 2011 (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 26, 2011 to those members, whose names appear on the Company's register of members as on September 26, 2011.
3. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of the dividend. The Company or its Registrar cannot act on any request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates, such changes are to be advised only to Depository participant of the shareholders.
4. To avoid the incidence of fraudulent encashment of the warrants, members are requested to intimate the Registrars and Share Transfer Agents of the Company under the signature of the Sole/First joint holder the following information so that the Bank account number and Name and Address of the Bank can be printed on dividend warrants, if and when issued:
 - a. Name of sole/First joint holder and folio number
 - b. Particulars of Bank Account viz.,
 - i) Name of the Bank
 - ii) Name of the Branch
 - iii) Complete address of the Bank with pin code number
 - iv) Account type, whether Savings or Current Account
 - v) Bank Account number allotted by the Bank
5. Shareholders holding shares in physical form are requested to advise any change of address immediately to company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository participants and not to the Company.
6. At the ensuing Annual General Meeting Sri S.V Subba Raju, Sri M. Gopalakrishna IAS (Retd.), Dr. Raju Narasa Mantena shall retire by rotation and being eligible, offer themselves for re-appointment.
7. Members seeking any information with regard to accounts are requested to write to the Company at least 10 days in advance of the meeting to enable the management to keep the information ready.

Details of Directors Seeking Appointment/Reappointment at the 19th Annual General Meeting

Particulars	Sri S.V Subba Raju	Sri M Gopalakrishna IAS (Retd.)	Dr. Raju Narasa Mantena	Sri B Murali Mohan
Date of Birth	December 20, 1932	January 12, 1939	July 4, 1944	July 17, 1948
Date of Appointment	September 16, 1991	September 20, 2008	September 20, 2008	January 22, 2001
Qualifications	Commerce Graduate	Joined in Indian Administrative Services (IAS), Graduate in Science and Law, Advance Management at Banff School of Management, Canada.	MD from USA and MBBS from Andhra University	B.E in Electronics and Communications from Andhra University
Expertise in specific Functional area	40 years experience 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.	Joined the Administrative Services in 1962 and served under the Government of Assam, Government of Andhra Pradesh, Government of India and retired as chairman of Rural Electrification Corporation in 1997 in the rank of Secretary to Government of India. After Retirement he was Director to Institute of Public Enterprises, Chairman of AP State Financial Corporation, Hyderabad.	He is a Physician and has about 28 years experience in Anesthesiology in USA. He received fellowship from Washington University, USA. He worked as Assistant Professor of Anesthesiology in Washington University from 1978 to 1980 and worked as consultant Anesthesiologist at St. Lukes Hospital USA from 1980-2002. He is working as Secretary and Correspondent of NRI Academy of Sciences since 2003.	Thirty Nine years of experience in managing designing developing several hardware and software products
Directorship held in other public companies (excluding foreign companies)	Nil	1. NSL Textiles Ltd. 2. Goldstone Infratech Ltd. 3. JOCIL Ltd. 4. Pitti Laminations Ltd. 5. Vijayashri Organics Ltd. 6. BGR Energy Systems Ltd.	Nil	Nil
Memberships / Chairmanships of committees of other Public companies (includes only Audit and Shareholders/ Investors Grievance Committee)	Nil	Audit Committee 1. BGR Energy Systems Ltd 2. Goldstone Infratech Ltd 3. Vijayashri Organics Ltd	Nil	Nil
Number of shares held in the company	1158	Nil	8,54,633	29,426

EXPLANATORY STATEMENT

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

Item no. 6:

The Board of Directors on January 17, 2011 reappointed Sri B. Murali Mohan, Director as the Director - (Technical) of the Company till he attains the age of 65 years with effect from January 21, 2011.

Mr. Murali Mohan Bandaru (Director-technical) has over 39 years of experience in managing, designing developing several hardware and software products. He has a BE degree in Electronic and Communications. At Kernex, he is responsible to oversee the development of Anti Collision Device (ACD) and the Lx protection gates. Before joining Kernex in 1999, he worked at Electronics Corporation of India Ltd (ECIL) for about 28 years at different levels.

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

None of the Directors of the Company, except Sri B. Murali Mohan is concerned or interested in the resolution.

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

Place : Hyderabad
Date : 13th August, 2011

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

DIRECTORS' REPORT

To
The Members
Kernex Microsystems (India) Limited

Your Director present herewith, the Nineteenth Annual Report together with the audited accounts of the company for the year ending 31 March 2011.

Financial Results

Rs. in lacs

	2010-11	2009-10
Sales and Other Income	4421.81	667.93
Profit before interest and depreciation	1130.22	(669.98)
Interest	317.25	247.56
Depreciation	105.24	139.96
Profit before Tax	707.73	(1057.50)
Provision for Taxation	249.90	-
Profit after Tax	457.83	(699.10)
Add: Balance brought forward from previous year	1298.30	1997.41
Profit available for appropriation	1756.12	1298.30
Earnings Per Share (Rs.)		
- Basic	3.66	(5.59)
- Diluted	3.66	(5.59)
Appropriations:		
Transfer to General Reserve	-	-
Proposed Dividend	125.00	-
Income Tax on proposed Dividend	20.76	-
Balance carried to the Balance sheet	1610.37	1298.30

Dividend

Your Directors are pleased to recommend a dividend of 10% on the paid up capital of the company for the financial year 2010-2011. The dividend if approved at the ensuing Annual General Body Meeting, will be paid

to those share holders, whose names appear on the register of members of the company as on September 26th, 2011 as per the rules applicable at that time.

Company's Project

Company's Business and Operational Results:

1. Your company has exclusive license for manufacturing, installation and commissioning of networked system "Raksha Kavach" for which IP rights are held by Konkan Railway Corporation.

As regards to introduction of ACD System through out the country Honourable Railway Minister had announced the following during Railway Budget speech in Parliament for, 2011-2012.

"In my first tenure, I had approved the introduction of Anti-Collision Device (ACD). After ten years, I find that it has been implemented only on NF Railway. Our recent trials with an improved version of ACD have met with success and it will be commissioned on three Zonal Railways, Southern, South Central and South Western Railway. Considering the successful trials, I have decided to extend this device to Eastern, East Coast, East Central and South Eastern Railways. With this, we will have covered 8 out of 17 Zonal Railways".

2. You will be happy to learn that the State-of-Art facility is ready at Hardware Technology Park of your company, near Kancha Imarat, 5 Kms from Airport for manufacture of 10,000 ACDs/year has been completed in all respects and is ready to undertake designing and manufacturing operations at short notice.
3. During this period under consideration, some of our R&D Projects of previous years have been consolidated. This including RFID Readers and Tags for correct identification of track ID, Inter-connecting all ACDs except Repeaters through GSM Network and Realtime monitoring of status of ACDs and use of Blue tooth technology for data accessing on the running Loco ACDs and development of Lx Semi Auto Gates and Multi-section Digital Axle Counters.
4. CMC operations in NF Railway covering over 1300 ACDs and over 16 locosheds at a cost of Rs.10.55

crores has been completed for year 2010-2011. Further, it also involves supplementary works costing over Rs.7.5 crores, additionally.

Indigenization, Cross Approvals and New Developments

You are aware that your company has signed collaboration agreement with M/s Altpro D.O.O. Zagreb, Croatia for manufacture and supply of Multi-section Digital Axle Counters. There is over Rs.60 crores market in Indian Railways and there are only one or two approved suppliers. We have fulfilled all requirements of RDSO, including site trials of two units at Hosur and the other one near Lucknow. The approval is expected shortly.

Your company proudly announces the completion of Development of Electronic Semi-automatic Level Crossing System (Lx System) of safety integrity level 3. We have already shipped over 81 units after Factory Acceptance test to ENR, Egypt. Balance 55 Nos. are expected to be completed shortly and are likely to be shipped to ENR by end of Oct 2011 after Factory Acceptance test. We expect to receive certification from accredited agency by 31 March 2012.

International Operations

Your company has an extended quantity order for 55 more Lx Gates from Egypt in addition to previous 81 units, taking total to 136 Lx Gates, at an additional cost of Rs.23.5 crores. The date of project completion has been extended to upto 30 June 2012 without any liquidated damages.

Your company has intensified marketing effort for selling Lx Systems and MSDAC abroad. We have received enquiries from Australia, England and Turkey, etc. Further, we have submitted quotations for Auto Gates to be executed by MNC in Egypt over 30 Nos. costing over Rs.50 crores.

New areas of business in Indian market

Your company has also received enquiries from MNCs to indigenize components and subsystems required for Train Protection and Warning System (TPWS) in India and also for Metro and Mono Rail System. We are considering these enquiries.

Extension of existing projects

Your company may secure orders for additional Gates as part of 174 Gates from Egyptian Railways.

Domestic Market

Coming to Domestic markets, depending upon the progress of trials, new zones may be sanctioned for deployment of ACD System that includes South East, East Coast, Eastern and East Central and three zones in the South during 2011-2013.

Research & Development

You are aware that your Company's strengths are strong R&D, professionalism, venturing into technologies which are in demand, through forward looking plans like technology acquisitions and Joint Ventures.

The company has since completed development of Version 2.1 ACD System with software and also Lx Gates, Multi-section Digital Axle Counter System, ACD Survey software and ACD Reporting System software except a few additions to be added, if required by clients.

Diversifications

Your Company needs to diversify as it cannot remain a single client, single type of equipment suppliers. Taking up new opportunities in Defence and other areas like transportation sectors, etc.

Progress achieved on the IPO and Company Expansion Projects

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

Overseas 100% Owned Subsidiary

Your Company has one Wholly Owned Subsidiary in USA as on 31st March 2011. 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, 2011 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 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988, in respect of technology absorption, foreign exchange earnings and outgo are set out in the annexure forming part of this report.

Employee Relations:

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

Particulars of Employees:

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

Directors:

Sri S V Subba Raju, Sri M Gopalakrishan IAS(Retd.), Dr Raju Narasa Mantena, 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, Punjab National Bank, Central and State Government Authorities for their continued support during the year. Your Directors would like to place on record their appreciation of the contribution made by employees at all levels for their commendable team work, dedicated and whole hearted efforts made during the year.

For **Kernex Microsystems (India) Limited**

Place : Hyderabad
Date : August 13, 2011

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 the ongoing basis.

B. Technology absorption Adaptation and Innovation:

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

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

C. Foreign exchange earnings and out go:

(Rs. In lacs)

Foreign Exchange Earned for 2010-2011	455.76
Foreign Exchange Used for 2010-2011	307.09

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

Place : Hyderabad
Date : August 13, 2011

S.V. Subba Raju
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Year 2010-2011 has continued to be very difficult one. This is so particularly, as the recession cycle has continued over 4 years and world reserves have come to an exhausting stage. Some of the European countries were heading to financial defaulting stage and were to be rescued. However, world economy on the whole during this period has grown over 4.5% and there were slight indications of economic recovery in USA in the initial part of the year. Economy of Japan has badly affected due to Tsunami that has hit the country recently. On the overall, overseas demand for goods and services have not picked up at all.

However, Indian economy has not been fully affected, even though expected high growth could not be achieved. GDP growth remained at 8.6%. There has been a 34.5% growth in manufacturing, Railways 9.3% and Public Administration and Defence over 11.1%.

IT sector has grown over 18% and hardware sector over 13%. This is substantial, compared to other developing countries. Coming to Embedded Software sector, comprising Telecom, Consumer Electronics, Health care, Automotive, Automation, Aerospace and Defence, Energy and Transport, Indian market size is estimated at US \$ 5 billions. So far, India has been concentrating on American and European markets. Now opportunities are emerging in Japan, Korea, China. India is gradually becoming a destination for high quality and cost effective Embedded solutions.

Coming to Indian Railways, total financial layout for 2011-2012 is about Rs.57,630 crores. A greater thrust is being given to expand the rail network doubling of gauge conversion, investment in shortage wagon, coaches and locomotives and also on safety. Railways have embarked on dedicated freight corridors from New Delhi to Mumbai and New Delhi to Kolkata which is in progress.

Your company having over 1.3 million hours of R&D in H/W and S/W development, Systems Integration, excellent R&D infrastructure, highly experienced and trained manpower, State-of-art manufacturing facility and has enormous opportunities in India and abroad.

Windows of Opportunities for Kernex

Railways have announced number of projects for the decade upto 2020. Indian Defence Ministry has announced the special plough back arrangements and off-set policy that calls 30% reinvestment of the cost of

imported projects beyond Rs.250 crores value. This opens big window of opportunity, where many players are not active.

TCAS and TPWS Development

Corporate safety plan of 2003-2013 was prepared in August 2003 and presented to Parliament and the plan envisages to reduce incidental accidents attributable to human and equipment failures and preventable fatal accidents to an acceptable/tolerable level. Some of the projects through the safety plan are TPWS, TMS, TCAS, MTRC, Digital Axle Counter, Electronic Interlocking Systems, Data Loggers and Sensor activated Manned Gates, etc.

Defence Production Plans in India

India has embarked on indigenously production of both offensive and defensive weapon systems and planning to achieve self-sufficiency. There is a big window of opportunity for producing assemblies, sub-assemblies and components required by Indian Defence Industry and Armed forces through DRDO, DRDL, RCI, HAL and BDL.

Period 2010-2011

During the Budget speech of 26 February 2011, Honourable Railway Minister has announced that, on the basis of successful trials in Southern zone in the new ACD System, upgradation of existing system in NF Railway spanning over 1800 KMS will be taken up. Further work in three Railways in the Southern region where the survey was completed in 2003-2004, would also be taken up. Also, immediately depending upon the progress, 4 more zones in Eastern region, consisting of East coast, South East, East zone and East Central zones, latest version of ACD Systems would be deployed.

Kernex has spent major period of 2010-2011, in upgradation of Hardware and Software and conducting trials along with KRCL, RDSO and Railway Board officials during August 2010-February 2011. The trials have produced very satisfactory results on the basis of which upgraded ACD System will be developed and deployed all over India.

Meanwhile, Kernex is in the process of closing the development of S/W Version 2.1 as decided by KRCL. The new H/W and S/W after due verification and validation will be tried out in NF Railway before deployed

all over India. We are sure of coming with flying colours and create the path to move to other zones.

Your company's new product Semi-Automatic Lx Gates being supplied to Egyptian Railways has gone through the complete development, manufacture, supply and pilot phase successfully. ENR has accepted the product after it has passed the field tests and signed agreement for 55 more ECMs as part of 136 Lx Gates which were originally planned. Kernex is exploring the supply of these Gates in UK, Turkey, Australia, Thailand, Malaysia after due certification and SIL level upgradation is completed, which is in progress.

Indian Railways has opened the market for Multi-section Digital Axle Counters and final approval is likely to be received shortly from RDSO. This has about Rs.600 crores market in the next five years.

Opportunities, Threats, Risks and Concerns

Opportunities

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

Indian Railways need to improve the safety and also increase the through put/capacity to meet the needs of the day. Very soon Indian Railways will be introducing ETCS2 and GSM-R communication networks and high speed trains that can run upto 160 KMS. Safety, speed, reliability and increased capacity are the main considerations. For this purpose, improved ACD System, ETCS2, Electronic Interlocking system, Multi-section and Single Digital Axle Counters and Data loggers, Hot Box and Vibration Detecting Systems and also track status monitoring system will be necessary. Besides, Indian Railways need SIL 3 to SIL 4 Sensor Activated Warning Systems at Gates to avoid collisions and accidents.

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

Coming to Defence, with the vast infrastructure and manpower, Kernex can also diversify to Defence related R&D type development, manufacture on large scale and validation and verification, etc. Kernex will also be able to handle job works for manufacturing PCB boards / integration jobs to utilize the infrastructure.

Threats

For every Indian technology, there is a threat of latest technology from MNCs. Further, change of Govt. policies and priorities have a great impact. In future, high prices, manpower and internal security, etc., can play important part. However, change of technology has to be off-set with continuous upgradations. In the near future, Kernex need to embark on a high technology that can sustain for a longer time.

Risks

Kernex should focus on risk of competition, falling prices, loss of key personnel and financial inadequacies, etc. In order to take on the risks, Kernex need to build resilience, with best manpower, infrastructure and reserve funds. Company need to concentrate on five to six products and constantly upgrade the technology and continuously introduce new technologies and products from time to time based on market demand. Company's R&D focus, acquisition of new technologies and concentrate on emerging technologies with high grade manpower should be main goal of the company.

Kernex needs to infuse additional funds for acquiring new technologies, putting up joint ventures and to meet additional working capital requirements. This should be done based on the progress of other projects.

Analysis of financial performance of the company

During the financial year review, the total revenues generated by the company came primarily from ENR Project for development, supply and installation of 136 Gates. Other Income came from CMC, for 2010-2011, for Operational and Maintenance Contract in NF Railway. Company has also received revenues for H/W manufacturing and S/W development that culminated in successful ACD Version 2.0 (TCAS specifications) trials over 5 months at Arakonnam, in Southern Railways.

The total revenues from the above resulted above Rs.44 crores for the FY 2010-2011, out of which over 50% has come from ENR Project.

However, non-release of ACD Project and also full scale work of deployment of Lx Gates in Egypt due to disturbances and non-completion of civil works by ENR have inhibited the revenues.

The following guidelines and lessons will help the company to improve its performance:-



- a) **ENR Project:** Project work of deployment of Gates on the ground should start immediately and atleast 15 to 20 Nos. to be completed.
- b) **ACD Project for upgradation of Existing system to Version 2.1 in NF Railways:** Kernex should concentrate and focus on this work and complete it in 6 months by putting extra resources and efforts. 100% success is the key word and this should open for vast opportunities of completing other zones.
- c) **Software Development:** This should be completed in about 4-6 months time and be ready for deployment with additional efforts and resources.
- d) **Usage of vast infrastructure at Hardware Technology Park:** This should be done immediately. Besides, defence and other job contracts, inviting offers to utilize the facility should be done.
- e) **Acquisition of new companies and technologies:** As discussed this must be deliberated and acted upon.
- f) **Infusing additional capital:** Additional capital will be required for handling major projects like ACD System in four to seven zones. Defence diversifications and acquiring new companies and technologies.
- g) **Strengthening the skilled manpower:** Kernex should continue to recruit manpower and train them, keep on reserves, to meet the immediate needs.

Internal Control Systems and their adequacy

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

The internal Audit process is designed to review the adequacy of internal control checks in the systems and covers all significant areas of the Company's operations such as Software and Hardware delivery, production, accounting and finance, procurement, employee engagement, travel, insurance, process in the company. Safeguarding of assets and their protection against unauthorized use are also a part of these exercises.

The company has an Audit Committee, the details of which have been provided in the Corporate governance Report. The Audit Committee reviews Audit Reports submitted by the Internal Auditors. Suggestions for the improvements are considered and the Audit Committee follows up on the implementation of corrective actions. The Committee also meets the Company's statutory auditors and Internal Auditors to ascertain, 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.

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

During the fiscal, the company had a new addition of 128 (previous year 86) and the total number of employees as on March 2011 is 329 as against 253 of March 31, 2010.

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 upgradation.

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

Cautionary Statement

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

CORPORATE GOVERNANCE REPORT

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

1. Company's Philosophy on Code of Governance

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

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

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

2. Board of Directors

- 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 Nine Non-executive Directors, of whom four are independent Directors as on March 31, 2011. 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 2010-11		Whether Attended AGM held on 24.09.10	No. of Directorships in other public companies		No. of committee positions held in other public companies	
		Held	Attended		Chairman	Member	Chairman	Member
Sri. S.V. Subba Raju, Chairman	Independent Non-Executive	7	3	No	-	-	-	-
Col. L.V. Raju (Retd.)	Non-Independent Executive	7	7	Yes	-	-	-	-
Sri. B. Murali Mohan	Non-Independent Executive	7	7	Yes	-	-	-	-
Dr. M. Anji Raju	Non-Independent Non-Executive	7	0	No	-	-	-	-
Sri. R. Sankaran	Independent Non-Executive	7	6	Yes	-	2	1	1
Sri. S. Nandakumar	Independent Non-Executive	7	6	Yes	-	-	-	-
Dr. Jyoti Raju	Non-Independent Non-Executive	7	1	Yes	-	-	-	-
Sri. M. Gopalakrishna, IAS (Retd),	Independent Non-Executive	7	6	No	-	6	1	3
Sri Kishore B Gottimukkala	Non-Independent Non-Executive	7	1	No	-	-	-	-
Dr. Raju Narasa Mantena	Non-Independent Non-Executive	7	0	No	-	-	-	-
Dr. Janaradhana Reddy Vinta.	Non-Independent Non-Executive	7	2	No	-	-	-	-



- iv) 7 Board Meetings were held during the year ended March 31, 2011 and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows.
April 6, 2010; May 29, 2010; June 30, 2010; August 13, 2010; October 14, 2010, January 17, 2011 and February 5, 2011.
- v) None of the Non-Executive Directors have any material pecuniary relationship or transaction with the Company.
- vi) Necessary information as mentioned in Annexure 1A to clause 49 of the listing agreement has been placed before the Board for their consideration.

3. Audit Committee:

- i. The Audit Committee of the Company during the year under review consists of three Directors, all of whom are independent Directors and the Chairman is a fellow member of the Institute of Chartered Accountants of India and the member of the institute of internal Auditors, UK. All the members of the committee are financially literate. Accordingly the composition of the Audit committee is in conformity with clause 49 of the listing Agreement entered with stock exchanges.
- ii. The terms of reference of the Audit Committee are broadly as under:
 - A. Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement reflects a true and fair position and that sufficient and credible information is disclosed.
 - B. Recommending the appointment and removal of the statutory auditors, fixation of audit fees and also approval for payment for any other services.
 - C. Discussion with external auditors before the audit commences, of the nature and scope of audit as well as post audit discussion to ascertain any area of concern.
 - D. Reviewing, with the management, the annual financial statements before submission to the board, focusing primarily on :
 - a) Matters required to be included in the Director's Responsibility statement to be incorporated in terms of Section 217(2AA) of the Companies Act, 1956
 - b) Any changes in accounting policies and practices
 - c) Major accounting entries based on the exercise of judgment by management
 - d) Significant adjustments arising out of audit ;
 - e) Compliance with listing and other legal requirements relating to financial statements
 - f) Disclosure of any related party transactions
 - g) Qualifications in the draft audit report.
 - h) Compliance with accounting standards;
 - i) Management discussion and analysis of financial condition and result of operations
 - E. Reviewing the Quarterly Financial Results before submitting the same 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 24, 2010 and the Chairman of the Audit Committee has attended the AGM.
- v. The composition of the Audit Committee as on March 31, 2011 and particulars of meetings attended by the members are as follows:

Name	Category	No. of Meetings during the year 2010-11	
		Held	Attended
Sri. R. Sankaran, Chairman	Independent Non-Executive	4	4
Sri S.V. Subba Raju	Independent Non-Executive	4	1
Sri. M. Gopalakrishna, IAS (Retd),	Independent Non-Executive	4	4

Four Audit Committee Meetings were held during the year ended March 31, 2011 i.e. May 29, 2010; August 12, 2010; October 13, 2010; and January 12, 2011.

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

4. Remuneration Committee

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

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

Two Meetings of Remuneration Committee were held during the year under review

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

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

5. Details of Remuneration and other terms of appointment of Directors: for 2010-2011

A) Managing/Whole-time Directors:

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

Compensation paid to Managing Director and Whole time Director during the financial year 2010-11 is follows.

Name	Designation	REMUNERATION (Rs. Lacs)		
		Salary & Benefits	Commission	Total
Col. L.V. Raju (Retd.)	Managing Director	45.09	0.00	45.09
Mr. B. Murali Mohan	Whole time Director	22.89	0.00	22.89

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

B. Non- Executive Directors:

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

Sitting fee paid to non executive Directors during Financial Year 2010-11, is as follows.

Name	Sitting fee (Amount in Rs)
Sri S.V. Subba Raju	40,000
Sri R. Sankaran	1,00,000
Sri S. Nandakumar	60,000
Dr. M. Anji Raju	-
Dr. Jyoti Raju	10,000
Sri M. Gopalakrishna, IAS (Retd)	1,00,000
Sri Kishore B Gottimukkala	10,000
Dr. Raju Narasa Mantena	-
Dr. Janaradhana Reddy Vinta	20,000

6. Share holding of the Directors in the Company as on March 31, 2011.

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	29,426
Dr. M. Anji Raju	4,31,578
Dr. Jyoti Raju	1,73,329
Sri Kishore B Gottimukkala	4,54,346
Dr. Raju Narasa Mantena	8,54,633
Dr. Janardhana Reddy Vinta	1,96,655

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

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

Opening Balance	Received during the period 01.04.2010 to 31.03.2011	Resolved during the period 01.04.2010 to 31.03.2011	Closing Balance
Nil	Nil	Nil	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
2009-10	18th AGM	Friday, September, 24, 2010 at 2.30 P.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003
2008-09	17th AGM	Tuesday, September, 15, 2009 at 2.30 P.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003
2007-08	16th AGM	Friday, September, 19, 2008 at 3.30 P.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003



- 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
18th AGM	Nil
17th AGM	Appointment of sole selling agents for Egypt
16th AGM	Nil

All the above resolutions were passed with requisite majority

7. Disclosures:

- i. There are no materially significant related party transactions of the Company with Promoters, directors or the Management or their relatives or the Subsidiary Company which have potential conflict with the interest of Company at large. Transactions with related parties as per requirements of Accounting Standards - (AS-18) - "Related Party Disclosures" issued by the Institute of Chartered Accountants of India are disclosed in Note 12 of Schedule: S to the accounts in the Annual Report.
- ii. There were no cases of non-compliance by the Company, penalties, strictures imposed on the Company by stock exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the year ended March 31, 2011.
- 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, 2011

Place : Hyderabad

Date : August 13, 2011

Col. L.V. Raju (Retd.)

Managing Director

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

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

iii) Means of Communication:

The quarterly, half-yearly and annual results of the Company are published in leading newspapers in India which include, the Financial Express, Prajashakti and Andhrabhoomi. The results are also displayed on the Company's 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.

iv) General Shareholders information

i) Annual General Meeting

Date	: 26th September 2011
Time	: 3.00P.M
Venue	: Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003.

ii) Financial Calendar

Year ending	: March 31, 2011
AGM	: September 26, 2011

iii) Date of Book Closure : September 21, 2011 to September 26, 2011
(Both days inclusive)

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

v) Stock Code/Symbol

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

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

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

Month	Bombay Stock Exchange Limited			National Stock Exchange Limited		
	High (Rs.)	Low (Rs.)	Total No. of Shares Traded	High (Rs.)	Low (Rs.)	Total No. of Shares Traded
Apr-10	113.05	100.35	338136	112.65	100.50	659060
May-10	100.15	84.65	392930	100.65	84.40	721156
June-10	98.35	87.40	631746	98.25	87.55	1260051
July-10	133.55	93.60	4735641	133.90	93.50	10134152
Aug-10	129.00	117.50	551338	128.60	118.70	912843
Sep-10	131.70	119.30	343016	131.90	119.55	499450
Oct-10	156.30	126.20	461467	155.70	126.60	761123
Nov-10	154.15	123.20	226067	153.95	123.25	408054
Dec-10	161.95	133.20	745626	161.45	133.65	1443121
Jan -11	169.55	140.35	1456078	169.45	140.50	2727019
Feb -11	133.85	90.20	2465977	133.85	90.15	4831623
March -11	87.60	75.75	572684	87.50	75.30	1102320

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

Historic Graphs



- ix) Registrar and Transfer Agents : Karvy Computershare Pvt Ltd.,
Name & Address : Plot No. 17 to 24,
Vittal Rao Nagar, Madhapur,
Hyderabad-500 081
Tel: 91 40 44655251
Fax: 91 40 23420814,
E-mail :ksreddy@karvy.com
Contact Person: Mr. K S Reddy
(Asst. General Manager)

x) Share Transfer System:

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

xi) Shareholding (as on March 31,2011):

a) Distribution of shareholding as on March 31, 2011.

No. of Shares	Holding	% to Capital	No. of accounts	% to Total Accounts
1 - 5000	17619270	14.10	20642	93.82
5001 - 10000	5298300	4.24	700	3.18
10001 - 20000	4781320	3.83	336	1.53
20001 - 30000	2420720	1.94	97	0.44
30001 - 40000	1320360	1.06	38	0.17
40001 - 50000	1727660	1.38	38	0.17
50001 -100000	4450060	3.56	64	0.29
100001 & above	87378860	69.91	86	0.39
GRAND TOTAL	124996550	100.00	22001	100.00

b) Categories of Shareholders as on March 31, 2010

Category	No.of shareholders	No. of shares	Percentage
Indian Promoters	1	225863	1.81
Foreign Promoters	6	2486592	19.89
Persons acting in Concert			
- Indian	3	118085	0.94
- Foreign	10	3430667	27.45
Mutual Funds and UTI	0	0	0.00
Banks, Financial Institutions, Insurance Companies (Central / State Gov. Institutions / Non-government Institutions)	1	50	0.00
Foreign Institutional Investors	0	0	0.00
Private Corporate Bodies	538	1362440	10.90
Indian Public	21171	3121605	24.97
NRIs / OCBs	197	954338	7.53
Individual Shareholders excess 1 Lakh	18	757281	6.06
Foreign Trust	3	24531	0.20
Clearing Members	53	18203	0.15
TOTAL	22001	1,24,99,655	100



xii) Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 87.27% of the company's share capital are dematerialized as on March 31, 2011.

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, 2011 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 conditions of Corporate Governance by Kernex Microsystems (India) Limited for the year ended on 31st March, 2011, as stipulated in Clause 49 of the Listing Agreement of the company with 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 implementations thereof adopted by the company for ensuring compliance with the conditions of the Corporate Governance as stipulated in the said Clause. 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 above mentioned Listing Agreement.

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

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

Place : Hyderabad
Date : 13th August, 2011

G. Satyanarayana Murty
Partner
Membership No.: 29919



FINANCIAL STATEMENTS
2010-11

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 31st March, 2011 and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

- (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
- (iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ;
- (v) On the basis of written representations received from the directors as on 31st March, 2011 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2011 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, 2011;
 - (b) In the case of Profit and Loss Account, of the Profit for the year ended on that date; and
 - (c) In the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

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

G Satyanarayana Murty

Place: Hyderabad Partner
Date : 13th August, 2011. 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) As per the explanations given to us by the management, physical verification of Fixed Assets has not been carried out during the year.
- (c) None of the major fixed assets of the Company are disposed off during the year.
- (II) (a) The Inventory has been physically verified by the management at reasonable intervals.
- (b) In our opinion and according to the information and explanations given to us, the procedures for physical verification of inventory followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business;
- (c) On the basis of our examination of the inventory records, in our opinion, the company has maintained proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- (III) (a) During the year, the Company has not granted any loans, secured or unsecured, to the companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence Clauses (iii) (b), (c) & (d) of the Order are not applicable.
- (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence Clauses (iii) (f) & (g) of the Order are not applicable.
- (IV) In our opinion and according to the information and explanations provided to us there are adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control.
- (V) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there have been no transactions that need to be entered into the register maintained under Section 301;
- (VI) The Company has not accepted any deposits from the public during the year under review falls under section 58A and 58AA of the Companies Act 1956;
- (VII) The Company has an in-house internal audit department, which, in our opinion the scope is commensurate with the size and nature of the business of the company;
- (VIII) We have broadly reviewed the books of account maintained by the Company in respect of the products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- (IX) (a) *There have been minor delays in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax and Service Tax with appropriate authorities during the year. According to the records, information and explanations provided to us, there are no undisputed amounts payable in respect 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 which were outstanding at the year end 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 and Sales tax have not been deposited on account of any dispute are given below:

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

- (X) The Company has no accumulated losses at the end of the financial year ended 31.03.2011 and it has not incurred cash loss during the year covered by our audit. However the company has incurred a cash loss of Rs.9,17,54,483/- 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
(Registration No.006945S)

G Satyanarayana Murty
Partner
Membership No.:29919

Place: Hyderabad
Date : 13th August, 2011

Balance Sheet as at March 31, 2011

(Amount in Rupees)

	Schedule Reference	AS AT 31.03.2011	AS AT 31.03.2010
I. SOURCES OF FUNDS			
(1) Shareholders' funds :			
(a) Capital	A	124,996,550	124,996,550
(b) Reserves and surplus	B	1,139,470,036	1,108,263,287
(2) Deferred Tax Liability		-	-
(3) Loan funds :			
(a) Secured Loans	C	225,477,280	190,323,062
TOTAL		1,489,943,866	1,423,582,899
II. APPLICATION OF FUNDS			
(1) Fixed Assets :	D		
(a) Gross block		403,360,897	402,335,415
(b) Less : Depreciation		138,744,252	128,220,064
(c) Net block		264,616,645	274,115,351
(d) Capital Work-in-progress (Including advances)		528,300,209	505,937,268
(2) Investments :	E	11,830,950	11,830,950
(3) Current Assets, Loans and advances			
(a) Inventories	F	207,423,263	207,050,575
(b) Sundry Debtors	G	366,524,497	200,258,081
(c) Cash and bank balances	H	139,917,168	216,961,989
(d) Loans and advances	I	134,231,254	117,441,251
		848,096,182	741,711,896
Less :			
Current Liabilities and Provisions	J		
(a) Current Liabilities		159,454,514	146,132,925
(b) Provisions		14,575,691	-
Net current assets		674,065,977	595,578,971
(4) Deferred Tax Asset		11,130,085	36,120,360
TOTAL		1,489,943,866	1,423,582,899
Notes on Accounts	S		

As per our report of even date
for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

(G. Satyanarayana Murty)
Partner
Membership No. 29919

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

Profit and Loss Account for the year ended March 31, 2011

(Amount in Rupees)

	Schedule Reference	For the Year ended 31.03.2011	For the Year ended 31.03.2010
INCOME			
Sales and Services	K	441,034,133	43,732,837
Less: Duties and Taxes	M	16,303,943	3,762,337
Net Sales and Services		424,730,190	39,970,500
Other Income	L	17,450,906	26,822,701
TOTAL		442,181,096	66,793,201
EXPENDITURE			
Cost of Materials and Services	N	191,443,331	54,008,447
(Increase)/Decrease in Stocks	O	(1,568,513)	(34,382,866)
Personnel Expenses	P	76,567,611	67,381,446
Operating, Admn and Selling Expenses	Q	62,716,441	46,784,755
Finance Charges	R	31,725,323	24,755,902
Depreciation	D	10,524,188	13,996,371
TOTAL		371,408,381	172,544,055
Profit before Tax		70,772,715	(105,750,854)
Less : Provision for Taxation :			
(a) Current Year		14,200,000	–
(b) Deferred Tax		24,990,275	(35,840,363)
(c) MAT Credit Entitlement		(14,200,000)	–
Profit after Tax		45,782,440	(69,910,491)
Add : Profit brought forward from Previous Year		129,830,111	199,740,602
Profit Available for Appropriation		175,612,551	129,830,111
Less : Provision for Dividend		12,499,655	–
Less : Tax on distributed Profits		2,076,036	–
Less : Transfer to General Reserve		–	–
Balance Carried to Balance Sheet		161,036,860	129,830,111
Earning Per Share - Basic		3.66	(5.59)
Diluted		3.66	(5.59)
Notes on Accounts	S		

As per our report of even date
for **GMK ASSOCIATES,**
Chartered Accountants
Firm Reg. No.006945S

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

(G. Satyanarayana Murty)
Partner
Membership No. 29919

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

Schedules to the Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE - A		
SHARE CAPITAL		
AUTHORISED CAPITAL		
1,50,00,000 Equity Shares of Rs.10/- each	150,000,000	150,000,000
ISSUED SUBSCRIBED AND PAID UP CAPITAL		
12,499,655 EQUITY SHARES OF Rs.10/- each	124,996,550	124,996,550
(Of the above shares 55,22,177 number of Equity Shares of Rs 10/- each were allotted by way of bonus shares by capitalizing free reserves of the company)	124,996,550	124,996,550
SCHEDULE - B		
RESERVES AND SURPLUS		
Securities Premium		
As at the commencement of the year	917,219,545	917,219,545
Add : received during the year	-	-
	917,219,545	917,219,545
General Reserve		
At the commencement of the year	61,213,631	61,213,631
Add: Transfer from the profit & Loss account	-	-
	61,213,631	61,213,631
Balance in Profit & Loss A/c	161,036,860	129,830,111
	161,036,860	129,830,111
	1,139,470,036	1,108,263,287
SCHEDULE - C		
SECURED LOANS		
Working Capital Facilities from Banks	224,764,899	125,321,063
Short Term Loans against Deposits	-	63,637,743
Vehicle loans	712,381	1,364,256
	225,477,280	190,323,062

Schedules to the Balance Sheet

SCHEDULE "D"

FIXED ASSETS

(Amount in Rupees)

Name of the Asset	Gross Block			Depreciation			Net Block			
	As on 01-04-10	Additions during the Year	Deductions /Deletions	As on 31-03-11	Upto 31-03-10	During the year	Adjust- ments	Upto 31-03-11	As on 31-03-11	As on 31-03-10
Land & Land development	215,844,647	-	-	215,844,647	-	-	-	-	215,844,647	215,844,647
Building	43,671,920	-	-	43,671,920	20,816,871	2,285,504	-	23,102,375	20,569,545	22,855,049
Plant & Machinery including Computers	114,003,474	140,109	-	114,143,583	88,390,224	6,251,371	-	94,641,595	19,501,988	25,613,250
Office Equipment	9,099,416	16,200	-	9,115,616	5,216,091	539,093	-	5,755,184	3,360,432	3,883,325
Furniture	11,569,501	40,860	-	11,610,361	8,301,749	547,341	-	8,849,090	2,761,271	3,267,752
Vehicles	8,146,457	828,313	-	8,974,770	5,495,129	900,879	-	6,396,008	2,578,762	2,651,328
TOTAL	402,335,415	1,025,482	-	403,360,897	128,220,064	10,524,188	-	138,744,252	264,616,645	274,115,351
As On 31-03-10	393,248,065	9,087,350	-	402,335,415	114,223,693	13,996,371	-	128,220,064	274,115,351	279,024,372
Capital Work-in-Progress	505,937,268	22,362,941	-	528,300,209					528,300,209	505,937,268

Schedules to the Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE - E		
INVESTMENTS (At Cost)		
Long Term, Trade (Unquoted)		
35,80,000 equity shares of US\$0.02 and	11,830,950	11,830,950
17,99,240 equity shares of Us\$0.10 in		
Avant-Garde Infosystems inc.USA (Fully Paid)		
100% subsidiary	11,830,950	11,830,950
SCHEDULE - F		
INVENTORIES		
Work in progress	149,864,297	148,295,784
Closing Stock of Materials	57,558,966	58,754,791
	207,423,263	207,050,575
SCHEDULE - G		
SUNDRY DEBTORS		
(Unsecured and considered good)		
Outstanding for a period exceeding Six months	173,555,455	191,724,884
Other Debts	192,969,042	8,533,197
	366,524,497	200,258,081
SCHEDULE - H		
CASH AND BANK BALANCES		
Cash on Hand	129,956	262,949
Cash at Bank :		
in current Account with scheduled Banks	22,302,960	6,703,972
in Fixed Deposits	117,484,252	209,995,068
	139,917,168	216,961,989
SCHEDULE - I		
LOANS AND ADVANCES		
(Unsecured and Considered good)		
Advances to Suppliers & Services	49,255,776	45,995,311
Deposits	44,798,939	40,882,904
Deferred Interest	100,438	208,146
Loan to subsidiary	23,198,656	20,706,495
Other Current Assets	16,877,445	9,648,397
	134,231,254	117,441,253

Schedules to the Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE - J		
CURRENT LIABILITIES AND PROVISIONS		
(A) CURRENT LIABILITIES		
Creditors for Supplies and services	99,275,390	43,548,558
Creditors for Capital Goods	11,146,277	28,334,672
Advances Received from Customers	48,668,872	73,715,268
Share Application Money unpaid refund	193,300	362,050
Unclaimed Dividend	170,675	172,377
	159,454,514	146,132,925
(B) PROVISIONS		
Income Tax (Net)	-	-
Dividend	12,499,655	-
Dividend Distribution Tax	2,076,036	-
	14,575,691	-

Schedules to the Profit and Loss Account

	For the Year ended 31.03.2011	Amount in Rupees. For the Year ended 31.03.2010
SCHEDULE - K		
SALES AND SERVICES		
(A) Sales Domestic	54,540,946	51,144
(B) Sales Export	232,906,920	8,519,336
(C) Service income	153,586,267	35,162,357
	<u>441,034,133</u>	<u>43,732,837</u>
SCHEDULE - L		
OTHER INCOME		
Interest Received : Banks	7,059,762	18,788,819
Others (Subsidiary)	1,451,125	1,541,150
Miscellaneous Income	8,940,019	6,492,732
	<u>17,450,906</u>	<u>26,822,701</u>
SCHEDULE - M		
DUTIES AND TAXES		
Central Excise Duty	772,485	3,461
Service Tax	15,367,405	3,741,141
Sales Tax	164,053	17,735
	<u>16,303,943</u>	<u>3,762,337</u>
SCHEDULE - N		
COST OF MATERIALS & SERVICES		
Consumption of raw materials and bought-out items		
Opening Stock of raw materials	58,754,791	56,670,264
Add : Purchases	53,821,739	17,139,285
Less: Closing Stock	57,558,966	58,754,791
Material consumed	<u>55,017,564</u>	15,054,758
Bought out items	86,192,867	58,880
Project Execution Expenses	50,232,900	38,894,809
Net Cost of Materials & Services	<u>191,443,331</u>	<u>54,008,447</u>
SCHEDULE - O		
(INCREASE) / DECREASE IN STOCKS		
Opening Stocks		
Opening Work in progress	148,295,784	113,912,918
TOTAL (A)	<u>148,295,784</u>	<u>113,912,918</u>
Closing Stocks		
Closing work in Progress	149,864,297	148,295,784
TOTAL (B)	<u>149,864,297</u>	<u>148,295,784</u>
TOTAL (A+B)	<u>(1,568,513)</u>	<u>(34,382,866)</u>

Schedules to the Profit And Loss Account

	Amount in Rupees.	
	For the Year ended 31.03.2011	For the Year ended 31.03.2010
SCHEDULE - P		
PERSONNEL EXPENSES		
Salaries and Other Benefits	70,869,063	62,913,283
Contribution to PF & Other funds	3,774,384	2,991,173
Staff Welfare	1,924,164	1,476,990
	76,567,611	67,381,446
SCHEDULE - Q		
OPERATING, ADMINISTRATIVE AND SELLING EXPENSES		
Rent	2,262,225	3,115,350
Rates and Taxes	3,108,021	2,058,895
Printing & Stationery	623,135	537,740
Directors Remuneration	6,780,000	4,680,000
Bad Debts Written off	-	8,751,111
Directors sitting fees	370,000	550,000
Communication Expenses	1,749,552	1,543,956
Repairs and Maintenance	7,105,484	3,556,086
Electricity Charges	2,625,388	1,753,258
Professional & Consultancy Fees	2,105,651	4,149,813
Security Charges	821,611	940,029
Books and Periodicals	3,500	14,295
Traveling & Conveyance Expenses	3,670,544	4,712,753
Insurance	461,911	380,665
General Expenses	476,154	859,411
Auditors remuneration	616,200	615,480
Business Promotion	3,087,360	912,974
Research and Development expenses	6,323,962	7,414,290
Freight	8,958	238,649
Selling Expenses	20,516,785	-
	62,716,441	46,784,755
SCHEDULE - R		
FINANCE CHARGES		
Interest on term Loan	-	3,040,752
Interest on Working Capital	20,390,792	12,401,023
Bank Commission & Other Financial Charges	11,334,531	9,314,127
	31,725,323	24,755,902

SCHEDULE 'S': Notes forming part of the Accounts for the year ended March 31, 2011**Significant Accounting Policies and notes on accounts:****Company Overview:**

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

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

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

2. Revenue Recognition:

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

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

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

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

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

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

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

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

4. Foreign Currency Transactions:

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

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

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

5.2 Deferred Tax:

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

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

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

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

5.3 MAT Credit Entitlement:

MAT Credit Entitlement is recognised in the books of accounts as per the Tax Laws existing on the Balance Sheet Date.

6. Fixed Assets

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

Capital expenditure incurred on Expansion Project at Hardware Technology Park (HTP) is shown under Capital Work In Progress.

7. Research and Development Expenditure:

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

8. Depreciation

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

9. Inventories

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

10. Warranty Expenses

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

11. Segment Reporting :

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

12. Related Party Disclosures:

- a) There are no related parties where control exists other than 100% Wholly Owned subsidiary.
- b) 100% Wholly Owned Subsidiary
Avant-Grade Infosystems.
- c) Key Management Personnel:
Col. L.V.Raju (Retd) - Managing Director
B. Murali Mohan - Whole Time Director

13. Impairment Of Assets :

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

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

B. Notes to Accounts :

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

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

Figures are rounded off to the nearest rupee.

- Sundry Debtors, Creditors and Capital Advances are Subject to Reconciliation and Confirmation..

- Contingent Liabilities in respect of :-**

- Claims against the Company not acknowledged as debt Rs. 8 Lakhs in respect of Income Tax for the Assessment Year 1998-99 for which the companies appeal is Pending before the High Court of Andhra Pradesh and Rs.4.13 Lakhs in respect of Sales Tax for the year 2002-03 for which the company appeal is pending before STAT
- Bank guarantees outstanding Rs.1720.75 as on 31st March, 2011 (2010: Rs.1209.79 Lakhs)
- Estimated amount of contracts remaining to be executed on capital account and not accounted are Rs.4.60 crores (Previous Year:Rs.5.60 crores)

- 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.
- Vehicle Loans are secured by Hypothecation of Vehicles.
- Export Packing Credit facility is primarily secured by Hypothecation of Raw materials, stock in process, Finished goods in transit, stores spares, ranking paripassu with other banks under multiple banking agreement and collaterally secured by all Fixed Assets Land & Buildings under construction.

		(Amt Rs. in lacs)	
		2010-11	2009-10
5. Auditors remuneration relates to			
Statutory, Tax Audits including quarterly audits	:	6.00	6.00
Other Services	:	0.91	1.55
Reimbursement of Out of Pocket expenses	:	0.16	0.15
6. Directors remuneration relates to			
Managing Director	:		
Salary including PF Contribution	:	45.09	24.09
Commission	:	0.00	0.00
Whole Time Director			
Salary including PF Contribution	:	22.89	22.89
Commission	:	0.00	0.00
Non-Whole Time Directors			
Sitting Fees	:	3.70	5.50
Commission	:	0.00	0.00

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

The Company would account for significant interest obligations in this regard, If any, subsequently.

Accordingly required disclosures in this regard have not been given in the current year.

8. Loans and Advances :

Loans and advances include Rs. 2,31,98,656/- (Previous year Rs.2,07,06,495/-) 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)

	2010-11	2009-10
Net Profit After Tax attributable to Equity Shareholders (Rs.)	45,782,440	(69,910,491)
Weighted Average No. of Equity Shares (Nos)	12,499,655	12,499,655
Earnings Per Share - Basic and Diluted (Rs.)	3.66	(5.59)
Face Value of Each Share (Rs.)	10	10

10. Related Party Disclosure:

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	
	2011	2010
1. Capital Transactions :		
Working Capital Loan	10.41	Nil
2. Revenue Transactions :		
Interest receivable	14.51	15.41
3. Sale of Services :	Nil	Nil

(Amt Rs. in lacs)

Key Management Personnel:

			2010-11	2009-10
Col. L.V.Raju (Retd)	-	Managing Director	Remuneration	45.09 24.09
B. Murali Mohan	-	Whole-time Director	Remuneration	22.89 22.89

11. 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, 2011.

Name of Subsidiary Company	Outstanding as at March 31, 2011 (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	231.99	231.99	0	53,79,240

12. 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 2010-11				For The Year 2009-10			
	Production		Sales		Production		Sales	
	Unit	Qty.	Qty.	Amount Rs.in lacs	Unit	Qty.	Qty.	Amount Rs.in lacs
Acid Test Units	No's	23	23	69.07	No's	0	0	-
ECM	No's	81	81	501.96	No's	4	4	17.41
Flashing Lights Control Panel at	No's	261	261	89.65	No's	37	37	12.89
Signal Cabin	No's	78	78	189.90	No's	7	7	17.41
Interlocking	No's	41	41	66.55	No's	1	1	1.62
Bells	No's	162	162	9.32	No's	8	8	0.47
Others*	No's	0	0	-	No's	0	0	-

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

(III) Traded Goods (Exports)

Item Description	For The Year 2010-11				For The Year 2009-10			
	Purchases		Sales		Purchases		Sales	
	Unit	Qty.	Qty.	Amount Rs.in lacs	Unit	Qty.	Qty.	Amount Rs.in lacs
LCD	Sets	89	80	169.40	Sets	-	6	13.22
Wheel Sensors	Sets	104	80	95.33	Sets	-	3	3.74
DVD & Camera	Sets	92	40	141.31	Sets	-	5	18.42
Barriers	No's	230	230	1,065.59	No's	-	-	-

(IV) Traded Goods (Domestic)

Item Description	For The Year 2010-11				For The Year 2009-10			
	Purchases		Sales		Purchases		Sales	
	Unit	Qty.	Qty.	Amount Rs.in lacs	Unit	Qty.	Qty.	Amount Rs.in lacs
Battries	No's	869	770	126.73	Sets	-	-	-
Solar Panels	No's	171	171	91.80	No's	-	-	-
Solar Electrical Fensing	Sets	287	287	235.70	No's	-	-	-
Others	No's	-	230	22.11	No's	-	-	-

(V) Raw material Consumed :

Item Description*	For The Year 2010-11			For The Year 2009-10		
	Unit	Qty.	Amount Rs.in lacs	Unit	Qty.	Amount Rs.in lacs
Radio Modems-5 watts 60"	No's	75	28.41	No's	2	0.85
Radio Modems-2 watts	No's	35	15.57	No's	56	24.89
GPS Receivers	No's	98	3.09	No's	9	0.47
GPS Antennae	No's	-	-	No's	-	-
Disk On chip	No's	60	0.57	No's	-	-
RS 232 Module/ 48 Channel dio	No's	145	1.65	No's	2	0.03
CPU Boards	No's	186	6.23	No's	-	-
VF Displays	No's	35	0.30	No's	-	-
Noise Filters	No's	42	0.06	No's	11	0.02
LCD"s	No's	57	0.35	No's	7	0.06
Radio Modems-5Wt-75 Deg	No's	29	18.33	No's	-	-
Noise Filters-ENR	No's	201	6.17	No's	105	3.67
Push Button Switch	No's	3,270	13.37	No's	41	0.26
Key Operated Rotary Switch	No's	-	-	No's	4	0.08
SMD Relay	No's	-	-	No's	12,639	14.49
82GSM Module (WHIP Antena)	No's	141	5.78	No's	10	0.47
DC to DC Converters	No's	339	41.36	No's	210	7.35
Connectors-Wago	No's	19,949	25.65	No's	6,449	4.54
Connectors-Harting	No's	9,206	10.00	No's	3,284	7.65
PCBS	No's	8,856	7.14	No's	3,267	6.64
MCBS	No's	642	2.79	No's	9,696	3.45
Fabricated Boxes	No's	-	-	No's	959	19.69
Relays	No's	842	24.74	No's	745	0.67
Control Panels	No's	647	24.33	No's	-	-
Mosfet Photos	No's	12,508	15.99	No's	-	-
Mechanical Boxes	No's	427	14.88	No's	-	-
Relays - Crompton Greves	No's	1,575	32.32	No's	-	-
Drop Bolts	No's	339	10.81	No's	-	-
Crack Handle Boxes	No's	182	4.62	No's	-	-
Transformers	No's	1,250	5.49	No's	-	-
UHF Filters	No's	70	7.21	No's	-	-
Others*			222.97			55.27

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

(VI) Value of Imported and Indigenous materials consumed :

Item Description	For The Year 2010-11		For The Year 2009-10	
	%	Rs.in lakhs	%	Rs.in lakhs
Raw Material				
Imported	51.03%	280.77	27.22%	60.59
Indigenous	48.97%	269.40	72.80%	0.32

(Amount/Value in Rs. lacs)

Item Description	2010-11	2009-10
(VII) Opening Stock :-*		
Work-in-progress	1482.96	1139.13
Components	587.55	566.70
(VIII) Closing Stock :-*		
Work-in-progress	1498.64	1482.96
Components	575.59	587.55
*Inventory values at the year end are as certified by the Management of the Company.		
(IX) CIF value of Imports :		
Raw materials/Components	121.06	44.67
Consumables:	0.00	0.00
Capital Goods:	0.00	0.00
(X) Foreign Exchange :		
a) Earnings in Foreign Exchange: (On receipt basis)	455.76	0.00
b) Expenditure in Foreign Exchange: (On payment basis)		
Traveling & Other Expn	16.69	12.81
Capital Goods	0.00	0.00
Components/Materials	120.35	46.78
Dividends	0.00	21.36
Loans to 100% Subsidiary	0.00	0.00
Egypt Branch	167.86	164.43
Consultancy Fees	2.20	3.70

(XI) Deferred Taxation :

(Amount Rs. in lacs)

Particulars	As on 31.03.11	As on 31.03.10
Payments under 43B	6,047,220	5,781,970
Unabsorbed Business Loss (2009-10)	7,998,915	34,782,444
Total Deferred Tax Asset	14,046,136	40,564,414
Deferred Tax Liability		
Difference in Block of Assets	2,916,051	4,444,053
Total Deferred tax liability	2,916,051	4,444,053
Net Deferred tax (Asset)/Liability	(11,130,085)	(36,120,361)

Note: As per the Accounting Standard-22 "Accounting for Taxes on Income" issued by ICAI, The Net deferred tax Liability for the year Rs.24,990,276 is debited to P&L Account.

As per our report of even date
for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

(G. Satyanarayana Murty)
Partner
Membership No. 29919

Place : Hyderabad
Date : 13th August, 2011

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

S.V. Subba Raju
Chairman

S. Jasminder Singh
Company Secretary

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

Cash Flow Statement for the year ended March 31, 2011

(Amount in Rupees)

Particulars	March 31, 2011	March 31, 2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit before tax	70,772,715	(105,750,854)
Adjustments for:		
Depreciation and amortisation	10,524,188	13,996,371
Interest and other financial charges	31,130,472	23,693,304
Interest Income	(8,510,887)	(20,329,969)
Operating Profit Before Working Capital Changes	103,916,489	(88,391,148)
Sundry debtors	(166,266,416)	3,048,441
Inventories	(372,689)	(36,467,393)
Loans and Advances	(10,290,001)	(30,535,666)
Current liabilities and provisions	13,321,589	2,534,544
Income-taxes paid during the year	(6,500,000)	(8,698,152)
Net cash generated by operating activities	(66,191,029)	(158,509,374)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and change in capital work-in-progress	(23,388,423)	(38,895,704)
Interest income	8,510,886	20,329,969
Net cash used in investing activities	(14,877,537)	(18,565,735)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Secured Loans Received/(Repayment)	35,154,218	79,765,313
Interest and other financial charges	(31,130,473)	(23,693,304)
Dividends paid during the year, including dividend tax	-	(14,623,971)
Net cash used in financing activities	4,023,745	41,448,039
Net (decrease)/increase in cash and cash equivalents during the year	(77,044,821)	(135,627,070)
Cash and cash equivalents at the beginning of the period/year	216,961,989	352,589,059
Cash and cash equivalents at the end of the year	139,917,168	216,961,989

As per our report of even date
for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

(G. Satyanarayana Murty)
Partner
Membership No. 29919

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

Balance Sheet Abstract and Company's General Business Profile

Registration No. 0 1 - 1 3 2 1 1 / 1 9 9 1 - 9 2

State Code: 0 1

Balance sheet Date: 3 1 0 3 2 0 1 1

Capital raised during the year**(Amount in Rs. Thousands)**Public Issue N I L Bonus Issue N I L Rights Issue N I L Private Placement N I L Sweat Equity N I L **Position of Mobilization and Deployment of Funds:**

Total Liabilities 1 4 8 9 9 4 4

Total Assets 1 4 8 9 9 4 4

Sources of Funds:

Paid up Capital 1 2 4 9 9 6

Reserves & Surplus 1 1 3 9 4 7 0

Secured Loan 2 2 5 4 7 7

Unsecured Loans N I L Deferred Tax Liability N I L **Application of Funds:**

Net Fixed Assets 2 6 4 6 1 7

Investments 1 1 8 3 1

Capital Work in Progress 5 2 8 3 0 0

Misc. Expenditure N I L

Net Current Assets 6 7 4 0 6 6

Deferred Tax Asset 1 1 1 3 0**Performance of Company:**

Total Revenues 4 4 2 1 8 1

Total Expenditure 3 7 1 4 0 9

Profit Before Tax 7 0 7 7 2

Profit after Tax 4 5 7 8 2

Earning Per Share R s . 3 . 6 6

Dividend 1 0 % **Generic Names of three Principal Products / Services of Company**

Item Code 8 5 2 4 9 0 0 9 . 1 0

Product Description Computer Software

Item Code —

Product Description Electronic Safety Devices for Indian Railways

For and on behalf of the Board

S.V. Subba Raju
Chairman**Col. L.V. Raju (Retd.)**
Managing DirectorPlace : Hyderabad
Date : 13th August, 2011**S. Jasminder Singh**
Company Secretary

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 31st March, 2011 and also the Consolidated Profit and Loss Account and Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not audit the financial statements of 100% wholly owned overseas subsidiary, whose financial statements reflect total assets of US \$ 5,21,431/- as at 31st March 2011, the total Loss before tax of US \$ 49,372/- 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, 2011
- (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, 2011.
- (iii) In the case of the consolidated cash flow statement of the Kernex Micro Systems (India) Limited group.

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

G. Satyanarayana Murty
Partner

Place : Hyderabad
Date : 13th August, 2011

Membership No.: 29919

Consolidated Balance Sheet as at March 31, 2011

(Amount in Rupees.)

	Schedule Reference	As at 31.03.2011	As at 31.03.2010
I. SOURCES OF FUNDS			
(1) Shareholders' funds :			
(a) Capital	A	124,996,550	124,996,550
(b) Reserves and surplus	B	1,125,260,211	1,096,280,149
(2) Deferred Tax Liability		-	-
(3) Loan funds :			
(a) Secured Loans	C	225,477,280	190,323,062
TOTAL		1,475,734,041	1,411,599,761
II. APPLICATION OF FUNDS			
(1) Fixed Assets :	D		
(a) Gross block		404,503,945	403,478,463
(b) Less : Depreciation		139,887,300	129,363,112
(c) Net block		264,616,645	274,115,351
(d) Capital Work-in-progress		528,300,209	505,937,268
(2) Investments :	E	-	-
(3) Current Assets, Loans and advances :			
(a) Inventories	F	207,423,263	207,050,575
(b) Sundry Debtors	G	366,524,497	200,258,081
(c) Cash and bank balances	H	139,918,774	216,962,396
(d) Loans and advances	I	111,032,598	96,734,757
Less :		824,899,132	721,005,809
Current Liabilities and Provisions :	J		
(a) Current Liabilities		159,539,790	146,487,726
(b) Provisions		14,575,691	-
Net current assets		650,783,651	574,518,083
(4) (a) Miscellaneous expenditure to the extent not written off or adjusted	K	68,323	73,571
(b) Product Development Expenses		20,835,128	20,835,128
(c) Deferred Tax Asset		11,130,085	36,120,360
TOTAL		1,475,734,041	1,411,599,761
Notes on Accounts	T	-	-

As per our report of even date
for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

(G. Satyanarayana Murty)
Partner
Membership No. 29919

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

Consolidated Profit and Loss Account for the year ended March 31, 2011

(Amount in Rupees)

	Schedule Reference	For the Year ended 31.03.2011	For the Year ended 31.03.2010
INCOME			
Sales and Services	L	441,034,133	43,898,917
Less: Duties and Taxes	N	16,303,943	3,762,337
Net Sales and Services		424,730,190	40,136,580
Other Income	M	15,999,781	26,121,017
TOTAL		440,729,971	66,257,597
EXPENDITURE			
Cost of Materials and Services	O	191,443,331	54,008,447
(Increase) / Decrease in Stocks	P	(1,568,513)	(34,382,866)
Personnel Expenses	Q	76,567,612	67,381,446
Operating, Admn and Selling Expenses	R	63,232,793	47,314,195
Finance Charges	S	31,891,518	24,773,182
Depreciation & Amortization	D	10,529,436	14,001,619
TOTAL		372,096,177	173,096,023
Profit before Tax		68,633,794	(106,838,426)
Less : Provision for Taxation :			
(a) Current Year		14,200,000	-
(b) Deferred Tax		24,990,275	(35,840,363)
(c) MAT Credit Entitlement		(14,200,000)	-
Profit after Tax		43,643,519	(70,998,063)
Add : Profit brought forward from Previous year		119,694,084	190,692,147
Profit Available for Appropriation		163,337,603	119,694,084
Less : Provision for Dividend		12,499,655	-
Less : Tax on distributed Profits		2,076,036	-
Less : Transfer to General Reserve		-	-
Balance Carried to Balance Sheet		148,761,912	119,694,084
Earning Per Share:-Basic		3.49	(5.68)
Diluted		3.49	(5.68)
Notes on Accounts	T		

As per our report of even date
for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

(G. Satyanarayana Murty)
Partner
Membership No. 29919

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE - A		
SHARE CAPITAL		
AUTHORISED CAPITAL		
1,50,00,000 Equity Shares of Rs.10/- each	150,000,000	150,000,000
ISSUED SUBSCRIBED AND PAID UP CAPITAL		
12,499,655 EQUITY SHARES OF RS.10/- each (Of the above shares 55,22,177 number of Equity Shares of Rs 10/- each were allotted by way of bonus shares by capitalizing free reserves of the company)	124,996,550	124,996,550
	124,996,550	124,996,550
SCHEDULE - B		
RESERVES AND SURPLUS		
Securities Premium		
As at the commencement of the year	917,219,545	917,219,545
Add : received during the year	-	-
	917,219,545	917,219,545
General Reserve		
At the commencement of the year	59,366,520	60,183,762
Add: Transfer from the profit & Loss account	-	-
Less: Foreign Currency Translation Adjustment	87,766	817,242
	59,278,754	59,366,520
Balance in Profit & Loss A/c.	148,761,912	119,694,084
	1,125,260,211	1,096,280,149
SCHEDULE - C		
SECURED LOANS		
Working Capital Facilities from Banks	224,764,899	125,321,063
Short Term Loans against Deposits	-	63,637,743
Vehicle loans	712,381	1,364,256
	225,477,280	190,323,062

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-10	Additions during the Year	Deductions /Deletions	As on 31-Mar-11	Upto 1-Apr-10	During The year	Adjustments	Upto 31-03-11	As on 31-Mar-10
Land & Land development	215,844,647	-	-	215,844,647	-	-	-	-	215,844,647
Building	43,671,920	-	-	43,671,920	20,816,871	2,285,504	-	23,102,375	22,855,049
Software Division									
Plant & Machinery including Computers	114,421,230	140,109	-	114,561,339	88,770,826	6,251,371	-	95,022,197	25,650,404
Office Equipment	9,393,951	16,200	-	9,410,151	5,635,683	539,093	-	6,174,776	3,758,268
Furniture	12,000,258	40,860	-	12,041,118	8,644,603	547,341	-	9,191,944	3,355,655
Vehicles	8,146,457	828,313	-	8,974,770	5,495,129	900,879	-	6,396,008	2,651,328
TOTAL	403,478,463	1,025,482	-	404,503,945	129,363,112	10,524,188	-	139,887,300	274,115,351
As On 31.03.2010	394,391,113	9,087,350	-	403,478,463	115,366,741	13,996,371	-	129,363,112	279,024,372
Capital Work-in-Progress	505,937,268	22,362,941	-	528,300,209					505,937,268
									528,300,209

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE - E		
INVESTMENTS :	NIL	NIL
	-	-
SCHEDULE - F		
INVENTORIES		
Work in progress	149,864,297	148,295,784
Closing Stock of Materials	57,558,966	58,754,791
	207,423,263	207,050,575
SCHEDULE - G		
SUNDRY DEBTORS		
(Unsecured and considered good)		
Outstanding for a period exceeding Six months	173,555,455	191,724,884
Other Debts	192,969,042	8,533,197
	366,524,497	200,258,081
SCHEDULE - H		
CASH AND BANK BALANCES		
Cash on Hand	131,562	263,355
Cash at Bank :		
in current Account with scheduled Banks	22,302,960	6,703,972
in Fixed Deposits	117,484,252	209,995,068
	139,918,774	216,962,396
SCHEDULE - I		
LOANS AND ADVANCES		
(Unsecured Considered good)		
Advances to Suppliers & Services	49,255,776	45,995,311
Deposits	44,798,939	40,882,904
Deferred Interest	100,438	208,146
Other Current Assets	16,877,445	9,648,396
	111,032,598	96,734,757

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE - J		
CURRENT LIABILITIES AND PROVISIONS		
(A) CURRENT LIABILITIES		
Creditors for Supplies and expenses	99,360,666	43,903,359
Creditors for Capital Goods	11,146,277	28,334,672
Advances Received from Customers	48,668,872	73,715,268
Share Application Money unpaid refund A/c	193,300	362,050
Unclaimed Dividend	170,675	172,377
	159,539,790	146,487,726
(B) PROVISIONS		
Income Tax (Net)	-	-
Dividend	12,499,655	-
Dividend Distribution Tax	2,076,036	-
	14,575,691	-
SCHEDULE - K		
Miscellaneous expenditure to the extent not written off or adjusted		
a) Organisational Costs	143,039	143,039
Start-up Costs	244,872	244,872
Computer Software	71,488	71,488
	459,399	459,399
Less: Amortized During the year	5,248	5,248
Less: already Amortized	385,828	380,580
	68,323	73,571
b) Product Development Expenses	20,835,128	20,835,128

Schedules to Consolidated Profit and Loss Account

(Amount in Rupees)

	For the Year ended 31.03.2011	For the Year ended 31.03.2010
SCHEDULE - L		
SALES AND SERVICES		
(A) Sales Domestic	54,540,946	217,224
(B) Sales Export	232,906,920	8,519,336
(C) Service income	153,586,267	35,162,357
	<u>441,034,133</u>	<u>43,898,917</u>
SCHEDULE - M		
OTHER INCOME		
Interest Received : Banks	7,059,762	18,788,819
Other Miscellaneous Income	8,940,019	7,332,198
	<u>15,999,781</u>	<u>26,121,017</u>
SCHEDULE - N		
DUTIES AND TAXES		
Central Excise Duty	772,485	3,461
Service Tax	15,367,405	3,741,141
Sales Tax	164,053	17,735
	<u>16,303,943</u>	<u>3,762,337</u>
SCHEDULE - O		
Cost of Materials & Services		
Consumption of raw materials and bought-out items		
Opening Stock of raw materials	58,754,791	56,670,264
Add : Purchases	53,821,739	17,139,285
Less: Closing Stock	57,558,966	58,754,791
Material consumed	55,017,564	15,054,758
Accessories purchased	86,192,867	58,880
Project Execution Expenses	50,232,900	38,894,809
Net Cost of Materials & Services	<u>191,443,331</u>	<u>54,008,447</u>
SCHEDULE - P		
(INCREASE)/DECREASE IN STOCKS		
Opening Stocks		
Opening Work in progress	148,295,784	113,912,918
TOTAL (A)	<u>148,295,784</u>	<u>113,912,918</u>
Closing Stocks		
Closing work in Progress	149,864,297	148,295,784
TOTAL (B)	<u>149,864,297</u>	<u>148,295,784</u>
Total (A+B)	<u>(1,568,513)</u>	<u>(34,382,866)</u>

Schedules to Consolidated Profit and Loss Account

(Amount in Rupees)

	For the Year ended 31.03.2011	For the Year ended 31.03.2010
SCHEDULE - Q		
PERSONNEL EXPENSES		
Salaries and Other Benefits	70,869,063	62,913,283
Contribution to PF & Other funds	3,774,384	2,991,173
Staff Welfare	1,924,165	1,476,990
	76,567,612	67,381,446
SCHEDULE - R		
OPERATING, ADMINISTRATIVE AND SELLING EXPENSES		
Rent	2,652,181	3,507,030
Rates and Taxes	3,146,860	2,103,055
Printing & Stationery	623,135	537,740
Directors Remuneration	6,780,000	4,680,000
Bad Debts Written off	-	8,751,111
Directors sitting fees	370,000	550,000
Communication Expenses	1,749,552	1,543,956
Repairs and Maintenance	7,105,486	3,556,086
Electricity Charges	2,625,388	1,753,258
Professional & Consultancy Fees	2,193,206	4,088,413
Security Charges	821,611	940,029
Books and Periodicals	3,500	14,295
Traveling & Conveyance Expenses	3,670,544	4,712,753
Insurance	461,911	380,665
General Expenses	476,154	859,411
Auditors remuneration	616,200	770,480
Business Promotion	3,087,360	912,974
Research and Development expenses	6,323,962	7,414,290
Freight	8,958	238,649
Selling Expenses	20,516,785	-
	63,232,793	47,314,195
SCHEDULE - S		
FINANCE CHARGES		
Interest on term Loan	-	3,040,752
Interest on Working Capital	20,390,792	12,401,023
Bank Commission & Other Financial Charges	11,500,726	9,331,407
	31,891,518	24,773,182

SCHEDULE 'T' : Notes forming part of the Accounts for the year ended March 31, 2011**Significant Accounting Policies and notes on accounts :****Company Overview :**

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

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

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

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

2. Fixed Assets, Depreciation and Amortization

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

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

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

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

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

3. Revenue Recognition :

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

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

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

4. Retirement Benefits to Employees :

i) Defined Contribution plan

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

ii) Defined Benefit Plan

General Description of Plans:-

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

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

5. Foreign Currency Transactions :

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

6. Income Tax :

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.

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.

MAT Credit Entitlement :

MAT Credit Entitlement is recognised in the books of accounts as per the Tax Laws existing on the Balance Sheet Date.

7. Fixed Assets

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

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

8. Research and Development Expenditure:

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

9. Depreciation

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

10. Inventories

Inventories of Components are valued at cost or realizable value 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 no Reportable segment to report, "Segment Reporting" under "Accounting Standard 17" issued by the "ICAI" is not applicable.

13. Related Party Disclosures:

- a) There are no related parties where control exists other than 100% Wholly Owned subsidiary.
- b) 100% Wholly Owned Subsidiary
Avant-Grade Infosystems.
- c) Key Management Personnel:
Col. L.V.Raju (Retd) - Managing Director
B. Murali Mohan - Whole Time Director

14. Impairment Of Assets :

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

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

B. Notes to Accounts:

1. All Amounts in the financial statements are presented in Rupees. The Previous Year's figures have been regrouped/reclassified, wherever necessary to confirm to the current year's presentation. Figures are rounded off to the nearest rupee.
2. Sundry Debtors, Advances and Creditors are Subject to Reconciliation & Confirmation.
3. **Contingent Liabilities in respect of :**
 - a) Claims against the Company not acknowledged as debt Rs. 8 lakhs in respect of Income Tax for the Assessment Year 1998-99 for which the companies appeal is Pending before the High Court of Andhra Pradesh and Rs.4.13 Lakhs in respect of Sales Tax for the year 2002-03 for which the company appeal is pending before STAT
 - b) Bank guarantees outstanding Rs.1720.75 as on 31st March, 2011 (2010: Rs.1209.79 lakhs)
 - c) Estimated amount of contracts remaining to be executed on capital account and not accounted are Rs.4.60 crores (Previous Year:Rs.5.60crores)
4. **Exchange Differences:**
Exchange Fluctuation difference of Rs.87,766 /- (Previous Year Rs.8,39,466 /-) is added to the Finance Charges

5. Term Loans and Cash Credits:

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

(Amount in Rupees)

	2010-11	2009-10
--	---------	---------

6. Auditors Remuneration relates to

Statutory, Tax Audits including quarterly audits	6.00	6.00
Other Services	0.91	1.55
Reimbursement of Out of Pocket expenses	0.16	0.15

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)

	2010-11	2009-10
Net Profit After Tax attributable to Equity Shareholders (Rs.)	43,643,519	(70,998,063)
Weighted Average No. of Equity Shares (Nos)	12,499,655	12,499,655
Earnings Per Share - Basic and Diluted (Rs.)	3.49	(5.68)
Face Value of Each Share (Rs.)	10	10

8. Related Party Disclosure:

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	
	2011	2010
1. Capital Transactions :		
Working Capital Loan	10.41	Nil
2. Revenue Transactions :		
Interest receivable	14.51	15.41
3. Sale of Services :	Nil	Nil

(Amt Rs. in lacs)

Key Management Personnel :

	2010-11	2009-10
Col. L.V.Raju (Retd) - Managing Director	Remuneration 45.09	24.09
B. Murali Mohan - Whole-time Director	Remuneration 22.89	22.89

9. 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, 2011.

Name of Subsidiary Company	Outstanding as at March 31, 2011 (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	231.99	231.99	-	5,379,240

10. Deferred Taxation :

(Amount Rs. in lacs)

Particulars	As on 31.03.11	As on 31.03.10
Payments under 43B	7,598,174	5,781,970
Unabsorbed Business Loss (2009-10)	7,854,385	34,782,444
Total Deferred Tax Asset	15,452,559	40,564,414
Deferred Tax Liability:-		
Difference in Block of Assets	2,916,051	4,444,053
Total Deferred tax liability	2,916,051	4,444,053
Net Deferred tax (Asset)/Liability	(12,536,508)	(36,120,361)

Note :

As per the Accounting Standard-22 "Taxes on Income" issued by ICAI, net deferred tax liability for the year Rs2,35,83,853/- is Debited to P&L A/c.

As per our report of even date for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

(G. Satyanarayana Murty)
Partner
Membership No. 29919

Place : Hyderabad
Date : 13th August, 2011

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

S.V. Subba Raju
Chairman

S. Jasminder Singh
Company Secretary

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

Consolidated Cash Flow Statement for the year ended March 31, 2011

(Amount in Rupees)

Particulars	March 31, 2011	March 31, 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	68,633,794	(106,838,426)
Adjustments for:		
Depreciation and amortisation	10,529,436	14,001,619
Interest and other financial charges	31,891,518	24,773,182
Interest income	(8,600,912)	(20,329,969)
Operating Profit Before Working Capital Changes	102,453,836	(88,393,594)
Sundry debtors	(166,266,416)	3,048,441
Inventories	(372,688)	(36,467,393)
Loans and Advances	(7,797,841)	(28,994,516)
Current liabilities and provisions	13,052,064	2,889,344
Income-taxes paid during the year	(6,500,000)	(8,698,152)
Net cash generated by operating activities	(65,431,045)	(156,615,870)
Cash flows from investing activities		
Purchases of fixed assets and change in capital work-in-progress	(23,388,423)	(38,895,704)
Interest income	8,600,912	20,329,969
Net cash used in investing activities	(14,787,511)	(18,565,735)
Cash flows from financing activities		
Secured Loans Received/ (Repayment)	35,154,218	79,765,314
Interest and other financial charges	(31,891,518)	(24,773,182)
Dividends paid during the year, including dividend tax	-	(14,623,971)
Net cash used in financing activities	3,262,700	40,368,161
Net (decrease) / increase in cash and cash equivalents during the year	(76,955,856)	(134,813,444)
Effect of exchange difference on translation	(87,766)	(817,242)
Cash and cash equivalents at the beginning of the period/year	216,962,396	352,593,082
Cash and cash equivalents at the end of the year	139,918,775	216,962,396

As per our report of even date
for **GMK ASSOCIATES**,
Chartered Accountants
Firm Reg. No.006945S

For and on behalf of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

(G. Satyanarayana Murty)
Partner
Membership No. 29919

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

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 31-03-2011
3.	Holding Company's Interest	100%
4.	Number of Shares held by Kernex Microsystems (India) Limited in the Subsidiary Company The net aggregate of Profits for the current financial year of Subsidiary Company, so far it concerns to the members of the Company	35,80,000 Ordinary Shares of \$0.02 each and 17,99,240 Equity Shares of US \$ 0.10 each
5.	a) Dealt with in the accounts of Holding Company) b) Not Dealt with in the accounts of Holding Company	- \$49372
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	- \$255379

- Notes:
1. Avant-Garde Infosystems Inc, USA was incorporated on September 25, 2000 as 100% subsidiary of Kernex Microsystems (India) Limited.
 2. The Financial year of Holding Company and the Subsidiary ended on March, 31, 2011.

For and on behalf of the Board

S.V. Subba Raju
Chairman

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

Place : Hyderabad
Date : 13th August, 2011

S. Jasminder Singh
Company Secretary

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 Ninth Annual Report in respect of the period from April 1, 2010 to March 31, 2011.

Directors

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

Names	Position
COL. L.V. Raju (Retd.)	Director and President
L. Muralidhara Raju	Director

Principal Activity

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

Financial Year

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

Financial Results

The net loss of the company for the financial year was Rs. 21.39 lacs due to provision of interest on the loan availed from Kernex Microsystems (India) Limited.

Operations

During the year the Company did not receive any income.

Future prospects

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

For Avant - Garde Infosystems, Inc.,

Col. L.V. Raju (Retd.)

Director

Date : 11th August 2011

Balance Sheet as at March 31, 2011

(Amount in Rupees)

	Schedule No.	As at 31.03.2011	As at 31.03.2010
SOURCES OF FUNDS:			
Share Capital	I	11,830,950	11,830,950
Reserves and Surplus	II	-	
Secured Loans		-	
Un-secured Loans	III	11,815,271	10,774,236
TOTAL SOURCES		23,646,221	22,605,186
APPLICATION OF FUNDS:			
Fixed Assets (Net Block)			
Gross Block	IV	1,143,048	1,143,048
Less: Depreciation		1,143,048	1,143,048
Net Block		-	-
CURRENT ASSETS, LOANS & ADVANCES			
Sundry debtors		-	-
Cash and bank balances	V	1,607	406
Advances & Deposits	VI	-	-
TOTAL CURRENT ASSETS		1,607	406
Less: Current Liabilities	VII	9,533,797	8,439,961
NET CURRENT ASSETS		(9,532,189)	(8,439,555)
Miscellaneous Expenditure (To the extent not written off)			
Organisational Costs and Start-Up Costs	VIII	68,323	73,571
Research and Development Costs		20,835,127	20,835,127
Debit Balance in Profit & Loss Account		12,274,961	10,136,043
Notes on accounts	IX		
Forming part of accounts		23,646,222	22,605,186

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

Place : Fremont

Date : 11th August, 2011

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

Profit and Loss Account for the year ending March 31, 2011

(Amount in Rupees)

	For the Year ended 31.03.2011	For the Year ended 31.03.2010
INCOME		
Sales	-	166,080
TOTAL	-	166,080
EXPENDITURE		
Rent	389,957	391,680
Accounting	87,555	93,600
Bank Charges	14,817	17,280
Interest	1,459,250	1,662,384
Amortization Expenses	5,248	5,248
Taxes	38,839	44,160
TOTAL EXPENSES	1,995,665	2,214,352
Profit/(Loss) before Tax and extraordinary items	(1,995,665)	(2,048,272)
Add/(Less): Net Exchange Difference	(143,253)	960,700
Profit/(Loss before Tax)	(2,138,918)	(1,087,572)
Provision for Tax	-	
Profit after Tax	(2,138,918)	(1,087,572)
Profit/(Loss) brought forward from earlier years	(10,136,043)	(9,048,471)
Profit/(Loss) carried to Balance Sheet	(12,274,961)	(10,136,043)

For Avant - Garde Infosystems, Inc.,

Col. L.V. Raju (Retd.)

Director

Place : Fremont

Date : 11th August, 2011

Schedules forming part of Balance Sheet

(Amount in Rupees)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE 'I'		
SHARE CAPITAL		
Authorised Capital		
Common Shares at no par value	50,000,000	50,000,000
	Shares	Shares
Issued, Subscribed and Paid-up Capital		
35,80,000 equity shares of US\$0.02	11,830,950	11,830,950
and 17,99,240 equity shares of US\$0.10		
	11,830,950	11,830,950
SCHEDULE 'II'		
Reserves and Surplus		
	-	-
SCHEDULE 'III'		
Unsecured Loans :-		
Loan from Kernex Microsystems (India) Ltd	11,815,271	10,774,236
	11,815,271	10,774,236
SCHEDULE 'V'		
Cash and Bank Balances		
California Pacific Bank	1,607	406
	1,607	406
SCHEDULE 'VI'		
Loans and Advances		
(Considered Good unless otherwise stated)		
Rent Deposit	-	-
Accounts Receivables	-	-
Advance for suppliers	-	-
Pre-Paid Taxes	-	-
	-	-
SCHEDULE 'VII'		
Current Liabilities and Provisions		
Rent Payable	-	266,777
Accounts Payable	85,276	88,023
Interest Payable	9,448,520	8,085,161
	9,533,797	8,439,961

Schedules forming part of Balance Sheet

SCHEDULE "IV"

FIXED ASSETS

(Amount in Rupees)

PARTICULARS	GROSS BLOCK		DEPRECIATION			NET BLOCK	
	As on 01-04-2010	Additions during the year	As on 31-03-2011	Up to 01-04-2010	During the year	As on 31-03-2011	As on 31-03-2010
Computer Equipment	417,756	-	417,756	417,756	-	-	-
Equipment – Others	294,535	-	294,535	294,535	-	-	-
Furniture & Fixtures	430,757	-	430,757	430,757	-	-	-
	1,143,048	-	1,143,048	1,143,048	-	-	-
Computer Software	143,039	-	143,039	143,039	-	-	-
Start-Up costs	244,872	-	244,872	183,602	4,062	57,208	61,270
Organisational Costs	71,488	-	71,488	59,186	1,186	11,116	12,302
	459,399	-	459,399	385,827	5,248	68,324	73,572

Schedules forming part of Balance Sheet

(Amount in Rupees.)

	As at 31.03.2011	As at 31.03.2010
SCHEDULE 'VIII'		
Miscellaneous Expenditure to the Extent not written off or Adjusted		
Research & Development Expenses	20,835,127	20,835,127
Organisational Costs	143,039	143,039
Start-up Costs	244,872	244,872
Computer Software	71,488	71,488
TOTAL	459,399	459,399
Less: Already Amortized	385,828	380,580
Less Amortized during the year	5,248	5,248
Balance	68,323	73,571

Schedule-IX : Notes to Accounts - March 31, 2011**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 31.03.2011

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, 2010 to 31st March, 2011

6. RELATED PARTY TRANSACTIONS

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

7. Fixed Assets, Depreciation and Amortization

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

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

8. Foreign Currency Transactions :

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

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 Pr.ofit & Loss Account for the year ended 31.03.2011 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 : 11th August, 2011



Kernex Microsystems (India) Limited

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

ATTENDANCE SLIP

19th Annual General Meeting September 26, 2011

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 19th Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Monday, the September 26, 2011.

** 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

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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 19th Annual General Meeting of the Company to be held at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Monday, the September 26, 2011 and at every adjournment thereof.

Signed this day of , 2011.

Affix Revenue Stamp

Note : 1. Proxy need not be a member.

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

*Applicable for Investors holding shares in electronic form.



