



KERNEX MICROSYSTEMS (INDIA) LTD.

(An ISO-9001 : 2008 Certified Company)

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

FORM A

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

| | | |
|----|--|---|
| 1. | Name of the Company | M/s. Kernex Microsystems (India) Limited |
| 2. | Annual financial statements for the year ended | 31 st March, 2016 |
| 3. | Type of Audit observation | Un-qualified |
| 4. | Frequency of observation | N.A. |
| 5. | To be signed by- | <div style="text-align: right;">   </div> <p>a) CEO/Managing Director (COL.L.V. RAJU (Retd)- Managing Director)</p> <div style="text-align: right;">  <p>For GMK ASSOCIATES, CHARTERED ACCOUNTANTS, FIRM REGN. No. 006945S</p>  <p>G. SATYANARAYANA MURTY Partner (M. No. 29919)</p> </div> <p>b) Auditor of the Company GMK Associates (G. Satyanarayana Murthy)</p> <div style="text-align: right;">  </div> <p>c) Audit Committee Chairman (Sri. Venkata Ratnam Anugolu)</p> |



ANNUAL REPORT
2015-16

BOARD OF DIRECTORS

| | |
|-----------------------------------|------------------------|
| Col. L.V. Raju (Retd.) | Managing Director * |
| Sri B. Murali Mohan | Director - (Technical) |
| Sri M. Gopalakrishna, IAS (Retd.) | Director |
| Sri Arun Kumar Sanwalka | Director |
| Sri Venkata Ratnam Anugolu | Director |
| Dr. Anji Raju Manthena | Director |
| Dr. Jyoti Raju | Director ** |
| Dr. Raju Narasa Mantena | Director |
| Dr. Janardhana Reddy Vinta | Director |

* (resigned on 09th August-2016 and will continue till 31st October-2016)

** (resigned on 09th August-2016 with immediate effect)

COMPANY SECRETARY

S. SRINIVASA KIRAN.

BANKERS

STATE BANK OF HYDERABAD,
Overseas Branch, 6-3-652,
Near Medinova Hospital,
Kautilya, Somajiguda,
Hyderabad - 500 082.

AUDITORS

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

REGISTRAR AND TRANSFER AGENT

Karvy Selenium Tower No.B, Plot No.31-32,
Gachibowli, Financial District,
Nanakramguda, Hyderabad - 500 032

REGISTERED OFFICE

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

OVERSEAS SUBSIDIARY

Avant - Garde Infosystems Inc.,
#1906, Rayshell CT, Seabrook,
TX-ZIP77586, USA

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NOTICE

Notice is hereby given that the Twenty Fourth (24th) Annual General Meeting of the members of the company will be held on Tuesday, the 18th October-2016 at 3.00 P.M at Hotel Minerva Grand Hotel, Sarojini Devi Road, Secunderabad-500003, Voice:+919866385172, Phone: + 91 40 6611 7373 to transact the following business.

ORDINARY BUSINESS

- 1) To receive, consider and adopt
 - a. the Audited Financial Statements of the Company for the financial year ended March 31, 2016, together with the Reports of the Board of Directors and the Auditors thereon; and
 - b. the Audited Consolidated Financial Statements of the Company for the financial year ended March 31, 2016, together with the Report of the Auditors thereon.
- 2) To appoint a Director in place of Dr Vinta Janardhan Reddy (DIN # 02414912) who retires by rotation and being eligible, offers herself for re-appointment.
- 3) To appoint a Director in place of Dr. Anji Raju (DIN # 01022368) who retires by rotation and being eligible, offers himself for re-appointment.

4) Re-Appointment of Auditors.

To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

“RESOLVED THAT pursuant to the provisions of section 139 and other applicable provisions, if any, of the Companies Act, 2013 and the Rules framed there under from time to time, the Company hereby ratifies the re-appointment of M/s GMK Associates, Chartered Accountants, (Firm Registration No:006945S) as Auditors of the Company to hold office from the conclusion of this Annual General Meeting (AGM) till the conclusion of the Twenty Fifth (25th) Annual General Meeting of the Company to be held in the year 2017 (Subject to ratification of their appointment at every AGM) at such remuneration plus service tax etc., as may be mutually agreed between the Board of Directors of the Company and the Auditors.”

SPECIAL BUSINESS

- 5) Re-Appointment of Mr. B. Murali Mohan, Director (Technical), DIN # 00052139 as Whole Time Director of the Company w.e.f: 17th July-2016 until 31st March-2017. To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

“RESOLVED that pursuant to the provisions of Sections 196, 197 and other applicable provisions, if any, of the Companies Act, 2013 (“Act”), as amended or re-enacted from time to time, read with Schedule V to the Act, the Company hereby approves the Appointment / re-appointment and terms of remuneration of Mr. B. Murali Mohan, (DIN) as an Whole Time Director of the Company for a period upto 31st March-2017 with effect from July 17, 2016 upon the terms and conditions set out in the Explanatory Statement annexed to the Notice convening this Annual General Meeting, (including the remuneration to be paid in the event of loss or inadequacy of profits in any financial year during the tenure of his appointment), with authority to the Board of Directors to alter and vary the terms and conditions of the said appointment in such manner as may be agreed to between the Board of Directors and Mr. B. Murali Mohan.”

“RESOLVED FURTHER that the Board or a Committee thereof be and is hereby authorized to take all such steps as may be necessary, proper and expedient to give effect to this resolution.”

By order of the Board
For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

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

Place: Hyderabad
Date: 09-08-2016

NOTES

1. Explanatory statement in respect of item No. 5 of the Notice is annexed hereto in pursuance of section 102 of the Companies Act, 2013 and the same forms part of the notice.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy/ proxies to attend and vote Instead of himself / herself. Such a proxy/ proxies need not be a member of the company. A person can act as proxy on behalf of members not exceeding fifty (50) and holding in the aggregate not more than ten percent of the total share capital of the Company.

The instrument of Proxy in order to be effective, should be deposited at the Registered Office of the Company, duly completed and signed, not less than 48 hours before the commencement of the meeting. A Proxy form is sent herewith. Proxies submitted on behalf of the companies, societies etc., must be supported by an appropriate resolution/ authority, as applicable.

1. Shareholders holding shares in physical form are requested to advise any change of address immediately to company's Registrar and Share Transfer Agent, Karvy Computer Share 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.
2. The Register of Members and Share Transfer Books of the Company shall remain closed from 17th October 2016 to 18th October 2016 (both days inclusive).
3. 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.
4. The Notice of the AGM along with the Annual Report 2015-16 is being sent by electronic mode to those Members whose e-mail addresses are registered with the Company/ Depositories, unless any Member has

requested for a physical copy of the same. For Members who have not registered their e-mail addresses, physical copies are being sent by the permitted mode.

5. To support the 'Green Initiative', the Members who have not registered their e-mail addresses are requested to register the same with Depositories.
6. All documents referred to in the accompanying Notice and the Explanatory Statement shall be open for inspection at the Registered Office of the Company during normal business hours (10.00 am to 5.00 pm) on all working days except Saturdays, up to and including the date of the Annual General Meeting of the Company.
7. Transfer of Unclaimed/Unpaid amounts to the Investor Education and Protection Fund (IEPF): Pursuant to provisions of the Act and other applicable rules, if any, of the Companies Act, 2013, all unclaimed & remaining unclaimed / unpaid for a period of seven years from the date they became due for payment, in relation to the Company have been transferred to the IEPF established by the Central Government. It may be noted that the unclaimed Dividend for the financial year 2008-09 declared by the Company can be claimed by the shareholders from IEPF.
8. In compliance with the provisions of section 108 of the Act and the Rules framed there under, the Members are provided with the facility to cast their vote electronically, through the e-voting services provided by KARVY, on all resolutions set forth in this Notice. In order to enable its Members, who do not have the access to e-voting facility to send their assent or dissent in writing in respect of the resolutions as set out in this Notice, the Company is enclosing a Ballot Form with the Notice. Instructions for Ballot Form are given at the back of the said form and instructions for e-voting are given here in below. Resolution(s) passed by Members through Ballot Forms or e-voting is / are deemed to have been passed as if they have been passed at the AGM.
9. The board of directors has appointed Mr. Abhishek Shukla & Associates, Practicing

Company Secretaries Membership No. 27253, CP No: 14769) and failing him Mr. Irfan, Practicing Company Secretary (Membership No. 32512, CP No: 11951) as the Scrutinizer to scrutinize the voting at the meeting and remote e-voting process in a fair and transparent manner.

10. The facility for voting, either through electronic voting system or polling paper shall also be made available at the AGM and the Members attending the meeting who have not already cast their vote by remote e-voting shall be able to exercise their right to vote at the AGM.

11. The Members who have cast their vote by remote e-voting prior to the AGM may also attend the AGM but shall not be entitled to cast their vote again.

PROCEDURE AND INSTRUCTIONS FOR E-VOTING:

Instructions and other information relating to e-voting:

- i) Open your web browser during the voting period and navigate to 'https://evoting.karvy.com'
- ii) Enter the login credentials (i.e., user-id & password) mentioned on the enclosed Form. Your folio / DP Client ID will be your User-ID.

| | |
|-----------------|--|
| User-ID | For Members holding shares in Demat Form:- a) For NSDL:- 8 Character DPID followed by 8 Digits Client ID b) For CDSL:- 16 digits beneficiary ID For Members holding shares in Physical Form:- Event no. followed by Folio Number registered with the company |
| Password | Your Unique password is printed on the Note / via email forwarded through the electronic notice |
| Captcha | Enter the Verification code i.e. Please enter the alphabets and numbers in the exact way as they are displayed for security reasons. |

- iii) After entering these details appropriately, click on "LOGIN".
- iv) Members holding shares in Demat / Physical form will now reach Password Change menu wherein they are required to mandatorily change their login password in the new password field. The new password has to be minimum eight characters consisting of at-least one upper case (A-Z), one lower case (a-z), one numeric value (0-9) and a special character. Kindly note that this password can be used by the Demat holders for voting for resolution of any other Company on which they are eligible to vote, provided that Company opts for e-voting through Karvy Computershare Private Limited e-Voting platform... System will prompt you to change your password and update any contact details like mobile #, email ID etc on 1st login. You may also enter the Secret Question and answer of your choice to retrieve your password in case you forget it. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
- v) You need to login again with the new credentials.
- vi) On successful login, system will prompt to select the 'Event' i.e., 'KERNEXMICROSYSTEMS'
- vii) If you are holding shares in Demat form and had logged onto https://evoting.karvy.com and casted your vote earlier for any company, then your existing login id and password are to be used.
- viii) On the voting page, you will see Resolution Description and against the same the option 'FOR/AGAINST/ABSTAIN' for voting. Enter the number of shares (which represents number of votes) under 'FOR/AGAINST/ABSTAIN' or alternatively you may partially enter any number in 'FOR' and partially in 'AGAINST', but the total number in 'FOR/AGAINST' taken together should not exceed your total shareholding. If the shareholder do not wants to cast, select 'ABSTAIN'
- ix) After selecting the resolution you have decided to vote on, click on "SUBMIT". A confirmation box will be displayed. If you wish to confirm your vote, click on "OK", else to change your vote, click on "CANCEL" and accordingly modify your vote.

- x) Once you 'CONFIRM' your vote on the resolution, you will not be allowed to modify your vote.
- xi) Corporate / Institutional Members (corporate / FIs/FILs / Trust / Mutual Funds / Banks, etc.) are required to send scan (PDF format) of the relevant Board resolution to the Scrutinizer through e-mail to kernexscrutinizer@gmail.com with copy to evoting@karvy.com. The file scanned image of the Board Resolution should be in the naming format "Corporate Name_Event no."
- xii) The remote e-voting period commences on 15th October, 2016 (10:00 am) and ends on 17th October, 2016 (5:00 pm). During this period Members of the Company, holding shares either in physical form or in dematerialized form, as on the cut-off date i.e., 11th October, 2016, may cast their vote by remote e-voting. The remote e-voting module shall be disabled by KARVY for voting thereafter. Once the vote on a resolution is cast by the member, the member shall not be allowed to change it subsequently.
- xiii) Mr. Mohammad Irfan, Practicing Company Secretary (Membership No: 32512, CP No: 11951), has been appointed as the Scrutinizer to scrutinize the e-voting process (including the Ballot Form received from the Members who do not have access to the e-voting process) in a fair and transparent manner.
- xiv) The Scrutinizer shall, within a period not exceeding three working days from the conclusion of the e-voting period, unblock the votes in the presence of at least two witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company/Meeting.

The results declared along with the Scrutinizer's Report shall be placed on the Company's website www.kernex.in and on the website of KARVY www.evoting.karvy.com within three days of the passing of the resolutions at the twenty Fourth AGM of the Company on 18th October, 2016 and communicated to the Bombay Stock Exchange Limited and National Stock Exchange of India Limited, where the shares of the Company are listed.

Details of Directors Seeking Appointment/ Reappointment at the 24th Annual General Meeting.

| Particulars | Dr Anji Raju Manthena | Dr Vinta Janardhana Reddy | Mr. B. Murali Mohan |
|---------------------------------------|--|---|---|
| Date of Birth | October 13, 1944 | August 10, 1946 | July 17, 1948 |
| Date of Appointment | May 20, 2005 | September 20, 2008 | January 22, 2001 |
| Qualifications | M.S. (General Surgery) from Andhra University and M.D. (USA) | MBBS and MD (USA) | BE (Electronics & Communications) |
| Expertise in specific Functional area | He has been practicing for the last 37 years in the Space centre, NASA region of Houston, Texas and has been actively involved in software related activities in Corporate hospitals. He has served as a member of various committees in Clear Lake Regional Medical centre as well as managing partner of Anesthesia Associates and president professional corporation | He has 40 years experience as Physician working in USA. He is a member of Texas Medical Association, USA. He worked as executive vice president TANA and convener for 7th TANA conference. | has over 46 Years of experience in managing, designing, developing several control & automation products. He is a FIRST Rank holder in BE (Electronics & Communications) from Andhra University. At Kernex, he oversees the design & development, purchase, production QA, testing and project coordination activities of the Company. Before joining Kernex in 1999, he worked at Electronics Corporation of India Ltd (ECIL), a Government of India Company for about 28 Years at different levels. |

contd....

| | | | |
|---|---------|---------|---------|
| Directorship held in other public companies (excluding foreign companies) | Nil | Nil | Nil |
| Memberships/ Chairmanships of committees of other Public companies (includes only Audit and Shareholders / Investors Grievance Committee) | Nil | Nil | Nil |
| Number of shares held in the company | 277,078 | 198,655 | 150,071 |

EXPLANATORY STATEMENT

(Pursuant to Section 102 of the Companies Act, 2013)

Item No: 5

Mr. Murali Mohan Bandaru (Director-Technical) has over 46 Years of experience in managing, designing, developing several control & automation products. He is a FIRST Rank holder in BE (Electronics & Communications) from Andhra University. At Kernex, he oversees the design & development, purchase, production QA, testing and project coordination activities of the Company. Before joining Kernex in 1999, he worked at Electronics Corporation of India Ltd (ECIL), a Government of India Company for about 28 Years at different levels.

During 2013, the Board re-appointed him once again as Director (Technical) / WTD, whose term of office was come to an end by 16th July-2016. However, the NRC Committee & Board of Directors in its meeting held on 09th August-2016 recommended his continuance of services till 31st March-2017.

Associated since : 22nd Jan-2001

The main terms and conditions of appointment of Mr. Murali Mohan (hereinafter referred to as "Director (Technical)") are given below:

A. Tenure of Appointment:

Upto 31st March-2017, with effect from 16th July-2016.

B. Nature of Duties:

The Director Technical shall devote his whole time and attention to the business of the Company and shall perform such duties as may be entrusted to him by the Board from time to time and separately communicated to him and exercise such powers as may be assigned to him, subject to the superintendence, control and directions of the Board in connection with and in the best interests of the business of the Company and the business of one or more of its associated companies and / or subsidiaries, including performing duties as assigned to the Director Technical from time to time by serving on the Boards of such associated companies and / or subsidiaries or any other executive body or any committee of such a company.

In view of brilliant academic record, technical competence and experience as Director (Technical), for over four decades and the need to have continuity of development and implementation of the focused area of Safety products in Railways more particularly the time line to deliver the Train Collision Avoidance System for Indian Railways, the Nomination and Remuneration committee at its meeting held on 09th August-2016 has recommended to the Board for re-appointment as Director (Technical) for a further period upto 31st March-2017, with effect from 16th July 2016 the Board having regard to the rich and long experience, need for involvement at this critical and final stage of delivery of TCAS Project and Egyptian National Railway project has also gave its consent being in the best interest of the Company subject to the approval of the members at the ensuing Annual General Meeting by a special resolution. The

following are the details of the salary and perquisites proposed to be paid to Mr. B. Murali Mohan, Director (Technical):-

Salary Rs. 2,10,000/- per month Accommodation / House Rent Allowance @25% of the salary In addition to the above, he shall be entitled to receive the following:-

- a. Reimbursement of expenses on Gas, Electricity, water and furnishings at actuals
- b. Medical reimbursement as per IT Act, 1961
- c. Use of car, telephone at residence and mobile phone for Company's business at Company's expense
- d. contribution to PF, Gratuity payable at a rate not exceeding half a month's salary for each completed year of service, leave encashment at the end of the tenure which shall not form part of the perquisites
- e. Health insurance for self and wife upto Rs.5.00 lakhs.

Accordingly the Board recommends the passing of the special resolution as set out in the item no. 5 of the Notice. The brief resume of Mr. B. Murali Mohan's experience and his expertise in specific functional areas, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges, are provided in the Corporate Governance Report forming part of the Annual Report. Save and except the above, none of the other Directors/Key Managerial Personnel of the Company/their relatives is, in any way, concerned or interested, financially or otherwise, in the said resolution. The Board commends the Special Resolution set out at Item No 5 of the Notice for approval by the members.

By order of the Board

For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

Col.L.V.Raju (Retd.)
Managing Director
(DIN: 00052102)

Place: Hyderabad
Date: 09-08-2016

DIRECTORS REPORT

To
 The Members,
 Kernex Microsystems (India) Limited.

The directors annual report of Kernex Microsystems (India) Limited (the "Company" or "KERNEX") along with the audited financial statements for the financial year ended March 31, 2016 below and consolidated performance of the Company and its subsidiary has been referred to wherever required.

Financial Results

Rs in Lakhs

| | 2015-2016 | 2014-2015 |
|--|------------|-----------|
| Sales and Other Income | 1,422.41 | 2,300.11 |
| Profit/Loss before Depreciation, Finance Cost and Tax | (731.35) | (284.36) |
| Less:- Finance Cost | 309.18 | 267.28 |
| Less:- Depreciation | 321.00 | 416.56 |
| Profit/Loss after Depreciation, Interest and before tax | (1,361.55) | (968.20) |
| Tax expense | (32.60) | (28.91) |
| Profit/ Loss after Tax | (1,328.94) | (939.29) |
| Add: Balance brought forward from previous year | 799.01 | 1,806.30 |
| Less: Adjustments consequent to revision of useful life of certain assets pursuant to Schedule II of Companies Act, 2013 | Nil | (68.00) |
| Balance carried forward to Balance sheet | (529.93) | 799.01 |
| Profit available for appropriation | | |
| Earnings Per Share (Rs.) | | |
| - Basic | (10.63) | (7.51) |
| - Diluted | (10.63) | (7.51) |
| Appropriations: | | |
| Transfer to General Reserve | - | - |
| Proposed Dividend | - | - |
| Income Tax on proposed Dividend | - | - |
| Balance carried to the Balance sheet | (529.93) | 799.01 |

This year 2015-16 was a difficult year and company has incurred a loss (approx.) of Rs.13.29Crores. The abrupt stoppage of Operation Maintenance Contract (OMC) and Annual Maintenance Contract (AMC) of

ACD project by Railways, in NF Region and slow progress of ENR project severely affected our income earning capacity as well as, shortage of important components, which had to be resourced locally in Egypt. Besides, the company continued to invest in R & D of Train Collision Avoidance System of which the Indian Railways wish to adopt and also provisioning of collision prevention device in Richard Bay Coal Terminal, in South Africa; Diversification could only be taken up after studying emerging markets, demand supply position and mobilization of funds. Banks have tightened issue of extra working capital affecting progress of works, even though company had adequate collateral backup. Thus the overall, earnings decreased to Rs. 14 crores, the lowest in the last 8 years leading to large loss.

The Company's business and operational results:

1. The Company's joint development of Train Collision Avoidance Systems (TCAS), along with RDSO, Railway Board is yielding good results. It has reached user trials stage and last minute fine tuning by way of last minute additions/modifications is being done. The project is expected to be ready for deployment all over Indian Railways. Indian Railways has already asked the concerned zonal railways to be ready with plan and execute TCAS from New Delhi to Guwahati and also in Guntakal Division of SC zonal railways.
2. Safety Certification by an accredited agency of your company's Train Collision Avoidance System has been entrusted to an international accredited agency Ital Certifer, Milan, Italy and this work is in progress. Certification may be obtained by Dec 2016, and in case, major alterations are required, it may be go up to June-2017.
3. Progress on ENR project has been stalled as ENR wanted us to source, an important component of the system, i.e Booms with mechanical fuse locally in Egypt from military production wing of Government of Egypt. The product delivered by Egypt has not been approved by ENR and forcing your company to procure the same from other countries. Those are expected to be delivered in September 2016 and accepted by ENR. On such acceptance, project can pick up thereafter.

4. Your company has been awarded an order for US\$ 8,46,000/-, and contract for provision of collision prevention system, in Richard Bay Coal Terminal in South Africa, including proving the concept of collision avoidance and execute the system over 10 locos and track equipment on the ground to prevent collision and avoid the delays & breakdowns in coal unloading & dispatching. The first phase of demonstration of concept was successfully completed in April-June 2016 and manufacturing of the system is in progress.
5. Annual Maintenance & Operation Maintenance Contract of NF Railway has been discontinued suddenly with effect from 01 July 2015. We are however continuing our effort to impress upon the Railways to use the Safety System and achieve better safety record in NF Railways. However, owing to change over to TCAS, there is no surety.
6. Your MD has taken an active part in the discussion & collaboration of technologies, for high speed bullet train project from Mumbai to Ahmedabad sector, in order to meet up Japanese companies, for signal and safety related technologies.

International Operations

7. Egypt: Egypt is likely to come-up with new Lx systems and also modernization of Railways with new locos, Rolling stock, signal and safety systems. We are exploring the possibilities with MNCs to take up execution as a local partner with a matching up-gradation of local marketing setup.
8. South Africa: To build up further on our strengths of providing collision preventive devices, in South Africa in coal terminals and provide appropriate TCAS to South African railways, a marketing tie-up is being planned.
9. Tie-up with Nippon Signal: Discussions are on-going with Nippon Signals, for manufacturing their safety systems in India for High speed trains, Metros and other trunk route trains in India. This may take up to one year, as it is a slow decision making process.

Future Projects Abroad:

10. Egypt, South Africa, Sri Lanka, Australia and some African countries are at present upgrading their railway infrastructure. With suitable technology and marketing setup, we could

expand our product market.

New Areas of Business in India:

11. Immediate prospects for the company depends on the proliferation of TCAS all over India and the Railway ministry's early initiatives. This is being pursued at highest level. Union Railway Minister, in the Railway Budget speech in Parliament, on 26 Feb 2016 that Railways have taken up 8 major works, under 'critical mission category' including TCAS.
12. Supply of Lxs Automatic gates for dedicated freight corridors, where incorporation of Rail, Road over bridges could provide the company a good opportunity to expand its Lx market.
13. Number of defence projects under 'Make in India' program could provide opportunities to your companies, which are being studied and explored.

Research & Development:

14. Your company has capability to undertake R & D work, develop a new product and bring to the commercial stage in a short period like in the case of ACD, TCAS and Lx System. There is scope to develop products for Railways, Universal Interface for loco breaking system, computerized display system in Locos and division control centre, Electronic inter locking system etc. Single & multiple digital axle counters, Integrated Power Supplies, Hot axle & vibration detection systems. However, these can be undertaken as and when demand arises and funds are available. R & D, often requires collaboration with MNC's in important items of Defence, Railways and Energy Systems. The company is exploring such possibilities.

Progress on IPO

15. Progress achieved on the IPO and company expansion projects: As part of IPO related work, acquiring of some land corridor to the main road are in progress, for which Rs. 160 lakhs is in deposit with the monitoring agency State Bank of Hyderabad, surplus if any could be used for TCAS work.

Overseas Subsidiary

16. Overseas Subsidiary and consolidated financial statement: The Company has one 100% wholly

owned subsidiary Avant GardelInfosystemsinc., USA as at 31st March 2016. In accordance with section 129(3) of the Companies Act, 2013 the Company has prepared consolidated financial statement of the Company and the subsidiary which forms part of the Annual Report for laying before the Annual General Meeting. A report on the performance and financial position of the subsidiary forms part of the consolidated statement in Form AOC-1.

Dividend and Reserves:

17. The company has incurred heavy loss in the financial year, as new orders did not materialize and the expected dues were not received. Work progress on ENR was also tardy. Your directors regret their inability to declare any dividend on the paid up capital of the company.

Material changes and commitments:

18. No material changes and commitments affecting the financial position of the Company occurred between the end of the financial year to which the financial statements relate and the date of this report. There was no change in the nature of business of the Company during the financial year ended 31st March 2016

19. Directors and Key Managerial Personnel:

Other Corporate Information

- i. Col. L.V. Raju, (Retd.) Managing Director-KMP*
- ii. Mr. Murali Mohan, Director Technical (WTD) – KMP
- iii. Dr. ManthenaAnjiRaju, Non Exec. Director
- iv. Dr. ManthenaNarasaraju, Non Exec. Director
- v. Dr. VintaJanardhanreddy, Non Exec. Director
- vi. Dr. JyothiRaju, Non Exec. Director
- vii. Mr. M. Gopalakrishna, IAS (Retd.), Independent Director
- viii. Mr. A. Venkataratnam, Independent Director
- ix. Mr. Arun kumar Sanwalka, Independent Director
- x. CS. S. Srinivasa Kiran, Company Secretary-cum-Compliance Officer – KMP

Col L V Raju (Retd.) re-appointed from 1st July-2015 for a period three years and obtained approval from Shareholders in 23rd AGM, but resigned on 09th August-2016 and will continue

till 31st October, 2016.

Dr. JyothiRaju, Non-Executive Director also resigned on 09th August-2016 on personal grounds.

20. Declaration by Independent Directors:

All the independent directors submitted their disclosures to the Board that they fulfill all the requirements as stipulated in Section 149(6) of the Companies Act 2013 so as to continue to qualify for appointment and continue as Independent Directors under the provisions of the Companies Act, 2013 and the rules framed there under.

21. Nomination and Remuneration Policy of Directors, Key Managerial Personnel and other Employees :

In terms of section 178(1) of the Companies Act 2013 the Board on the recommendation of the Nomination and Remuneration committee approved the criteria and policy for selection and appointment of directors, key managerial persons and their remuneration. The remuneration policy forms part of the report on corporate governance.

22. Board Evaluation :

SEBI (Listing Obligations & Disclosure Requirements) Regulations 2015, mandates that the Board shall monitor and review the Board evaluation framework. The framework includes the evaluation of Directors on various parameters such as:

- Board dynamics and relationships
- Information flows
- Decision making.
- Relationship with stakeholders
- Company Performance and strategy
- Tracking Board and committees' effectiveness and
- Peer evaluation.

The performance of the Board was evaluated by the Board after seeking inputs from all the directors on the basis of the criteria such as the Board composition and structure, effectiveness of board processes, information and functioning, etc.

The performance of the committees was evaluated by the board after seeking inputs from the committee members on the basis of the criteria such as the composition of committees, effectiveness of committee meetings, etc.

The Board and the Nomination and Remuneration Committee ("NRC") reviewed the performance of the individual directors on the basis of the criteria such as the contribution of the individual director to the Board and committee meetings like preparedness on the issues to be discussed, meaningful and constructive contribution and inputs in meetings, etc. In addition, the Chairman was also evaluated on the key aspects of his role.

In a separate meeting of independent Directors, performance of non-independent directors, performance of the board as a whole and performance of the Chairman was evaluated, taking into account the views of executive directors and non-executive directors & KMPs. The same was discussed in the board meeting that followed the meeting of the independent Directors, at which the performance of the Board, its committees and individual directors was also discussed.

23. Number of meetings of the Board of directors :

8 times during the year 2015-16 (As per Annexure)

24. DIRECTORS' RESPONSIBILITY STATEMENT

The financial statements are prepared in accordance with the Generally Accepted Principles (GAAP) under the historical cost convention on accrual basis, which are measured at fair values. GAAPs comprises mandatory accounting standards as prescribed under section 133 of the Companies Act 2013 ('the Act') read with Rule 7 of the Companies (Accounts) Rules 2014, the provisions of the act (to the extent notified) and guidelines issued by SEBI. Pursuant to Section 134(5) of the Companies Act, 2013, the board of directors, to the best of their knowledge and ability, confirm that :

- i. in the preparation of the annual accounts, the applicable accounting standards have been followed and there are no material departures;
- ii. they have 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 of the Company for that period;

- iii. they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. they have prepared the annual accounts on a going concern basis;
- v. they have laid down internal financial controls to be followed by the Company and such internal financial controls are adequate and operating effectively;
- vi. they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively. Based on the framework of internal financial controls and compliance systems established and maintained by the Company, work performed by the internal, statutory and secretarial auditors and external consultants and the reviews performed by management and the relevant board committees, including the audit committee, the board is of the opinion that the Company's internal financial controls were adequate and effective during the financial year 2015-16.

25. Internal Financial controls:

The Company has laid down policies and procedures to be adopted for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of fraud and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. An independent Audit committee of the board reviews the adequacy of internal controls.

26. Particulars of Loans, Guarantees and Investments :

The details of Loans, Guarantees and Investments covered under the provisions of Section 186 of the Companies Act, 2013 forms part of the financial statements.

27. Audit committee of Board:

The Audit Committee of the company comprises four (4) Directors including three (3) independent Directors and the Managing Director. The Chairman of the Audit Committee was present at the Board Meeting where Annual accounts have been approved.

28. Corporate Social Responsibility (CSR):

The Company having regard to the net profit/turnover/net worth is not covered under the provisions of Section 135 of the Companies Act 2013 relating CSR activities.

29. Related Party Transactions:

All the related party transactions by the Company during the year 2015-16 were on an arm's length basis and were in the ordinary course of business and as such the provisions of section 188 are not attracted. There are no materially significant Related Party Transactions with Promoters, Directors, Key Managerial persons or other designated persons during the year.

30. Familiarization Programme for Independent Directors :

In terms of clause 49(II)(B)(7) of the Listing Agreement with the Stock exchanges the Company familiarizes all the independent directors about their roles, responsibilities, rights in the company, nature of Industry, Risk Management, Board evaluation process and procedures, financial controls and management., Board effectiveness, strategic direction etc.

31. Extract of Annual Returns :

The extract of the Annual Return in Form No. MGT-9 forms part of the Director's Report.

32. Risk Management :

During the year under review the Audit Committee of Directors was entrusted with the responsibility of identification, assessment and addressing of various risks which may threaten the existence of the Company and to assist the Board in overseeing the risk management framework and to manage, monitor and report on the principal risk and uncertainties that can impact its ability to achieve its strategic objectives. The absence of the Chief Financial Officer and collection of overdue amounts from M/s. Konkan Railway

Corporation Limited (KRCL) and tardy project management in ENR, Egypt have affected our attempts at better risk management. We have referred our case regarding dues from KRCL to Arbitration for a sum of Rs. 98 Crores (approx.)

33. Transfer of Unclaimed dividend :

The unclaimed dividend for the financial year 2008-09 Rs.48,779/- was transferred to Investor Education and Protection Fund and the sum for the financial year 2009-10 is due for transfer.

Auditors

34. Statutory Auditors: M/s GMK Associates, Chartered Accountants, Hyderabad were re-appointed as statutory auditors at 23rd AGM of the Company held on 28th September 2015 for a period of three years subject to ratification at every AGM. They have confirmed their eligibility to the effect that their re-appointment, if made, would be within the prescribed limits under the Act and that they are not disqualified for re-appointment

35. Secretarial Audit :

In terms of section 204(1) of the Companies Act 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014 the Company has appointed Mr. AbhishekShukla, Practicing Company Secretary and Sr. Partner of M/s. AbhishekShukla& Associates, to conduct Secretarial Audit for the year 2015-16 and their report is annexed to this report

36. Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and outgo:

The information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo as required under section 134(3) (m) of the Companies Act 2013 read with Rule 8 (3) of the companies (Accounts) Rules 2014 is furnished in Annexure B and forms part of this report.

37. Particulars Relating to Remuneration of Directors/Key Managerial Personnel and employees:

Disclosures pertaining to remuneration and other details as required under section 192(12) of the Act read with Rules 5(1) of the Companies

(Appointment and Remuneration of Managerial Personnel) Rules, 2014 are provided in the Annual Report.

There were no employees drawing remuneration in excess of the limits contained in Rules 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

General:

No disclosure or reporting is required on the following:

- The Company has not accepted any deposits covered under Chapter V of the Act
- No equity shares with differential rights as to dividend, voting or otherwise were issued.
- No sweat equity shares were issued
- No remuneration or commission was received by the Managing Director/Whole-time director of the Company from subsidiary company
- No significant or material orders were passed by the Regulators or Courts or Tribunals which impact the going concern's status and Company's operations in future
- No cases filed pursuant to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

38. Corporate Governance Report:

The Company's committed to adhere to the corporate governance requirements set out by SEBI. The report on Corporate Governance as stipulated under the Listing Agreement forms an integral part of this Report. The requisite certificate from the Auditors of the Company confirming compliance with the conditions of corporate governance is attached to the report on Corporate Governance.

39. Management Discussion & Analysis (MDA):

Management's Discussion and analysis Report for the year under review, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is presented in a separate section forming part of the Annual Report.

40. Share Capital & Unsecured Loans:

The authorised share capital of the Company has remained unchanged at Rs.15,00,00,000/-. The

called up and paid up Share capital as on 31.03.2016 stood at Rs. 12,49,96,550/-. No fresh loans were taken from the Banks / Government during the year.

41. Board Composition

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 Seven Non-executive Directors, of whom three are independent Directors as on March 31, 2016. Accordingly, the Composition of the Board is in conformity with the listing agreement entered with Stock Exchanges.

None of the Directors on the Board is a member on more than 10 committees or Chairman of more than 5 committees as specified in listing agreement, across all the Companies in which he is a Director. Necessary disclosures regarding Committee positions have been made by the Directors.

The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorships and Committee memberships held by them in other companies is given below. Other directorships do not include alternate directorships, directorships of private limited Companies and companies incorporated outside India. Chairmanship/membership of Board committees includes membership of Audit and Shareholders/Investor Grievance Committee.

42. Auditors Certificate on Corporate Governance:

As required by SEBI (LODR), Regulations, 2015, the Auditors Certificate on Corporate Governance is enclosed as Annexure, which forms part of the Directors Report. The Auditors Certificate for fiscal 2016 doesn't contain any qualification, reservation or adverse remark.

43. Auditors

Pursuant to the provisions of Section 139 of the Act and the rules framed thereunder, M/s. GMK & Associates, Practicing Chartered Accountants, (Firm Registration No. 006945S) were appointed as statutory auditors of the Company from the conclusion of the Twenty Third (23rd) Annual

General Meeting (AGM) of the Company held on 28th September, 2015 till the conclusion of the Twenty Fourth AGM to be held in the year 2016, subject to ratification of their appointment at every AGM.

44. Auditors' report and secretarial auditors' report

The auditors' report and secretarial auditors' report does not contain any qualifications, reservations or adverse remarks. Report of the secretarial auditor is given as an annexure which forms part of this report.

45. Extract of annual return

There was one EGM (held on 24th May, 2015) conducted during the Financial Year 2015-16.

46. Particulars of employees

The information required under Section 197 of the Act read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are given below:

There are no employees / Whole Time Director & MD / KMPs, whose salary is beyond the threshold limit of Rs.60,00,000/- per annum (Rs.5,00,000/- per month), as prescribed under Schedule V of the Companies Act 2013 and the rules thereunder.

47. Disclosure requirements

As per Clause 49 of the listing agreements entered into with the stock exchanges, corporate governance report with auditors' certificate thereon and management discussion and analysis are attached, which form part of this report.

As per Clause 55 of the listing agreements entered into with the stock exchanges, a business responsibility report is attached and forms part of this annual report.

48. Corporate Governance Philosophy of Kernex

Corporate Governance is about maximizing the Shareholder value legally, ethically and sustainably. At Kernex, the goal of Corporate Governance is to ensure fairness for every shareholder. We believe, sound corporate governance is critical to enhance and retain

investor trust. We always seek to ensure that our performance is driven by integrity. Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures seek to attain the better practices in Corporate Governance. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

49. Vigil Mechanism:

The Company in compliance with the provisions of Section 177(9) of the Companies Act, 2013 and clause 49 of the listing agreement framed a Whistle Blower Policy/Vigil Mechanism for reporting illegal or unethical behavior. The employees are free to report violations of applicable laws and regulations under the Code of Conduct. The Audit Committee reviews reports received from the employees who may also directly report to the Chairman of the Audit Committee. The whistle blower policy is also posted on the Company's website.

50. Acknowledgements:

Your Directors would like to express their sincere appreciation for the guidance, assistance and co-operation received from the Indian Railways, RDSO, Egyptian Railways, Konkan Railway Corporation Ltd., State Bank of Hyderabad, Government authorities and members during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the dedicated contribution of all employees.

By order of the Board

For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

Col.L.V.Raju (Retd.)
Managing Director
(DIN: 00052102)

Place: Hyderabad
Date: 09-08-2016

Annexure - A to the Director's Report

FORM NO. MGT 9
EXTRACT OF ANNUAL RETURN
As on financial year ended on 31.03.2016

Pursuant to Section 92 (3) of the Companies Act, 2013 and rule 12(1) of the Company (Management & Administration) Rules, 2014.

I. REGISTRATION & OTHER DETAILS:

| | |
|--|---|
| 1 CIN | L30007TG1991PLC013211 |
| 2 Registration Date | 9/16/1991 |
| 3 Name of the Company | Kenrex Microsystems (India) Limited |
| 4 Category/Sub-category of the Company | Public Company / Limited by shares |
| 5 Address of the Registered office & contact details | "Thrushna", Plot No.7, Software Units Layout, Madhapur, Hyderabad - 500 081 Telephone No.040-23113192 Fax No.040-23114187 E-mail:-kernex@kernexmail.in" |
| 6 Whether listed company | Yes |
| 7 Name, Address & contact details of the Registrar & Transfer Agent, if any. | "Karvy Computershare Pvt. Ltd. Karvy Selenium Tower No.B, Plot No.31-32, Gachibowli, Financial District Nanakramguda, Hyderabad : 500 032 India P : +91 040 67161591 www.karvycomputershare.com" |

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

| S. No. | Name and Description of main products / services | NIC Code of the Product/service | % to total turnover of the company |
|--------|--|---------------------------------|------------------------------------|
| 1 | Operational and Comprehensive maintenance of ACD (Anti - Collision Devices) for Railways | 33131 | 34.04% |
| 2 | Supply of TCAS Units | 3320 | 34.49% |
| 3 | Installation of Lxcs Gates for Egyptian National Railways | 6201 | 31.47% |

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

| S. No. | Name and address of the Company | CIN/GLN | Holding/ Subsidiary/ Associate | "% of sharehold" | "Applicable Section" |
|--------|---|---------|---------------------------------|------------------|----------------------|
| 1 | Avant-Garde Infosystems, Inc., 1906, Ray Shell CT, Seabrook, TX 77586 USA | N.A. | Wholly Owned Subsidiary Company | 100% | 2 (87) |

IV. SHARE HOLDING PATTERN

(Equity share capital breakup as percentage of total equity)

(I) Category-wise Share Holding

| Category of Shareholders | "No. of Shares held at the beginning of the year[As on 31-March-2015]" | | | | "No. of Shares held at the end of the year[As on 31-March-2016]" | | | | % Change during the year |
|----------------------------------|--|----------------|------------------|-------------------|--|----------------|------------------|-------------------|--------------------------|
| | Demat | Physical | Total | % of Total Shares | Demat | Physical | Total | % of Total Shares | |
| A. Promoters | | | | | | | | | |
| (1) Indian | | | | | | | | | |
| a) Individual/ HUF | 225,863 | - | 225,863 | 1.81 | 225,863 | - | 225,863 | 1.81 | - |
| b) Central Govt | - | - | - | - | - | - | - | - | - |
| c) State Govt(s) | - | - | - | - | - | - | - | - | - |
| d) Bodies Corp. | - | - | - | - | - | - | - | - | - |
| e) Banks / FI | - | - | - | - | - | - | - | - | - |
| f) Any other | 115,887 | 498 | 116,385 | 0.93 | 115,887 | 498 | 116,385 | 0.93 | - |
| Sub Total (A) (1) | 341,750 | 498 | 342,248 | 2.74 | 341,750 | 498 | 342,248 | 2.74 | - |
| (2) Foreign | | | | | | | | | |
| a) NRI Individuals | 4,153,482 | - | 4,153,482 | 33.23 | 4,153,482 | - | 4,153,482 | 33.23 | 0.00 |
| b) Other Individuals | - | - | - | - | - | - | - | 0.00 | 0.00 |
| c) Bodies Corp. | - | - | - | - | - | - | - | 0.00 | 0.00 |
| d) Qualified Foreign Investor | - | - | - | - | - | - | - | 0.00 | 0.00 |
| e) Any other | 348,916 | 118,177 | 467,093 | 3.74 | 348,916 | 118,177 | 467,093 | 3.74 | 0.00 |
| Sub Total (A) (2) | 4,502,398 | 118,177 | 4,620,575 | 36.97 | 4,502,398 | 118,177 | 4,620,575 | 36.97 | 0.00 |
| TOTAL (A) | 4,844,148 | 118,675 | 4,962,823 | 39.70 | 4,844,148 | 118,675 | 4,962,823 | 39.70 | - |
| B. Public Shareholding | | | | | | | | | |
| 1. Institutions | | | | | | | | | |
| a) Mutual Funds | - | - | - | - | - | - | - | 0.00 | 0.00 |
| b) Banks / FI | 1,050 | - | 1,050 | 0.01 | - | - | - | 0.00 | 0.01 |
| c) Central Govt | - | - | - | - | - | - | - | 0.00 | 0.00 |
| d) State Govt(s) | - | - | - | - | - | - | - | 0.00 | 0.00 |
| e) Venture Capital Funds | - | - | - | - | - | - | - | 0.00 | 0.00 |
| f) Insurance Companies | - | - | - | - | - | - | - | 0.00 | 0.00 |
| g) FIs | - | - | - | - | - | - | - | 0.00 | 0.00 |
| h) Foreign Venture Capital Funds | - | - | - | - | - | - | - | 0.00 | 0.00 |
| i) Others (specify) | - | - | - | - | - | - | - | 0.00 | 0.00 |
| Sub-total (B)(1):- | 1,050 | - | 1,050 | 0.01 | - | - | - | - | 0.01 |

Contd...

Category-wise Share Holding (Contd....)

| Category of Shareholders | "No. of Shares held at the beginning of the year[As on 31-March-2015]" | | | | "No. of Shares held at the end of the year[As on 31-March-2016]" | | | | % Change during the year |
|--|--|----------------|-------------------|-------------------|--|----------------|-------------------|-------------------|--------------------------|
| | Demat | Physical | Total | % of Total Shares | Demat | Physical | Total | % of Total Shares | |
| 2. Non-Institutions | | | | | | | | | |
| a) Bodies Corp. | 929,291 | - | 929,291 | 7.43 | 737,613 | - | 737,613 | 5.90 | 1.53 |
| i) Indian | | | | | | | | | |
| ii) Overseas | | | | | | | | | |
| b) Individuals | | | | | | | | | |
| i) Individual shareholders holding nominal share capital upto Rs. 1 lakh | 4,656,925 | 613 | 4,657,538 | 37.26 | 4,846,786 | 613 | 4,847,399 | 38.78 | -1.52 |
| ii) Individual shareholders holding nominal share capital in excess of Rs 1 lakh | 921,285 | 12,656 | 933,941 | 7.47 | 1,057,355 | 12,656 | 1,070,011 | 8.56 | -1.09 |
| c) Others (specify) | | | | | | | | | |
| Non Resident | | | | | | | | | |
| Indians | 496,044 | 429,908 | 925,952 | 7.41 | 414,379 | 429,908 | 844,287 | 6.75 | 0.65 |
| Overseas | | | | | | | | | |
| Corporate Bodies | | | | | | | | | |
| Foreign Nationals | | | | | | | | | |
| Clearing Members | 64,529 | - | 64,529 | 0.52 | 7,364 | - | 7,364 | 0.06 | 0.46 |
| Trusts | 200 | 24,331 | 24,531 | 0.20 | 200 | 24,331 | 24,531 | 0.20 | 0.00 |
| NBFC | | | | | 5,627 | | 5,627 | 0.05 | -0.05 |
| Sub-total (B)(2):- | 7,068,274 | 467,508 | 7,535,782 | 60.29 | 7,069,324 | 467,508 | 7,536,832 | 60.30 | (0.01) |
| Total Public (B) | 7,069,324 | 467,508 | 7,536,832 | 60.30 | 7,069,324 | 467,508 | 7,536,832 | 60.30 | 0.00 |
| C. Shares held by Custodian for GDRs & ADRs | | | | | | | | | |
| Grand Total (A+B+C) | 11,913,472 | 586,183 | 12,499,655 | 100.00 | 11,913,472 | 586,183 | 12,499,655 | 100.00 | 0.00 |

(ii) Shareholding of Promoter

| Sl. No. | Shareholder's Name | Shareholding at the beginning of the year | | | Shareholding at the end of the year | | | % change in share holding during the year |
|---------|----------------------------------|---|----------------------------------|--|-------------------------------------|----------------------------------|--|---|
| | | No. of Shares | % of total Shares of the company | % of Shares Pledged / encumbered to total shares | No. of Shares | % of total Shares of the company | % of Shares Pledged / encumbered to total shares | |
| 1 | RAJU N MANTENA | 854,633 | 6.84% | 0 | 854,633 | 6.84% | 0 | 0.00% |
| 2 | SITARAMARAJU MANTHENA | 712,992 | 5.70% | 0 | 712,992 | 5.70% | 0 | 0.00% |
| 3 | SREELAKSHMI MANTHENA | 640,398 | 5.12% | 0 | 640,398 | 5.12% | 0 | 0.00% |
| 4 | SRINIVARARAJU MANTHENA | 606,597 | 4.85% | 0 | 606,597 | 4.85% | 0 | 0.00% |
| 5 | SHILPALAKAM RAJU | 340,134 | 2.72% | 0 | 340,134 | 2.72% | 0 | 0.00% |
| 6 | JYOTSNA LAKAMRAJU | 316,671 | 2.53% | 0 | 316,671 | 2.53% | 0 | 0.00% |
| 7 | MANTHENA PARAVATHI | 268,469 | 2.15% | 0 | 268,469 | 2.15% | 0 | 0.00% |
| 8 | VENKATESWARARAJU LAKKAMRAJU | 225,863 | 1.81% | 0 | 225,863 | 1.81% | 0 | 0.00% |
| 9 | JYOTHI RAJU | 173,329 | 1.39% | 0 | 173,329 | 1.39% | 0 | 0.00% |
| 10 | SWATI RAJU | 166,035 | 1.33% | 0 | 166,035 | 1.33% | 0 | 0.00% |
| 11 | KISHORE BABU GOTTIMUKKALA | 137,280 | 1.10% | 0 | 137,280 | 1.10% | 0 | 0.00% |
| 12 | LAKAMRAJU JHANSI LAXMIBAI | 115,856 | 0.93% | 0 | 115,856 | 0.93% | 0 | 0.00% |
| 13 | ANJI RAJU MANTHENA | 277,078 | 2.22% | - | 277,078 | 2.22% | 0 | 4.43% |
| 14 | MADHUVALLI LAKAMRAJU | 5,480 | 0.04% | 0 | 5,480 | 0.04% | 0 | 0.00% |
| 15 | VENKATARAMAMURTHY RAJU LAKAMRAJU | 2,883 | 0.02% | 0 | 2,883 | 0.02% | 0 | 0.00% |
| 16 | JAGANNADHAL RAJU | 419 | 0.00% | 0 | 419 | 0.00% | 0 | 0.00% |
| 17 | LAKKAMRAJU SUSILAMMA | 31 | 0.00% | 0 | 31 | 0.00% | 0 | 0.00% |
| 18 | SUBBARAJU VENKATA LAKAMRAJU | 498 | 0.00% | 0 | 498 | 0.00% | 0 | 0.00% |
| 19 | MADHAV MANTENA | 110,260 | 0.88% | 0 | 110,260 | 0.88% | 0 | 0.00% |
| 20 | NAMRATA KAPOOR | 7,917 | 0.06% | 0 | 7,917 | 0.06% | 0 | 0.00% |

(iii) Change in Promoters' Shareholding (please specify, if there is no change)

| Sl. No. | Particulars | Date | Reason | Shareholding at the beginning of the year | | Cumulative Shareholding during the year | |
|---------|-------------|------|--------|---|-------------------|---|-------------------|
| | | | | No. of shares | % of total shares | No. of shares | % of total shares |
| 1 | NIL | | | 0.00% | - | | 0.00% |
| | | | | 0.00% | - | | 0.00% |

(iv) Shareholding Pattern of top ten Shareholders
(Other than Directors, Promoters and Holders of GDRs and ADRs):

| Sl. No. | For each of the Top 10 shareholders | Shareholding at the beginning of the year | | Date wise Increase / (Decrease) in shareholding during the year specifying the reasons for increase /decrease(e.g. allotment /transfer/bonus/sweat equity etc.) | | | Cumulative shareholding at the end of the year | |
|---------|-------------------------------------|---|----------------------------------|---|---------------|----------|--|----------------------------------|
| | | No. of Shares | % of total Shares of the company | Date | No. of Shares | Nature | No. of Shares | % of total Shares of the company |
| 1 | HITENANANTRAI SHETH | 275,000 | 2.20% | 4/1/2015 | | | 275,000 | 2.20% |
| 2 | JANARDHANAREDDY VINTA | 198,655 | 1.59% | 7/10/2015 | 198,655 | Purchase | 397,310 | 3.18% |
| | JANARDHANAREDDY VINTA | 198,655 | 1.59% | 7/10/2015 | (198,655) | Sale | 198,655 | 1.59% |
| 3 | CHALLA SUBRAMANAYA SARMA | 186,212 | 1.49% | | | | 186,212 | 1.49% |
| 4 | BANDARU MURALI MOHAN | 150,071 | 1.20% | | | | 150,071 | 1.20% |
| 5 | KARVY STOCK BROKING LIMITED | 86,228 | 0.69% | 3/04/2015 | 385 | Purchase | 86,613 | 0.69% |
| | | | | 3/04/2015 | (380) | Sale | 86,233 | 0.69% |
| | | | | 10/04/2015 | 11424 | Purchase | 97,657 | 0.78% |
| | | | | 10/04/2015 | (816) | Sale | 96,841 | 0.77% |
| | | | | 17/04/2015 | 3215 | Purchase | 100,056 | 0.80% |
| | | | | 17/04/2015 | (2,563) | Sale | 97,493 | 0.78% |
| | | | | 24/04/2015 | 8803 | Purchase | 106,296 | 0.85% |
| | | | | 24/04/2015 | (2,850) | Sale | 103,446 | 0.83% |
| | | | | 01/05/2015 | 1564 | Purchase | 105,010 | 0.84% |
| | | | | 01/05/2015 | (748) | Sale | 104,262 | 0.83% |
| | | | | 08/05/2015 | 3211 | Purchase | 107,473 | 0.86% |
| | | | | 08/05/2015 | (12,117) | Sale | 95,356 | 0.76% |
| | | | | 15/05/2015 | 233 | Purchase | 95,589 | 0.76% |
| | | | | 15/05/2015 | (3,364) | Sale | 92,225 | 0.74% |
| | | | | 22/05/2015 | 576 | Purchase | 92,801 | 0.74% |
| | | | | 22/05/2015 | (1,566) | Sale | 91,235 | 0.73% |
| | | | | 29/05/2015 | 2469 | Purchase | 93,704 | 0.75% |
| | | | | 29/05/2015 | (2,475) | Sale | 91,229 | 0.73% |
| | | | | 05/06/2015 | 1183 | Purchase | 92,412 | 0.74% |
| | | | | 05/06/2015 | (11,300) | Sale | 81,112 | 0.65% |
| | | | | 12/06/2015 | 2579 | Purchase | 83,691 | 0.67% |
| | | | | 12/06/2015 | (2,414) | Sale | 81,277 | 0.65% |
| | | | | 19/06/2015 | 7,057 | Purchase | 88,334 | 0.71% |
| | | | | 19/06/2015 | (2,227) | Sale | 86,107 | 0.69% |
| | | | | 26/06/2015 | 9,292 | Purchase | 95,399 | 0.76% |
| | | | | 26/06/2015 | (2,466) | Sale | 92,933 | 0.74% |
| | | | | 30/06/2015 | 651 | Purchase | 93,584 | 0.75% |
| | | | | 30/06/2015 | (1,245) | Sale | 92,339 | 0.74% |
| | | | | 03/07/2015 | 714 | Purchase | 93,053 | 0.74% |

Contd...

Shareholding Pattern of top ten Shareholders (Contd....)

| Sl. No. | For each of the Top 10 shareholders | Shareholding at the beginning of the year | | Date wise Increase / (Decrease) in shareholding during the year specifying the reasons for increase /decrease(e.g. allotment /transfer/bonus/sweat equity etc.) | | | Cumulative shareholding at the end of the year | |
|---------|-------------------------------------|---|----------------------------------|---|---------------|----------|--|----------------------------------|
| | | No. of Shares | % of total Shares of the company | Date | No. of Shares | Nature | No. of Shares | % of total Shares of the company |
| | | | | 03/07/2015 | (3,306) | Sale | 89,747 | 0.72% |
| | | | | 10/07/2015 | 200 | Purchase | 89,947 | 0.72% |
| | | | | 10/07/2015 | (2,877) | Sale | 87,070 | 0.70% |
| | | | | 17/07/2015 | 200 | Purchase | 87,270 | 0.70% |
| | | | | 17/07/2015 | (1,296) | Sale | 85,974 | 0.69% |
| | | | | 24/07/2015 | 1,790 | Purchase | 87,764 | 0.70% |
| | | | | 24/07/2015 | (130) | Sale | 87,634 | 0.70% |
| | | | | 31/07/2015 | 50 | Purchase | 87,684 | 0.70% |
| | | | | 31/07/2015 | (335) | Sale | 87,349 | 0.70% |
| | | | | 07/08/2015 | 115 | Purchase | 87,464 | 0.70% |
| | | | | 07/08/2015 | (512) | Sale | 86,952 | 0.70% |
| | | | | 14/08/2015 | 120 | Purchase | 87,072 | 0.70% |
| | | | | 14/08/2015 | (64) | Sale | 87,008 | 0.70% |
| | | | | 21/08/2015 | 480 | Purchase | 87,488 | 0.70% |
| | | | | 28/08/2015 | 182 | Purchase | 87,670 | 0.70% |
| | | | | 28/08/2015 | (1,177) | Sale | 86,493 | 0.69% |
| | | | | 04/09/2015 | 205 | Purchase | 86,698 | 0.69% |
| | | | | 04/09/2015 | (612) | Sale | 86,086 | 0.69% |
| | | | | 11/09/2015 | 455 | Purchase | 86,541 | 0.69% |
| | | | | 11/09/2015 | (832) | Sale | 85,709 | 0.69% |
| | | | | 18/09/2015 | 156 | Purchase | 85,865 | 0.69% |
| | | | | 18/09/2015 | (500) | Sale | 85,365 | 0.68% |
| | | | | 25/09/2015 | (1,518) | Sale | 83,847 | 0.67% |
| | | | | 30/09/2015 | 202 | Purchase | 84,049 | 0.67% |
| | | | | 30/09/2015 | (152) | Sale | 83,897 | 0.67% |
| | | | | 02/10/2015 | 12 | Purchase | 83,909 | 0.67% |
| | | | | 09/10/2015 | 160 | Purchase | 84,069 | 0.67% |
| | | | | 09/10/2015 | (50) | Sale | 84,019 | 0.67% |
| | | | | 16/10/2015 | (100) | Sale | 83,919 | 0.67% |
| | | | | 23/10/2015 | 2,700 | Purchase | 86,619 | 0.69% |
| | | | | 23/10/2015 | (1,862) | Sale | 84,757 | 0.68% |
| | | | | 30/10/2015 | 10,400 | Purchase | 95,157 | 0.76% |
| | | | | 30/10/2015 | (12,990) | Sale | 82,167 | 0.66% |
| | | | | 06/11/2015 | 320 | Purchase | 82,487 | 0.66% |
| | | | | 06/11/2015 | (12,800) | Sale | 69,687 | 0.56% |

Contd...

Shareholding Pattern of top ten Shareholders (Contd....)

| Sl. No. | For each of the Top 10 shareholders | Shareholding at the beginning of the year | | Date wise Increase / (Decrease) in shareholding during the year specifying the reasons for increase /decrease(e.g. allotment /transfer/bonus/sweat equity etc.) | | | Cumulative shareholding at the end of the year | |
|---------|-------------------------------------|---|----------------------------------|---|---------------|----------|--|----------------------------------|
| | | No. of Shares | % of total Shares of the company | Date | No. of Shares | Nature | No. of Shares | % of total Shares of the company |
| | | | | 13/11/2015 | 722 | Purchase | 70,409 | 0.56% |
| | | | | 13/11/2015 | (500) | Sale | 69,909 | 0.56% |
| | | | | 20/11/2015 | 650 | Purchase | 70,559 | 0.56% |
| | | | | 20/11/2015 | (1,420) | Sale | 69,139 | 0.55% |
| | | | | 27/11/2015 | 1,907 | Purchase | 71,046 | 0.57% |
| | | | | 27/11/2015 | (635) | Sale | 70,411 | 0.56% |
| | | | | 04/12/2015 | 2,764 | Purchase | 73,175 | 0.59% |
| | | | | 04/12/2015 | (1,398) | Sale | 71,777 | 0.57% |
| | | | | 11/12/2015 | 6,246 | Purchase | 78,023 | 0.62% |
| | | | | 11/12/2015 | (1,878) | Sale | 76,145 | 0.61% |
| | | | | 18/12/2015 | 200 | Purchase | 76,345 | 0.61% |
| | | | | 18/12/2015 | (6,144) | Sale | 70,201 | 0.56% |
| | | | | 25/12/2015 | 273 | Purchase | 70,474 | 0.56% |
| | | | | 25/12/2015 | (815) | Sale | 69,659 | 0.56% |
| | | | | 31/12/2015 | 535 | Purchase | 70,194 | 0.56% |
| | | | | 31/12/2015 | (1,330) | Sale | 68,864 | 0.55% |
| | | | | 01/01/2016 | 107 | Purchase | 68,971 | 0.55% |
| | | | | 01/01/2016 | (505) | Sale | 68,466 | 0.55% |
| | | | | 08/01/2016 | 1,437 | Purchase | 69,903 | 0.56% |
| | | | | 08/01/2016 | (1,127) | Sale | 68,776 | 0.55% |
| | | | | 15/01/2016 | (1,240) | Sale | 67,536 | 0.54% |
| | | | | 22/01/2016 | 953 | Purchase | 68,489 | 0.55% |
| | | | | 22/01/2016 | (348) | Sale | 68,141 | 0.55% |
| | | | | 29/01/2016 | 1,527 | Purchase | 69,668 | 0.56% |
| | | | | 29/01/2016 | (916) | Sale | 68,752 | 0.55% |
| | | | | 05/02/2016 | 4,321 | Purchase | 73,073 | 0.58% |
| | | | | 05/02/2016 | (1,400) | Sale | 71,673 | 0.57% |
| | | | | 12/02/2016 | 2,957 | Purchase | 74,630 | 0.60% |
| | | | | 19/02/2016 | 11,712 | Purchase | 86,342 | 0.69% |
| | | | | 19/02/2016 | (11,543) | Sale | 74,799 | 0.60% |
| | | | | 26/02/2016 | 2,314 | Purchase | 77,113 | 0.62% |
| | | | | 26/02/2016 | (5,909) | Sale | 71,204 | 0.57% |
| | | | | 04/03/2016 | 930 | Purchase | 72,134 | 0.58% |
| | | | | 04/03/2016 | (5,607) | Sale | 66,527 | 0.53% |
| | | | | 11/03/2016 | 680 | Purchase | 67,207 | 0.54% |

Contd...

Shareholding Pattern of top ten Shareholders (Contd....)

| Sl. No. | For each of the Top 10 shareholders | Shareholding at the beginning of the year | | Date wise Increase / (Decrease) in shareholding during the year specifying the reasons for increase /decrease(e.g. allotment /transfer/bonus/sweat equity etc.) | | | Cumulative shareholding at the end of the year | |
|---------|-------------------------------------|---|----------------------------------|---|---------------|----------|--|----------------------------------|
| | | No. of Shares | % of total Shares of the company | Date | No. of Shares | Nature | No. of Shares | % of total Shares of the company |
| 6 | VINAYA KUMAR GAVINI | 85,158 | 0.68% | 11/03/2016 | (2,054) | Sale | 65,153 | 0.52% |
| | | | | 18/03/2016 | 1,190 | Purchase | 66,343 | 0.53% |
| | | | | 18/03/2016 | (2,652) | Sale | 63,691 | 0.51% |
| | | | | 25/03/2016 | 1,190 | Purchase | 64,881 | 0.52% |
| | | | | 25/03/2016 | (2,182) | Sale | 62,699 | 0.50% |
| | | | | 31/03/2016 | 440 | Purchase | 63,139 | 0.51% |
| | | | | 31/03/2016 | (1,804) | Sale | 61,335 | 0.49% |
| | | | | 31/03/2016 | | | 61,335 | 0.49% |
| | | | | 14/08/2015 | (6,100) | Sale | 79,058 | 0.63% |
| | | | | 21/08/2015 | (9,563) | Sale | 69,495 | 0.56% |
| | | | | 16/10/2015 | (534) | Sale | 68,961 | 0.55% |
| | | | | 23/10/2015 | (18,792) | Sale | 50,169 | 0.40% |
| | | | | 30/10/2015 | (5,001) | Sale | 45,168 | 0.36% |
| | | | | 06/11/2015 | (5,624) | Sale | 39,544 | 0.32% |
| 7 | FAIRWEALTH SECURITIES LIMITED | 47,092 | 0.38% | 13/11/2015 | (36,500) | Sale | 3,044 | 0.02% |
| | | | | 20/11/2015 | (3,044) | Sale | - | 0.00% |
| | | | | 10/04/2015 | 9,500 | Purchase | 56,592 | 0.45% |
| | | | | 10/04/2015 | (7,318) | Sale | 49,274 | 0.39% |
| | | | | 01/05/2015 | 2,000 | Purchase | 51,274 | 0.41% |
| | | | | 08/05/2015 | 1,403 | Purchase | 52,677 | 0.42% |
| | | | | 15/05/2015 | 1,161 | Purchase | 53,838 | 0.43% |
| | | | | 22/05/2015 | 40 | Purchase | 53,878 | 0.43% |
| | | | | 10/07/2015 | 481 | Purchase | 54,359 | 0.43% |
| | | | | 21/08/2015 | 3,075 | Purchase | 57,434 | 0.46% |
| | | | | 28/08/2015 | 500 | Purchase | 57,934 | 0.46% |
| | | | | 11/09/2015 | 2 | Purchase | 57,936 | 0.46% |
| | | | | 18/09/2015 | (496) | Sale | 57,440 | 0.46% |
| | | | | 09/10/2015 | 1,396 | Purchase | 58,836 | 0.47% |
| | | | | 16/10/2015 | (1,370) | Sale | 57,466 | 0.46% |
| | | | | 23/10/2015 | 200 | Purchase | 57,666 | 0.46% |
| | | | | 30/10/2015 | (1,112) | Sale | 56,554 | 0.45% |
| | | | | 06/11/2015 | 7,742 | Purchase | 64,296 | 0.51% |
| | | | | 13/11/2015 | 91 | Purchase | 64,387 | 0.52% |
| | | | | 20/11/2015 | (2,142) | Sale | 62,245 | 0.50% |
| | | | | 27/11/2015 | (3,908) | Sale | 58,337 | 0.47% |

Contd...

Shareholding Pattern of top ten Shareholders (Contd....)

| Sl. No. | For each of the Top 10 shareholders | Shareholding at the beginning of the year | | Date wise Increase / (Decrease) in shareholding during the year specifying the reasons for increase /decrease(e.g. allotment /transfer/bonus/sweat equity etc.) | | | Cumulative shareholding at the end of the year | |
|---------|-------------------------------------|---|----------------------------------|---|---------------|----------|--|----------------------------------|
| | | No. of Shares | % of total Shares of the company | Date | No. of Shares | Nature | No. of Shares | % of total Shares of the company |
| 8 | NIKHIL JAISINH MERCHANT | 42,900 | 0.34% | 04/12/2015 | (30,336) | Sale | 28,001 | 0.22% |
| | | | | 11/12/2015 | (1,847) | Sale | 26,154 | 0.21% |
| | | | | 18/12/2015 | 1,000 | Purchase | 27,154 | 0.22% |
| | | | | 18/12/2015 | (4,000) | Sale | 23,154 | 0.19% |
| | | | | 08/01/2016 | (5,000) | Sale | 18,154 | 0.15% |
| | | | | 29/01/2016 | (7,701) | Sale | 10,453 | 0.08% |
| | | | | 05/02/2016 | 5,975 | Purchase | 16,428 | 0.13% |
| | | | | 05/02/2016 | (10,000) | Sale | 6,428 | 0.05% |
| | | | | 12/02/2016 | (1,625) | Sale | 4,803 | 0.04% |
| | | | | 19/02/2016 | (1,424) | Sale | 3,379 | 0.03% |
| | | | | 26/02/2016 | (125) | Sale | 3,254 | 0.03% |
| | | | | 31/03/2016 | 2000 | Purchase | 5,254 | 0.04% |
| | | | | | | | 42,900 | 0.34% |
| 9 | SHRI PARASRAM HOLDINGS PVT.LTD. | 41,929 | 0.34% | 03/04/2015 | (44) | Sale | 41,885 | 0.34% |
| | | | | 10/04/2015 | 719 | Purchase | 42,604 | 0.34% |
| | | | | 17/04/2015 | (550) | Sale | 42,054 | 0.34% |
| | | | | 08/05/2015 | (700) | Sale | 41,354 | 0.33% |
| | | | | 22/05/2015 | 50 | Purchase | 41,404 | 0.33% |
| | | | | 29/05/2015 | (1,436) | Sale | 39,968 | 0.32% |
| | | | | 05/06/2015 | (249) | Sale | 39,719 | 0.32% |
| | | | | 12/06/2015 | 804 | Purchase | 40,523 | 0.32% |
| | | | | 19/06/2015 | 300 | Purchase | 40,823 | 0.33% |
| | | | | 26/06/2015 | (1,200) | Sale | 39,623 | 0.32% |
| | | | | 30/06/2015 | (800) | Sale | 38,823 | 0.31% |
| | | | | 03/07/2015 | 800 | Purchase | 39,623 | 0.32% |
| | | | | 10/07/2015 | 117 | Purchase | 39,740 | 0.32% |
| | | | | 10/07/2015 | (3) | Sale | 39,737 | 0.32% |
| | | | | 17/07/2015 | 80 | Purchase | 39,817 | 0.32% |
| | | | | 17/07/2015 | (280) | Sale | 39,537 | 0.32% |
| | | | | 24/07/2015 | 1,745 | Purchase | 41,282 | 0.33% |
| | | | | 24/07/2015 | (110) | Sale | 41,172 | 0.33% |
| | | | | 31/07/2015 | (1,727) | Sale | 39,445 | 0.32% |
| | | | | 07/08/2015 | 95 | Purchase | 39,540 | 0.32% |
| | | | | 14/08/2015 | 430 | Purchase | 39,970 | 0.32% |
| | | | | 21/08/2015 | 1,740 | Purchase | 41,710 | 0.33% |

Contd...

Shareholding Pattern of top ten Shareholders (Contd....)

| Sl. No. | For each of the Top 10 shareholders | Shareholding at the beginning of the year | | Date wise Increase / (Decrease) in shareholding during the year specifying the reasons for increase /decrease(e.g. allotment /transfer/bonus/sweat equity etc.) | | | Cumulative shareholding at the end of the year | |
|---------|-------------------------------------|---|----------------------------------|---|---------------|----------|--|----------------------------------|
| | | No. of Shares | % of total Shares of the company | Date | No. of Shares | Nature | No. of Shares | % of total Shares of the company |
| 10 | DEV AUTO SALES PRIVATE LIMITED | 40,000 | 0.32% | 28/08/2015 | 272 | Purchase | 41,982 | 0.34% |
| | | | | 04/09/2015 | (100) | Sale | 41,882 | 0.34% |
| | | | | 11/09/2015 | (2,403) | Sale | 39,479 | 0.32% |
| | | | | 18/09/2015 | (300) | Sale | 39,179 | 0.31% |
| | | | | 25/09/2015 | (150) | Sale | 39,029 | 0.31% |
| | | | | 02/10/2015 | 250 | Purchase | 39,279 | 0.31% |
| | | | | 09/10/2015 | 282 | Purchase | 39,561 | 0.32% |
| | | | | 16/10/2015 | (33) | Sale | 39,528 | 0.32% |
| | | | | 06/11/2015 | 200 | Purchase | 39,728 | 0.32% |
| | | | | 20/11/2015 | (155) | Sale | 39,573 | 0.32% |
| | | | | 27/11/2015 | 1,841 | Purchase | 41,414 | 0.33% |
| | | | | 27/11/2015 | (120) | Sale | 41,294 | 0.33% |
| | | | | 04/12/2015 | (2,063) | Sale | 39,231 | 0.31% |
| | | | | 11/12/2015 | 10 | Purchase | 39,241 | 0.31% |
| | | | | 11/12/2015 | (70) | Sale | 39,171 | 0.31% |
| | | | | 18/12/2015 | 405 | Purchase | 39,576 | 0.32% |
| | | | | 25/12/2015 | (120) | Sale | 39,456 | 0.32% |
| | | | | 31/12/2015 | 1,229 | Purchase | 40,685 | 0.33% |
| | | | | 01/01/2016 | (10) | Sale | 40,675 | 0.33% |
| | | | | 08/01/2016 | (741) | Sale | 39,934 | 0.32% |
| | | | | 15/01/2016 | 30 | Purchase | 39,964 | 0.32% |
| | | | | 15/01/2016 | (1,120) | Sale | 38,844 | 0.31% |
| | | | | 22/01/2016 | (300) | Sale | 38,544 | 0.31% |
| | | | | 29/01/2016 | (275) | Sale | 38,269 | 0.31% |
| | | | | 05/02/2016 | (125) | Sale | 38,144 | 0.31% |
| | | | | 12/02/2016 | (700) | Sale | 37,444 | 0.30% |
| | | | | 19/02/2016 | 1,050 | Purchase | 38,494 | 0.31% |
| | | | | 26/02/2016 | (410) | Sale | 38,084 | 0.30% |
| | | | | 04/03/2016 | 350 | Purchase | 38,434 | 0.31% |
| | | | | 11/03/2016 | (360) | Sale | 38,074 | 0.30% |
| | | | | 18/03/2016 | 410 | Purchase | 38,484 | 0.31% |
| | | | | 18/03/2016 | (10) | Sale | 38,474 | 0.31% |
| | | | | 25/03/2016 | 150 | Purchase | 38,624 | 0.31% |
| | | | | 31/03/2016 | (405) | Sale | 38,219 | 0.31% |
| | | | | | | | 40,000 | 0.32% |

(v) Shareholding of Directors and Key Managerial Personnel:

| Sl. No. | Shareholding of each Directors and each Key Managerial Personnel | Date | Reason | Shareholding at the beginning of the year | | Cumulative Shareholding during the year | |
|---------|--|-----------|-----------------|---|-------------------|---|-------------------|
| | | | | No. of shares | % of total shares | No. of shares | % of total shares |
| 1 | VENKATESWARA RAJU LAKAM RAJU | | | | | | |
| | At the beginning of the year | 4/1/2015 | Opening Balance | 225,863 | 1.81% | 225,863 | 1.81% |
| | Changes during the year | | | | | 225,863 | 1.81% |
| | At the end of the year | 3/31/2016 | Closing Balance | 225,863 | 1.81% | 225,863 | 1.81% |
| 2 | RAJU N MANTENA | | | | | | |
| | At the beginning of the year | 4/1/2015 | Opening Balance | 854,633 | 6.84% | 854,633 | 6.84% |
| | Changes during the year | | | | | 854,633 | 6.84% |
| | At the end of the year | 3/31/2016 | Closing Balance | 854,633 | 6.84% | 854,633 | 6.84% |
| 3 | ANJI RAJU MANTENA | | | | | | |
| | At the beginning of the year | 4/1/2015 | Opening Balance | 277,078 | 2.22% | 277,078 | 2.22% |
| | Changes during the year | | | | | 277,078 | 2.22% |
| | At the end of the year | 3/31/2016 | Closing Balance | 277,078 | 2.22% | 277,078 | 2.22% |
| 4 | JYOTHI RAJU | | | | | | |
| | At the beginning of the year | 4/1/2015 | Opening Balance | 173,329 | 1.39% | 173,329 | 1.39% |
| | Changes during the year | | | | | 173,329 | 1.39% |
| | At the end of the year | 3/31/2016 | Closing Balance | 173,329 | 1.39% | 173,329 | 1.39% |
| 5 | JANARDHANAREDDY VINTA | | | | | | |
| | At the beginning of the year | 4/1/2015 | Opening Balance | 198,655 | 1.59% | 198,655 | 1.59% |
| | Changes during the year | | | | | 198,655 | 1.59% |
| | At the end of the year | 3/31/2016 | Closing Balance | 198,655 | 1.59% | 198,655 | 1.59% |
| 6 | BANDARU MURALI MOHAN | | | | | | |
| | At the beginning of the year | 4/1/2015 | Opening Balance | 150,071 | 1.20% | 150,071 | 1.20% |
| | Changes during the year | | | | | 150,071 | 1.20% |
| | At the end of the year | 3/31/2016 | Closing Balance | 150,071 | 1.20% | 150,071 | 1.20% |

V. INDEBTEDNESS

Indebtedness of the Company including interest outstanding/accrued but not due for payment.

| Particulars | Secured Loans excluding deposits | Unsecured Loans | Deposits | Total Indebtedness |
|--|-------------------------------------|--------------------|----------|-----------------------|
| Indebtedness at the beginning of the financial year | | | | |
| i) Principal Amount | 1,495.58 | 674.84 | - | 2,170.42 |
| ii) Interest due but not paid | - | 9.49 | - | 9.49 |
| iii) Interest accrued but not due | - | - | - | - |
| Total (i + ii + iii) | 1,495.58 | 684.34 | - | 2,179.91 |
| Change in Indebtedness during the financial year | | | | |
| * Addition | - | 585.97 | - | 585.97 |
| * Reduction | (78.24) | - | - | (78.24) |
| Net Change | (78.24) | 585.97 | - | 507.73 |
| Indebtedness at the end of the financial year | | | | |
| I) Principal Amount | 1,417.34 | 1,203.06 | | 2,620.40 |
| ii) Interest due but not paid | - | 67.24 | | 67.24 |
| iii) Interest accrued but not due | - | | | - |
| Total (I + ii + iii) | 1,417.34 | 1,270.31 | - | 2,687.64 |

VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL
A. Remuneration to Managing Director, Whole-time Directors and/or Manager:

| Sl. No. | Particulars of Remuneration | Name of MD/WT/ Manager | | Total Amount (Rs/Lac) |
|---------|---|--|-------------------------------------|-----------------------|
| | | Col.L.V.Raju (Retd.) Managing Director | B.Murali Mohan Director (Technical) | |
| 1 | Gross salary | | | |
| | (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 | 37.12 | 25.20 | 62.32 |
| | (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 | 0.15 | 0.15 | 0.31 |
| | (c) Profits in lieu of salary under section 17(3) Income- tax Act, 1961 | - | - | - |
| 2 | Stock Option | - | - | - |
| 3 | Sweat Equity | - | - | - |
| 4 | Commission | - | - | - |
| | - as % of profit | - | - | - |
| | - others, specify | - | - | - |
| 5 | Others, please specify | - | - | - |
| | Total (A) | 37.27 | 25.35 | 62.63 |
| | Ceiling as per the Act | | | |

B. Remuneration to other Directors

| Sl. No. | Particulars of Remuneration | Name of Directors | | | | | | | Total Amount (Rs/Lac) |
|---|--|-------------------|---------------------|------------------------|--------------------|-------------|---------------------|--------------------------|-----------------------|
| | | M Gopala Krishna | Arun Kumar Sanwalka | Venkata Ratnam Anugolu | Anji Raju Manthena | Jyoti Raju | Raju Narasa Mantena | Janardhana Reddy Mantena | |
| 1 | Independent Directors | | | | | | | | |
| | Fee for attending board committee meetings | 2.60 | 2.60 | 2.60 | - | 0.20 | - | 0.20 | 8.20 |
| | Commission | - | - | - | - | - | - | - | - |
| | Others, please specify | - | - | - | - | - | - | - | - |
| | Total (1) | 2.60 | 2.60 | 2.60 | - | 0.20 | - | 0.20 | 8.20 |
| 2 | Other Non-Executive Directors | | | | | | | | |
| | Fee for attending board committee meetings | - | - | - | - | - | - | - | - |
| | Commission | - | - | - | - | - | - | - | - |
| | Others, please specify | - | - | - | - | - | - | - | - |
| | Total (2) | - | - | - | - | - | - | - | - |
| | Total (B)=(1+2) | 2.60 | 2.60 | 2.60 | - | 0.20 | - | 0.20 | 8.20 |
| | Total Managerial Remuneration | | | | | | | | 70.83 |
| Overall Ceiling as per the Act - The remuneration is well within the limits prescribed under the Companies Act,2013 | | | | | | | | | |

Not Appointed



Kernex Microsystems (I) Ltd.,

Annual Report 2015-16

C. Remuneration to Key Managerial Personnel other than MD/Manager/WTB

| Sl. No. | Particulars of Remuneration | Name of Key Managerial Personnel | | | Total Amount (Rs/Lac) |
|---------|---|----------------------------------|---------------------|----------------------------|-----------------------|
| | | CEO | S Srinivas Kiran CS | G A V N Murty Incharge CFO | |
| 1 | Gross salary | | 2.38 | 9.55 | 11.93 |
| | (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 | | | | - |
| | (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 | | | 0.06 | 0.06 |
| | (c) Profits in lieu of salary under section 17(3) Income- tax Act, 1961 | | | | - |
| 2 | Stock Option | | | | - |
| 3 | Sweat Equity | | | | - |
| 4 | Commission - as % of profit - others, specify | | | | - - |
| 5 | Others, please specify | | | | - |
| | Total | - | 2.38 | 9.61 | 11.99 |

VII. PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES :

| Type | Section of the Companies Act | Brief Description | Details of Penalty / Punishment/ Compounding fees imposed | Authority [RD / NCLT/ COURT] | Appeal made, if any (give Details) |
|-------------------------------------|------------------------------|-------------------|---|------------------------------|------------------------------------|
| A. COMPANY | | | | | |
| Penalty | | | | | |
| Punishment | | | NIL | | |
| Compounding | | | | | |
| B. DIRECTORS | | | | | |
| Penalty | | | | | |
| Punishment | | | NIL | | |
| Compounding | | | | | |
| C. OTHER OFFICERS IN DEFAULT | | | | | |
| Penalty | | | | | |
| Punishment | | | NIL | | |
| Compounding | | | | | |

Annexure – B to the Director's Report

Statement in accordance with Section 134 (3) (m) of the Companies Act, 2013 read with Rule 8 of the Companies (Accounts) Rules, 2014 and forming part of the Boards' Report for the year ended 31st March, 2016.

A. Conservation of Energy

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

B. Technology Absorption Adaptation and Innovation :

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

The Company is, further, in the process of R&D projects like Train Collision Avoidance System (TCAS) etc., these efforts are likely to become import substitutes at economical prices and suitable to Indian Railways and other railways working in developing countries.

C. Foreign Exchange Earnings and Outgo :

(Rs. in Lakhs)

| | Current Year | Previous year |
|-------------------------|--------------|---------------|
| Foreign Exchange Used | 94.00 | 183.70 |
| Foreign Exchange earned | 54.47 | 212.97 |

For and on behalf of the Board

Col.L.V.Raju(retd.)
 Managing Director
 (DIN No: 00052102)

Hyderabad
 09th August'2016.

Annexure – C to Director's Report

DETAILS PERTAINING TO REMUNERATION AS REQUIRED UNDER SECTION 197(12) OF THE COMPANIES ACT, 2013 READ WITH RULE 5(1) OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014.

- i) The percentage increase in remuneration of each Director, In-charge Chief Financial Officer and Company Secretary during the financial year 2015-16 and ratio of the remuneration of each Director to the median remuneration of the employees of the Company for the financial year 2015-16 are as under :

| Name of Director / KMP and Designation | Remuneration of Director / KMP for financial year 2015-16 (Rs. in lakhs) | % increase in remuneration in the financial year 2015-2016 | Ratio of remuneration of each Director/to median remuneration of employees |
|--|--|--|--|
| Col.L.V.Raju(Retd.), Managing Director | 37.12 | 0 | 13.90:1 |
| Mr. B. Murali Mohan, Whole Time Director | 25.20 | 0 | 9.43:1 |
| Mr.G.A.V.N.Murty, Incharge CFO | 9.55 | N.A | 3.58:1 |
| Mr.S.Srinivasa Kiran, Company Secretary | 2.38 | N.A | 0.89:1 |

Note: No other Director other than the Managing Director and Whole Time Director received any remuneration other than sitting fees during the financial year 2015-16.

- ii) In the financial year, there was no increase in the median remuneration of employees.
- iii) There were 106 permanent employees on the rolls of Company as on March 31, 2016.
- iv) The average remuneration of management employees in the last financial year has declined over the previous year in view of losses incurred.
- v) The remuneration of the Key Managerial Personnel put together is Rs. 74.26 lacs which was Rs.71.90 lacs in the previous year. The marginal increase is on account of increase in remuneration of Managing Director.
- vi) There was no average percentile increase either in the salaries of employees (other than the managerial personnel) or the managerial remuneration in the financial year 2015-16.
- vii) The market capitalization of the Company as on 31st March, 2016 decreased by 5.30%, when compared to that of 31st March, 2015. The Company has not made any public offer in the recent past and accordingly comparison of public offer price and the current market price of the Company's shares will not be relevant.
- viii) The key parameters for the variable component of remuneration availed by the directors are considered by the Board of Directors based on the recommendations of the Nomination and Remuneration Committee as per the Remuneration Policy for Directors and Senior Management Personnel.
- ix) The Managing Director is the highest paid Director. No employee received remuneration higher than the Managing Director.
- x) It is hereby affirmed that the remuneration paid during the Financial Year ended 31st March, 2016 is as per the Remuneration Policy of the Company.

By order of the Board
 For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

Col.L.V.Raju (Retd.)
 Managing Director
 (DIN: 00052102)

Place: Hyderabad
 Date: 09-08-2016

Annexure-D to the Director's Report**Form No. MR-3
SECRETARIAL AUDIT REPORT**

FOR THE FINANCIAL YEAR ENDED ON MARCH 31, 2016

Pursuant to section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 read with Guidance note on Secretarial Audit of the Institute of Company Secretaries of India

To,
The Members,
Kernex Microsystems (India) Limited

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by Kernex Microsystems (India) Limited (hereinafter called the company). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of the Company's books, papers, minute books, forms and returns filed and other records maintained by the company as shown to me and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the company has, during the audit period covering the financial year ended on March 31, 2016 complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by Kernex Microsystems (India) Limited for the financial year ended on March 31, 2016 as shown to us during our audit, according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made there under
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed there under
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made there under to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act')
 - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
 - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992
 - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009
 - (d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 **(Not applicable during the audit period)**
 - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 **(Not applicable during the audit period)**
 - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client

- (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 (Not applicable during the audit period)
- (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998 (Not applicable during the audit period)
- (vi) Other laws generally applicable to the company)

I/we have also examined compliance with the applicable clauses of the following

- (i) Secretarial Standards issued by The Institute of Company Secretaries of India.
- (ii) The Listing Agreements entered into by the Company with Bombay Stock Exchange Limited (BSE), National Stock Exchange Limited (NSE)

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above.

I further report that

The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

All decisions at Board Meetings and Committee meetings were carried out unanimously as recorded in the minutes of the meetings of the Board or committees of the Board as the case may be.

I/we further report that there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

This report is to be read with our letter of even dated which is annexed and forms an integral part of this report

Place: Hyderabad
Date: 09th August 2016

For **Abhishek Shukla & Associates**
Company Secretaries

Abhishek Shukla
ACS-27253,
CP-14769

To,
The Members
Kernex Microsystems(India) Limited
Hyderabad

Our Secretarial Audit Report for the financial year ended 31st March 2016 of even date is to be read along with this letter

1. Maintenance of Secretarial record is the responsibility of the management of the Company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. We believe that the processes and practices, we followed provide a reasonable basis for our opinion
3. We have not verified the correctness and appropriateness of financial records and Books of Account of the Company
4. Wherever required , we have obtained the Management representation about the compliance of laws, rules and regulations and happening of events etc.,
5. The Compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of the Management. Our examination was limited to the verification of procedures on test basis
6. The secretarial audit report is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company

Place: Hyderabad
Date: 09th August 2016

For **Abhishek Shukla & Associates**
Company Secretaries

Abhishek Shukla
ACS-27253,
CP-14769

MANAGEMENT DISCUSSION AND ANALYSIS

Indian Economy has shown signs of recovery during 2015-2016. It has registered 7.4% to 7.6% growth and could have grown over 8% but for the deficient monsoon and drought in many parts of the Country.

Even though the “make in India” movement has been in vogue for the last two years, it could not give good results due to lack of Infrastructure, skills, financial sources and commitment at all levels.

Industrial growth has jumped from 5% to 8.5% in the year, while agriculture was over 2.5% and Information Technology and business management process about 13 to 14%. However, hardware growth has fallen to 8 to 9% owing to poor investments and high taxes.

Due to sluggish world economy Indian exports have shrunk. However, earnings from overseas projects in US has been profitable owing to strong dollar vis-à-vis Indian rupee.

Infrastructure, Ports, Defence, select Energy sectors and I.T. sectors have shown good opportunities. Kernex is in the Railway Sector, which has grown over 12% in 2015-2016, Bullet trains have been proposed. Medium speed trains of 130 to 160 KM PH trains are expected to be introduced. A number of digitalization projects have been released in IT sector in Railways.

Railways:

Kernex is eagerly awaiting for release of projects of TCAS, TPWS, Electronic Interlocking Systems, Multi Section Digital Axle Counters and hot wheel and vibration detection systems, besides On board computers and electronic breaking systems. This market is expected to be around Rs.2000 to 3000 crores a year. With concerted efforts, Kernex could take up projects through joint ventures and strategic tie ups.

Defence :

The big market in Electronics is in the Battle Management Systems, Missile Systems and Display Systems, Simulators, night vision devices and all weather devices. India is planning in big way of battle front operations to logistics to be digitized. IT will be used in Navy, Air force and Army. Here again Technology partnership, strategic tie ups and dedicated executing agency contracts are the order of the day. Here again strategic tie ups hold the key.

Energy Sector :

The main sector of growth is solar energy that needs solar photo voltaic cell manufacturing from silica and

indigenous manufacture of power inverters from 100 KW to 1000 KW capacity to meet the growing number of solar power installations. There is considerable scope for work in the transmission and distribution networks.

Markets Abroad:

Railway products technologies like Collision preventing systems, Automated Level Crossing Systems, electronic Inter-locking and multi section digital axle counters offer. Number of countries are upgrading their railway infrastructure with World Bank/Asian Development Bank support. Here, the opportunities are open. Besides, there is a scope to transfer the technology to the developing countries.

Company's Operations during 2015-2016

Company has concentrated its efforts on successfully developing TCAS System for which the company has received a contract from RDSO in June'2013. The product has been successfully developed and most of the deliverables handed over to user, SC Railways. In this period, company has produced 27 TCAS units both for Locos, Stations, Inter-locked gates and also for demonstration purpose. All works connected with project are in the Railway Section of Vikarabad-Bidar, which has been completed. User trials have been in progress for over 8 months and all site modifications are completed as suggested to RDSO from time to time. At present final user trials, supply of balance deliverables including last minute changes are in progress.

Your company has appointed an International Accredited Agency Ital Certifer as a certification agency. Work on certification is in progress. We are expecting provisional certificate by December 2016 and final certification before 31st March'2017 or little later.

During the year company has also taken up work of provisioning collision prevention devices to a South African Coal Terminal, which involved providing of technology concept and feasibility and installation of final collision prevention system over 10 Locos and 5 tracks and coal unloading tipplers. It is a big challenge and successful completion, could yield big market in South Africa in material handling cum railway movement.

During this period ENR project work was slow, owing to shortage of strategic booms for LxCS. Our offer of supply of imported booms with mechanical gates with breaking assents has not been accepted and ENR wanted equipment to be sourced locally from their

country and opted for Military Production. But, equipment supplied by Military production unit was rejected. Now, Kernex has been asked to supply the system from abroad and for which order has been received.

Opportunities, Threats, Risks and concerns:**Opportunities:**

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

Indian Railways are keen to improve the safety of rail movement's and also increase the throughput and capacity. Indian Railways are planning to introduce ETCS2 and GSM-R communication networks and some high speed trains that can run upto 160 kms speed. The Safety, reliability, operability, maintainability are the main considerations. For this purpose, TCAS, TPWS, ETCS2, Electronic Interlocking system, Multi section and single Digital Axle Counters and Data Loggers, Hot Box and Vibration detecting and SIL 3 to SIL 4 sensor Activated Warning system at gates to avoid collisions and accidents are to be in place

.We visualize opportunities in the Railway sector all over the world for simple, reliable, high tech, high safety level equipment like Electronic gates in countries like Turkey, Greece, Iran, central and South Africa, Malaysia, Thailand, south East Asia, Australia and New Zealand. With the company's infrastructure and accretion of technology and talented manpower, it may be possible to diversify into Defence related R&D work, manufacture, validation and verification needed for large projects. Kernex, may also be able to undertake some outsourced jobs for manufacture of Electronic components, assembly work, import substitute items like Radio Modems, RF readers and Tags etc.,

Threats :

For every Indian technology that is developed, there is a threat of latest or advanced or superior technology from MNC's Further the frequent changes of Govt. policies and priorities in the government had adverse impacts on our finances. However, technology with continuous up gradations can help developing indigenous products suited to our markets. In the emerging situation and growing competition, Kernex need to embark on relevant, fairly long term growth oriented, predictable, sustainable, risk reducible and profitable areas of business with sharp focus on sustainability, growth and continuity.

Risks and Concerns :

Kernex faces the risk of competition, development and absorption of new technologies, price competitiveness, retention of key personnel and financial constraints etc. In order to take on the risks, Kernex need to recruit, train and retain qualified and experienced manpower, draw up a strong leadership and succession plan, necessary infrastructure and adequate financial resources. Company may have to focus on five to six related relevant products with long term prospects. It will have to constantly introduce new technologies and product based on market demand. Kernex proposes to commission a comprehensive strategic study for future growth, prospects interalia, covering new technologies scope for partnership, alliance and linkages and financial plan to improve internal resources.

Kernex faces the risk of a single and dominant customer like the Indian Railways and a product yet to be fully developed and acceptable safety device and increased potential competitive environment. The diversification into different sectors leveraging the experience and expertise will steer the Company from potential risks

Analysis of Financial Results :

The impact of discontinuation of CMC & AMC by NF Railways during 2015-2016, has been felt. It involved a loss of revenue of Rs. 15.00 crores and retrenchment of over 125 persons with terminal benefits. However, the labor payment for KRCL on this account are yet to be received.

Other major project of ENR's order of 136 Gates contract is in a slow mode due to lack of important components & booms over 400 nos with mechanical fuse break away assemblies. Lack of these components, has slowed down the project. Further, owing to shortage of the component PHO, an amount of Rs. 9.00 crores is held up with ENR. Owing to delay in finalization of design by ENR, and shortage of funds, speeding supply of 136 Gates, are held up for shortage of funds.

Kernex has referred its claims on KRCL to arbitration in October-2015. As on date, our claim is around 98.00 Cr which is being pursued.

Even though, our shareholders and board of directors have approved sale of some assets to ensure liquidity, we could sell asset like Corporate Office, but could not Yadagirigutta & Amanagallu lands. However, negotiations are in progress. This requires immediate induction of extra working capital into the system, to effectively carry on the work on ENR, TCAS & RBCT projects.

After careful review, the following remedial actions is proposed to be taken.

- a. To dispose of surplus or non performing assets to raise working capital and liquidate liabilities and avoid high interest charges.
- b. Speed up, arbitration tribunal proceedings.
- c. Collection of receivables on top priority.
- d. Pursue appropriate diversification including acquisition of small companies that have ready orders & clients
- e. Utilize H/w technology park, and make it revenue yielding asset.
- f. Scope for Joint Ventures.
- g. Vigorously follow up TCAS Project tenders and prepare plan for execution.
- h. To liaise with NF Railways and try to revive the ACD, AMC & OMC contract.

Internal Control Systems and their adequacy :

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

The internal Audit process is designed to review the adequacy of internal control checks and balances 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 & other processes in the company. Safeguarding of assets and their protection against unauthorized use are also part of these exercises.

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

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

The total number of employees as on March 2016 is 106 as against 266 in the previous year. The company has a good work environment that encourages innovation and meritocracy with a vibrant work ethic that provides its employees with an opportunity to work on new technologies, and enables it to leverage talents. As an organization which has to constantly upgrade itself, it has been building competence through training, cross training and skills up-gradation.

Cautionary Statement :

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

1. AOC-1
2. Number of Board & Committee Meetings statement.
3. AGM extract – MGT-9
4. Corporate Governance Report by Kernex
5. Auditors Certificate on Corporate Governance
6. Auditors Report
7. Secretarial Audit report

By order of the Board

For **KERNEX MICROSYSTEMS (INDIA) LIMITED**

Col.L.V.Raju (Retd.)
Managing Director
(DIN: 00052102)

Place: Hyderabad
Date: 09-08-2016

Annexure – E to the Director's Report
CORPORATE GOVERNANCE REPORT
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 Seven Non-executive Directors, of whom three are independent Directors as on March 31, 2016. 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.

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 of the Director | Category | No. of Board Meetings during the year 2015-16 | | Whether Attended AGM on 28.09.15 | No. of Directorships in other public companies | No. of committee positions held in other public companies | | | No of shares |
|-----------------------------|---------------|---|----------|----------------------------------|--|---|--------|----------|--------------|
| | | Held | Attended | | | Chairman | Member | Chairman | Member |
| Venkateswara Raju Lakamraju | MD – WTD | 7 | 7 | Yes | - | - | - | - | 225863 |
| Murali Mohan Bandaru | Executive | 7 | 7 | Yes | - | - | - | - | 150071 |
| Gopalakrishna Muddusetty | Independent | 7 | 7 | No | - | - | - | - | - |
| Jyoti Raju | Non-Executive | 7 | 1 | No | - | - | - | - | 173329 |
| Anji Raju Manthena | Non-Executive | 7 | 1 | No | - | - | - | - | 277078 |
| Venkata Ratnam Anugolu | Independent | 7 | 7 | No | - | - | - | - | - |
| Arun Kumar Sanwalka | Independent | 7 | 7 | Yes | - | - | - | - | - |
| Vinta Janardhana Reddy | Non-Executive | 7 | 2 | No | - | - | - | - | 198655 |
| Mantena Raju Narasa | Non-Executive | 10 | 2 | No | - | 3 | - | - | 854633 |

- iv) Eight (08) Board Meetings were held during the financial year ended 31st March, 2016 and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows.
- v) 18.05.2015, 24.05.2015, 29.06.2015, 25.07.2015, 10.08.2015, 14.11.2015, 19.11.2015, 14.02.2016
- vi) None of the Non-Executive Directors have any material pecuniary relationship or transaction with the Company.

3. Audit Committee :

- i. The Audit Committee of the Company during the year under review consisted of Four (4) Directors, including three (3) independent Directors and One (1) Managing Director. The Chairman of the Audit Committee was present at the Board Meeting where Annual accounts have been approved. All the members of the committee are financially literate. Accordingly the composition of the Audit committee is in conformity with 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 are disclosed.
 - B. Monitoring and reviewing risk management assessment and minimization procedures, implementing and monitoring the risk management plan and identifying, reviewing and mitigating all elements of risks which the Company may be exposed to.
 - C. In compliance with provisions of Section 177(9) of the Companies Act, 2013 and in conformity with the Listing Agreement, the Company has framed a Whistle Blower Policy / Vigil Mechanism to report concerns about the Company's working or about any violation of its policies.
 - D. Recommending the appointment and removal of the statutory auditors, fixation of audit fees and also approval for payment for any other services.
 - E. 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.
 - F. 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 Pursuant to section 134 (3) (c) of the Companies Act, 2013
 - 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 Disclosure of any related party transactions
 - f) Qualifications in the draft audit report.
 - g) Compliance with accounting standards
 - h) Management discussion and analysis of financial condition and result of operations.
 - G. Reviewing the Quarterly Financial Results before submitting the same to the Board's approval
 - H. Reviewing, with the management, the performance of external and internal auditors and adequacy of the internal control systems.
 - I. Reviewing the adequacy of internal audit function and frequency of internal audit.
 - J. 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.

- K. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- i. The Audit Committee Meetings are usually held at the registered office of the Company and are usually attended by the Managing Director, In charge CFO, Statutory Auditors and representatives of the internal auditors.
- ii. The last Annual General Meeting of the Company was held on September 28, 2015.
- iii. The composition of the Audit Committee as on March 31, 2016 and particulars of meetings attended by the members are as follows:

| Name | Category | Number of meetings during the year 2015-16 | |
|-----------------------------|---------------------------|--|----------|
| | | Held | Attended |
| Venkata Ratnam Anugolu | Independent Non-Executive | 4 | 4 |
| Gopalakrishna Muddusetty | Independent Non-Executive | 4 | 4 |
| Arun Kumar Sanwalka | Independent Non-Executive | 4 | 4 |
| Venkateswara Raju Lakamraju | Non-Independent-Executive | 4 | 4 |
| S. Srinivasa Kiran | Company Secretary | 4* | 2 |

* Joined on 14th Nov-15.

The necessary quorum was present at all meetings.

4. Nomination and Remuneration Committee:

- The Nomination and Remuneration Committee was constituted in conformity with the Listing agreement and the terms of reference are in conformity with Section 178 of the Companies Act 2013.
- The Nomination and Remuneration Committee of the Company consists of 5 directors, out of whom 3 are independent directors.
- The broad terms of reference of the remuneration Committee includes:-
 - Identifying persons to become qualified Directors and Senior Management personnel as also to determine the qualifications positive attributes and independence of Directors and frame a policy relating to the remuneration of Directors/KMP and other employees.
 - Such other matters as the Board may from time to time request the Remuneration Committee to examine and recommend/approve.

| Name | Category |
|--------------------------|-------------------------------------|
| Gopalakrishna Muddusetty | Independent Non-Executive Director |
| Arun Kumar Sanwalka | Independent Non-Executive Director |
| Venkata Ratnam Anugolu | Independent Non-Executive Director |
| Narasa N Mantena | Promoter and Non-Executive Director |
| Dr. Anji Raju Manthena | Promoter and Non-Executive Director |
| S. Srinivasa Kiran | Company Secretary |

One Meeting of Remuneration Committee were held during the year under review.

- The Company does not have any Employee Stock Option Scheme.
- 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.

3. Remuneration paid to Managing Director and Whole time Director during the financial year 2015-16 is follows.

| Name | Designation | REMUNERATION (Rs.Lacs) | | |
|-------------------------|---------------------|------------------------|------------|-------|
| | | Salary & Benefits | Commission | Total |
| Col. L. V. Raju (Retd.) | Managing Director | 37.27 | 0.00 | 37.27 |
| Mr. B. Murali Mohan | Whole time Director | 25.35 | 0.00 | 25.35 |

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 en-cashment of earned leave, as per the rules of the Company.

B. Non-Executive Directors:

The Non-Executive Directors are paid sitting fee at the rate of Rs.20,000/- for each meeting of the Board and Rs.20,000/-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 2015-16, is as follows.

| Name | Sitting fee (Amount in Rs.) |
|-------------------------------|-----------------------------|
| Sri. Gopalakrishna Muddusetty | 2,60,000/- |
| Sri. Venkata Ratnam Anugolu | 2,60,000/- |
| Sri. Arun Kumar Sanwalka | 2,60,000/- |
| Dr. Jyoti Raju | 20,000/- |
| Sri. Anji Raju Manthena | -- |
| Sri. Vinta Janardhana Reddy | 20,000/- |
| Sri. Mantena Raju Narasa | -- |

5. Stakeholders Relationship Committee:

The Company has a Stakeholders Relationship Committee constituted as per Section 178 of the Companies Act, 2013 to look into the redressal of complaints of investors such as transfer or credit of shares, non-receipt of dividend/notices/annual reports, etc.

- The Stakeholders Relationship Committee of Company consists of three directors, who are all independent Directors.
- The Composition of the shareholder/ investors Grievance Committee is given below:-

| Name | Category |
|-----------------------------------|---------------------------|
| Sri. M. Gopalakrishna, IAS (Retd) | Independent Non-Executive |
| Sri. Arun Kumar Sanwalka | Independent Non-Executive |
| Sri. Raju Narasaraju Mantena | Promoter - Non-Executive |
| Sri. S. Srinivasa Kiran | Company Secretary |

- Name, designation and address of Compliance Officer:
Col.L.V.Raju (Retd.), Managing Director
Plot No.7, Software Units Layout, Madhapur,
Hyderabad- 500081.

iv. Details of complaints received and redressed:

| Opening Balance | Received during the period 01.04.2015 to 31.03.2016 | Resolved during the period 01.04.2015 to 31.03.2016 | 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 |
|-----------|----------|-----------------------------------|---|
| 2014-2015 | 23rd AGM | Monday, September, 28, 2015 | Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003. |
| 2013-2014 | 22nd AGM | Saturday, September'27, 2014. | Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003. |
| 2012-2013 | 21st AGM | Friday, September, 27, 2013 | Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003. |

 i. **Postal Ballot :**

One resolution was put through postal ballot last year no resolution is proposed to be conducted through postal ballot in the ensuing Annual General meeting.

 ii. **Special Resolutions:**

Special resolutions for creation of charge and borrowing powers U/S 180 of the companies Act, 2013 were passed by the Company in the AGM held on 28th September'2015. One resolution is proposed for the ensuing AGM.

 iv. **Extraordinary General Meeting:**

One Extraordinary General Meeting of the Members was held on 24th May 2015.

7. Disclosures

- There are no materially significant related party transactions of the Company which have potential conflict with the interests of the Company at large.
- No penalties or strictures were imposed by the Stock Exchanges or the Securities and Exchange Board of India or any statutory authority, on any matter related to capital markets, during the last three years. The Senior Management of the Company has confirmed that they do not have any personal interest relating to material, financial and commercial transactions with the Company that may have a potential conflict with the interests of the Company at large.
- The Company is in compliance with all the mandatory requirements and has fulfilled the non-mandatory requirements in conformity with the Listing Agreement with Stock Exchanges to the extent of setting up a remuneration committee. Please see the para on Remuneration Committee for details.
- The company has a Vigil Mechanism/Whistle Blower policy and Code of prevention of insider trading practices in place in accordance with SECI (Prohibition of Insider Trading) Regulations'2015.
- The Company has complied with all the mandatory requirements.

- vi. Code of conduct: The code of conduct as adopted by the Board of Directors is applicable to all directors, senior management and employees above officers' level. The prime purpose of the code is to create an environment wherein all the Board Members and Senior Management of the Company maintain ethical standards and to ensure compliance to the laid down ethical standards. The code is available on the Company's website: www.kernex.in

Declaration as required under as per 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, 2016

August 09, 2016
Hyderabad,

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

- i. 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.
- ii. A practicing Company Secretary carried out a secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository services (India) Limited (CDSL) and the total issued and listed capital. The audit confirms that the total issued /paid-up capital of the Company is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

8. Means of Communication:

The quarterly, half-yearly and annual results of the Company are published in leading newspapers in India which include, the Financial Express and Nava Telangana. The results are also displayed on the Company's website www.kernex.in. Official press releases made by the Company from time to time are also displayed on the website. The Management's Discussion and Analysis is a part of the Company's annual report.

9. General Shareholder's information:

i) Annual General Meeting

Date : 18th October 2016
Time : 3:00 P.M
Venue : Hotel Minerva Grand,
Sarojini Devi Road,
Secunderabad – 500 003

ii) Financial Calendar

Year ending : March 31, 2016
AGM : 18th October 2016

iii) Date of Book Closure

: 17th & 18th October, 2016

iv) Listing on Stock Exchange

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

Stock Code / Symbol
(Physical & Demat) :

: B S E Limited - 532686
N S E Ltd – Kernex India Limited :

International Securities Identification Number (ISIN) : INE202H01019.

10. 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 Bombay 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-15 | 41.70 | 33.40 | 49,17,691 | 42.00 | 32.35 | 2,27,250 |
| May-15 | 45.95 | 39.50 | 36,02,473 | 46.40 | 35.10 | 2,22,659 |
| June-15 | 44.35 | 39.50 | 48,10,745 | 45.60 | 38.70 | 2,51,983 |
| July-15 | 48.30 | 40.15 | 1,21,985 | 48.20 | 40.30 | 2,19,838 |
| Aug-15 | 46.50 | 36.95 | 89,025 | 47.00 | 37.00 | 1,92,520 |
| Sep-15 | 42.70 | 36.80 | 72,715 | 42.30 | 37.00 | 1,19,586 |
| Oct-15 | 43.25 | 39.20 | 90,513 | 43.00 | 38.15 | 1,51,779 |
| Nov-15 | 54.45 | 39.00 | 1,50,562 | 54.70 | 39.20 | 3,69,571 |
| Dec-15 | 59.80 | 46.00 | 2,22,276 | 59.70 | 45.15 | 5,17,090 |
| Jan-16 | 53.45 | 39.20 | 1,61,215 | 53.90 | 37.40 | 3,27,506 |
| Feb-16 | 46.50 | 32.50 | 2,25,096 | 45.65 | 32.60 | 3,59,025 |
| March-16 | 34.00 | 29.80 | 1,53,064 | 34.25 | 29.75 | 2,33,298 |

Registrar and Transfer Agents

Karvy Computershare Private Limited.,
 Karvy Selenium Tower No.B, Plot No.31-32,
 Gachibowli, Financial District, Nanakramguda
 Hyderabad : 500 032 | India
 P : +91 040 67161591 |
 E-mail: ksreddy@karvy.com
 Contact Person: Mr. K S Reddy
 (Asst. General Manager)

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.

Distribution of Shareholding (as on March 31, 2016):

| Category No. of Shares | Holding in Rs. | % to Capital | No. of Accounts | % of Total Accounts |
|------------------------|----------------|--------------|-----------------|---------------------|
| 1 - 5000 | 21065 | 99.16 | 4710553 | 37.69 |
| 5001 - 10000 | 91 | 0.43 | 633393 | 5.07 |
| 10001 - 20000 | 35 | 0.16 | 512671 | 4.1 |
| 20001 - 30000 | 14 | 0.07 | 349742 | 2.8 |
| 30001 - 40000 | 7 | 0.03 | 261890 | 2.1 |
| 40001 - 50000 | 1 | 0 | 42900 | 0.34 |
| 50001 - 100000 | 7 | 0.03 | 443440 | 3.55 |
| 100001 & Above | 23 | 0.11 | 5545066 | 44.36 |
| TOTAL: | 21243 | 100 | 12499655 | 100 |

Shareholding pattern as on March 31, 2016

| Sl. No. | Category | No of share holders | No of Shares | Percentage of Holding |
|---------|--|---------------------|-----------------|-----------------------|
| 1 | FOREIGN PROMOTER AND DIRECTOR | 6 | 1042055 | 8.34 |
| 2 | FOREIGN PROMOTER AND DIRECTOR RELATIVE | 1 | 316671 | 2.53 |
| 3 | FOREIGN PROMOTERS | 12 | 2794756 | 22.36 |
| 4 | PERSON ACTING CONCERT FOREIGN | 3 | 118596 | 0.95 |
| 5 | PAC AND DIRECTOR RELATIVE-FOREIGN | 3 | 348497 | 2.79 |
| 6 | PAC AND DIRECTOR RELATIVE-INDIAN | 3 | 116385 | 0.93 |
| 7 | PROMOTERS & DIRECTORS | 2 | 225863 | 1.81 |
| 8 | CLEARING MEMBERS | 21 | 7364 | 0.06 |
| 9 | H U F | 653 | 195086 | 1.56 |
| 10 | BODIES CORPORATES | 328 | 737613 | 5.90 |
| 11 | NBFC | 3 | 5627 | 0.05 |
| 12 | NON RESIDENT INDIANS | 196 | 844287 | 6.75 |
| 13 | RESIDENT INDIVIDUALS | 20009 | 5722324 | 45.78 |
| 14 | TRUSTS | 3 | 24531 | 0.20 |
| | TOTAL: | 21243 | 12499655 | 100.00 |

Dematerialization of shares and liquidity :

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 95.31% of the company's share capital are dematerialized as on March 31, 2016.

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

As on March 31, 2016 the company did not have any outstanding GDRs / ADRs / Warrants or any convertible instruments.

Manufacture facility Locations Kernex Microsystems (India) Ltd, HARDWARE TECHNOLOGY PART"
Kanch Imarat, Srisailam Highway, (Tukkuguda),
Ranga Reddy District, Telangana State.

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

AUDITORS' CERTIFICATE REGARDING CORPORATE GOVERNANCE

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

We have examined the compliance of conditions of Corporate Governance by Kernex Microsystems (India) Limited for the year ended on 31st March, 2016, 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
Firm Regn No.006945S

Place: Hyderabad
Date: 28th May, 2016

G. Satyanarayana Murty
Partner
Membership No: 29919

INDEPENDENT AUDITOR'S REPORT

To
The Members of
Kernex Microsystems (India) Limited

1. Report on the Financial Statements

We have audited the accompanying financial statements of KERNEX MICROSYSTEMS (INDIA) LIMITED, ("The Company"), which comprise the Balance Sheet as at March 31, 2016, the Statement of Profit and Loss and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

2. Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

3. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the

Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

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

4. Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 2016 and its loss and its cash flows for the year ended on that date.

5. Other Matters

We did not audit the financial statements/information of Egypt Branch included in the standalone financial statements of the Company whose financial statements/information reflect

total assets of Rs.12,65,92,013 as at 31st March, 2016 and total revenues of Rs.3,23,67,138 for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of this foreign branch have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of this branch, is based solely on the report of such branch auditors and the returns submitted at the branch.

The outstanding debtors amount of Rs.24.06 crores from Konkan Railway Corporation Limited is subject to confirmation and reconciliation.

Our opinion is not modified in respect of this matter.

6. Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure A, a statement on the matters specified in the paragraph 3 and 4 of the order.
2. As required by section 143(3) of the Act, we report that:
 - (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - (c) The Balance Sheet, the Statement of Profit and Loss and the cash flow statement dealt with by this Report are in agreement with the books of account.
 - (d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
 - (e) On the basis of written representations received from the directors as on 31st March, 2016 and taken on record by the

Board of Directors, none of the directors is disqualified as on 31st March, 2016 from being appointed to act as a director in terms of Section 164(2) of the Act;

- (f) With respect to the adequacy of the internal financial controls over financial reporting of the company and the operating effectiveness of such controls, refer to our separate report in the "Annexure B" and
- (g) With respect to other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. the company has disclosed the impact of pending litigations on its financial position in its financial statements- Refer Note No. 27 to the financial statements;
 - ii. the company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any on long-term contracts including derivative contracts- Refer Note 27 to the financial statements;
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

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

G. Satyanarayana Murty
 Partner
 Membership No: 29919

Place: Hyderabad
 Date: 28th May, 2016

ANNEXURE-A TO THE INDEPENDENT AUDITOR'S REPORT

1. a) The Company has maintained requisite records showing required particulars including quantitative details and situation of its fixed assets.
- b) According to the information and explanation given to us by the management, most of the fixed assets of the company have been physically verified by the management during the year and the intervals of such verification had also been reasonable.
- c) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties are held in the name of the company.
2. As explained to us by the management and as observed by us, the inventory of raw material, finished goods stores and spares etc. has been physically verified during the year and specifically at the year-end by the management and no material discrepancies were observed in the inventories.
3. Based on our scrutiny and as per information and explanations provided to us by the management, the company has not granted any loans during the period under review covered in the registers maintained under section 189 of the Companies Act, 2013. Since there are no loans granted sub-clauses b, c and d are not applicable.
4. Based on our scrutiny and as per the information provided by the management, the company does not have any transactions in respect of loans, investments, guarantees and securities granted, to be complied with the provisions of Sections 185 and 186 of the Companies Act, 2013.

5. Based on our scrutiny and as per the information provided by the management, the company has not accepted any deposits during the year under review attracting the sections 73 to 76 of the Companies Act, 2013 and rules made there under.
6. According to the information and explanations given, the maintenance of cost records as specified under sub-section (1) of section 148 of the Companies Act, 2013 are not applicable for the year under review.
7. a) According to the books and records as produced and examined by us in accordance with Generally Accepted Auditing Practices in India and also based on management representations, undisputed statutory dues in respect of provident fund, employee state insurance, income tax, service tax, sales tax, value added tax, excise duty, cess and other material statutory dues have not been regularly deposited by the company during the year with the appropriate authorities and the outstanding statutory dues as at the end of the financial year outstanding for more than 6 months are as follows :

| Nature of Statutory Dues | Amount (Rs. in Lakhs) |
|---------------------------|--------------------------|
| Provident Fund | 42.25 |
| Employees State Insurance | 3.22 |
| Tax Deducted at Source | 24.18 |
| Service Tax | 190.78 |
| Professional Tax | 0.49 |
| Works Contract Tax | 9.69 |
| TOTAL | 270.61 |

- b) According to information and explanations given to us, disputed amounts payable in respect of Income Tax and Sales Tax were outstanding as on 31st March, 2016 are as follows:

| Name of the Statute | Amount (Rs. In lakhs) | Period to which the amount relates | Forum where dispute is pending |
|----------------------|--------------------------|---------------------------------------|---|
| Income Tax Act, 1961 | 8.00 | F.Y. 1997-98 | A.Y. 1998-99 High Court of Judicature at Hyderabad for the state of Telangana and State of Andhra Pradesh |
| APGST Act, 1957 | 4.13 | F.Y. 2002-03 | Sales Tax Appellate Tribunal |

8. As observed by us and as per the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to its financial institution or bank during the year under audit.
9. As observed by us, the company has not availed any Term Loans from Banks during the year. The company has not raised any monies by way of IPO or FPO during the year under review.
10. Based upon the audit procedures performed and information and explanations given by the management, we report that no material fraud on or by the company by its officers or employees has been noticed or reported during the course of our audit.
11. According to the information and explanations given to us and based on our examination of the records of the company, the managerial remuneration paid/provided during the year by the company is as per the provisions of section 197 read with Schedule V of the Companies Act, 2013.
12. In our opinion and according to the information and explanations given to us, the company is not a nidhi company. Accordingly, paragraph 3(xii) of the Order is not applicable.
13. According to the information and explanations given to us and based on our examination of the records of the company, transactions with related parties are in compliance with section 177 and 188 of the Act wherever applicable and details of such transactions have been disclosed in the financial statements as required by the applicable accounting standards.
14. According to the information and explanations given to us and based on our examination of the records of the company, the company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
15. As observed by us and as per the information and explanations given by the management, the company has not entered into any non-cash transactions with the directors or persons connected with him, during the period under review.
16. The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

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

G. Satyanarayana Murty
Partner
Membership No: 29919

Place: Hyderabad
Date: 28th May, 2016

BALANCE SHEET AS AT 31st March, 2016

(Amount in Rupees)

| Sl. No. | PARTICULARS | Note No. | As at 31st March, 2016 | As at 31st March, 2015 |
|-----------|---|----------|-----------------------------|-----------------------------|
| I | EQUITY AND LIABILITIES | | | |
| 1 | SHAREHOLDERS' FUND | | | |
| a | Share Capital | 2 | 124,996,550 | 124,996,550 |
| b | Reserves and Surplus | 3 | 919,499,135 | 1,059,838,776 |
| | | | <u>1,044,495,685</u> | <u>1,184,835,326</u> |
| 2 | SHARE APPLICATION MONEY PENDING ALLOTMENT | | - | - |
| 3 | NON-CURRENT LIABILITIES | | | |
| a | Long Term Borrowings | 4 | 359,717 | - |
| b | Deferred Tax Liability(Net) | | - | - |
| c | Other Long Term Liabilities | 5 | 39,999,999 | - |
| d | Long Term Provisions | | - | - |
| | | | <u>40,359,716</u> | <u>-</u> |
| 4 | CURRENT LIABILITIES | | | |
| a | Short Term Borrowings | 6 | 268,764,260 | 217,991,098 |
| b | Trade Payables | 7 | 134,065,939 | 133,005,525 |
| c | Other Current Liabilities | 8 | 68,048,595 | 68,449,641 |
| d | Short Term Provisions | 9 | 2,027,757 | 2,027,757 |
| | | | <u>472,906,551</u> | <u>421,474,021</u> |
| | TOTAL | | <u>1,557,761,953</u> | <u>1,606,309,347</u> |
| II | ASSETS | | | |
| 1 | NON - CURRENT ASSETS | | | |
| a | Fixed Assets | | | |
| | Tangible Assets | 10 | 496,626,038 | 527,531,740 |
| | Intangible Assets | | 200,079 | 239,895 |
| | Capital Work in Progress | | 97,440,499 | 97,440,499 |
| b | Non-Current Investments | 11 | 11,830,950 | 11,830,950 |
| c | Deferred tax asset(net) | 26 | 6,765,863 | 3,504,902 |
| d | Long term loans and advances | 12 | 71,941,972 | 71,044,452 |
| e | Other Non-Current Asset | | - | - |
| | | | <u>684,805,401</u> | <u>711,592,438</u> |
| 2 | CURRENT ASSETS | | | |
| a | Inventories | 13 | 248,070,496 | 260,716,817 |
| b | Trade Receivables | 14 | 518,886,483 | 524,302,508 |
| c | Cash and Bank Balances | 15 | 52,392,530 | 55,972,075 |
| d | Short term loans and advances | 16 | 47,018,294 | 48,119,443 |
| e | Other current assets | 17 | 6,588,749 | 5,606,066 |
| | | | <u>872,956,552</u> | <u>894,716,909</u> |
| | TOTAL | | <u>1,557,761,953</u> | <u>1,606,309,347</u> |
| | Significant Accounting Policies | 1 | | |

See Accompanying notes forming part of the financial statements

In Terms of our report attached

 For **GMK ASSOCIATES**

Chartered Accountants

Firm Regn No. 006945S

(G. SATYANARAYANA MURTY)

Partner

Membership No. 29919

Place : Hyderabad

Date : 28-May-2016

For And Behalf Of The Board Of Directors

B MURALI MOHAN
 TECHNICAL DIRECTOR

S SRINIVAS KIRAN
 COMPANY SECRETARY

COL. L. V. RAJU (RETD.)
 MANAGING DIRECTOR

G A V N MURTHY
 IN-CHARGE C F O

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st March, 2016
(Amount in Rupees)

| Sl. No. | PARTICULARS | Note No. | Year Ended 31st March, 2016 | Year Ended 31st March, 2015 |
|---------|---|----------|-----------------------------|-----------------------------|
| 1 | REVENUE FROM OPERATIONS | 18 | 121,419,658 | 214,058,633 |
| | Less: Excise Duty | | - | - |
| | Net Revenue | | 121,419,658 | 214,058,633 |
| 2 | OTHER INCOME | 19 | 20,821,945 | 15,952,828 |
| | Total Revenue (1+2) | | 142,241,603 | 230,011,461 |
| 3 | EXPENSES | | | |
| | Cost of Materials Consumed | 20.1 | 49,415,291 | 46,389,838 |
| | Purchase of Stock in Trade | | - | - |
| | Changes in Inventories of Finished goods, Stock-in-Process and stock in trade | 20.2 | 1,487,920 | (31,492,928) |
| | Employee Benefit Expenses | 21 | 72,721,659 | 92,967,636 |
| | Finance Costs | 22 | 40,142,632 | 33,966,726 |
| | Depreciation and Amortisation Expenses | 10 | 32,100,797 | 41,656,546 |
| | Other Expenses | 23 | 82,528,369 | 143,344,444 |
| | Total Expenses | | 278,396,668 | 326,832,262 |
| 4 | PROFIT/(LOSS) BEFORE TAX | | (136,155,065) | (96,820,801) |
| 5 | TAX EXPENSE | | | |
| a | Current Tax | | - | - |
| b | Deferred tax | 26 | (3,260,961) | (2,891,115) |
| c | MAT Credit | | - | - |
| d | Current tax expense relating to prior years | | - | - |
| 6 | PROFIT/(LOSS) FOR THE PERIOD | | (132,894,104) | (93,929,686) |
| 7 | Earnings per equity share : | | | |
| | (Equity shares of par value of Rs. 10/- each) | | | |
| a | Basic | 25 | (10.63) | (7.51) |
| b | Diluted | 25 | (10.63) | (7.51) |
| | Significant Accounting Policies | 1 | | |

See Accompanying notes forming part of the financial statements

In Terms of our report attached

 For **GMK ASSOCIATES**

Chartered Accountants

Firm Regn No. 006945S

For And Behalf Of The Board Of Directors

(G. SATYANARAYANA MURTY)

Partner

Membership No. 29919

Place : Hyderabad

Date : 28-May-2016

B MURALI MOHAN

TECHNICAL DIRECTOR

S SRINIVAS KIRAN

COMPANY SECRETARY

COL. L. V. RAJU (RETD.)

MANAGING DIRECTOR

G A V N MURTHY

IN-CHARGE C F O

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2016
(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|-----------------------------------|-----------------------------------|
| A. Cash Flow from Operating Activities | | |
| Net Profit/(Loss) before Extra-ordinary Items & Tax | (136,155,065) | (96,820,801) |
| Adjustments for: | | |
| Depreciation and Amortisation | 32,100,797 | 41,656,546 |
| (Profit) / Loss on Sale / Write off of Assets | - | - |
| Finance Costs | 40,142,632 | 33,966,726 |
| Interest Income | (4,819,145) | (6,226,352) |
| | 67,424,284 | 69,396,920 |
| Operating Profit/(Loss) before Working Capital changes | <u>(68,730,781)</u> | <u>(27,423,881)</u> |
| Changes in Working Capital: | | |
| Adjustments for (increase) / decrease in operating assets: | | |
| Inventories | 12,646,321 | (45,953,207) |
| Trade Receivables | 5,416,025 | 26,415,884 |
| Short Term Loans and Advances | 1,101,149 | 19,929,225 |
| Long Term Loans and Advances | (897,520) | 30,897,000 |
| Other Current Assets | (982,683) | 6,923,053 |
| Foreign Currency Reserve | (7,445,535) | (4,545,307) |
| Adjustments for increase / (decrease) in operating liabilities: | | |
| Trade Payables | 1,060,414 | 9,612,281 |
| Other Current Liabilities | (623,246) | (9,497,408) |
| Short Term Provisions | - | - |
| Long Term Provisions | - | - |
| | <u>10,274,926</u> | <u>33,781,521</u> |
| Cash Generated from Operations | (58,455,855) | 6,357,640 |
| Net Cash Flow from / (used in) operating activities (A) | <u>(58,455,855)</u> | <u>6,357,640</u> |
| B Cash Flow from Investing Activities | | |
| Capital expenditure on fixed assets including capital advances | (1,155,282) | - |
| Proceeds from sale of fixed assets | - | - |
| Inter-corporate deposits | - | - |
| (Purchase)/Sale of Investments | - | - |
| Bank balances not considered cash or cash equivalents | | |
| - Placed | - | - |
| Interest Received | 4,819,145 | 3,663,863 |
| Net Income Tax (paid) / refunds | - | 6,226,352 |
| | | (163,296) |
| Net Cash Flow from / (used in) Investing activities (B) | <u>3,663,863</u> | <u>6,063,056</u> |

CASH FLOW STATEMENT (Contd.)

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|---------------------------|--------------------------------------|
| C Cash Flow from Financing Activities | | |
| Proceeds from issue of equity shares | - | - |
| Proceeds from long term borrowings | 581,917 | - |
| Proceeds towards sale of fixed assets | 39,999,999 | - |
| Repayment of long term borrowings | - | - |
| Net increase / (decrease) in working capital borrowings | 50,773,162 | 10,112,540 |
| Finance Costs | (40,142,632) | 51,212,446 (33,966,726) (23,854,186) |
| Net Cash Flow from / (used in) Financing activities (C) | <u>51,212,446</u> | <u>(23,854,186)</u> |
| Net Increase / decrease in Cash or Cash Equivalents (A+B+C) | (3,579,546) | (11,433,490) |
| Cash and cash equivalents in the beginning of the year | 55,972,076 | 67,405,565 |
| Effect of exchange difference on restatement of foreign currency | - | - |
| Cash and cash equivalents in the end of the year | <u>52,392,530</u> | <u>55,972,075</u> |
| Reconciliation of cash and cash equivalents with Balance Sheet | | |
| Cash and cash equivalents at the end of the year* | <u>52,392,530</u> | <u>55,972,076</u> |
| * comprises: | | |
| (a) Cash | 489,343 | 220,621 |
| (b) Balances with Bank | - | - |
| - In current accounts | 6,855,303 | 367,601 |
| - In EEFC accounts | - | 102,892 |
| - In Deposit accounts | 16,796,294 | 30,790,471 |
| - In earmarked accounts | 28,251,590 | 24,490,492 |
| | <u>52,392,530</u> | <u>55,972,076</u> |

In Terms of our report attached

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

For And Behalf Of The Board Of Directors

(G. SATYANARAYANA MURTY)
 Partner
 Membership No. 29919

B MURALI MOHAN
 TECHNICAL DIRECTOR

COL. L. V. RAJU (RETD.)
 MANAGING DIRECTOR

 Place : Hyderabad
 Date : 28-May-2016

S SRINIVAS KIRAN
 COMPANY SECRETARY

G A V N MURTHY
 IN-CHARGE C F O

KERNEX MICROSYSTEMS (INDIA) LIMITED**Notes forming part of the financial statements****NOTE****CORPORATE INFORMATION**

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

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

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounts) Rules, 2014 (as amended) and the relevant provisions of the Companies Act, 2013. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

1.2 Use of estimates

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

1.3 Inventories

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

1.4 Cash and cash equivalents

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

1.5 Cash flow statement

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

1.6 Depreciation

Depreciation has been provided on the fixed assets on WDV method as per the rates prescribed in Schedule II to the Companies Act, 2013.

1.7 Revenue recognition**Revenue from contracts**

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

Revenue from services

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

Sale of goods

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

1.8 Other income

Interest income is accounted on accrual basis.

1.9 Tangible fixed assets

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

Capital work-in-progress:

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

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

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

Measurement of foreign currency monetary items at the Balance Sheet date

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

Treatment of exchange differences

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

1.11 Investments

Long Term investments in (Subsidiary (100% Wholly owned subsidiary) are carried at cost

1.12 Employee benefits**Defined contribution plans**

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

Defined benefit plans

Gratuity: Gratuity benefit is applicable to all the permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement.

The scheme takes into account each completed year of service or part thereof in excess of 6 months. Annual Contribution to the employee's Gratuity fund, Established with LIC of India (LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

Short-term employee benefits

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

1.13 Segment reporting

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

1.14 Earnings per share

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

1.15 Taxes on income

"Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961. Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company. Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability."

1.16 Provisions and contingencies

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE No.: 2 - SHARE CAPITAL

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 Number | As at 31st March, 2015 Number |
|--|----------------------------------|----------------------------------|
| AUTHORISED | | |
| Equity Shares of Rs.10/- each with voting rights | 15,000,000 150,000,000 | 15,000,000 150,000,000 |
| ISSUED, SUBSCRIBED AND PAID UP | | |
| Equity Shares of Rs.10/- each with voting rights | 12,499,655 124,996,550 | 12,499,655 124,996,550 |
| Company has only one class of shares i.e., Equity Shares with Voting Rights | | |
| Total | 12,499,655 124,996,550 | 12,499,655 124,996,550 |

NOTE NO.:2.1
RECONCILIATION OF NUMBER OF SHARES OUTSTANDING AT THE BEGINNING AND AT THE END OF THE REPROTING PERIOD

| PARTICULARS | Opening Balance | Fresh Issue | Closing Balance |
|---|--------------------|----------------|--------------------|
| Equity Shares with Voting Rights Year Ended 31st March, 2016 | | | |
| - Number of Shares | 12,499,655 | - | 12,499,655 |
| - Amount() | 124,996,550 | - | 124,996,550 |
| Year Ended 31 March, 2015 | | | |
| - Number of Shares | 12,499,655 | - | 12,499,655 |
| - Amount() | 124,996,550 | - | 124,996,550 |

NOTE NO.:2.2
Details of Shares held by shareholders holding more than 5% of the aggregate shares of the company:

| PARTICULARS | As at 31st March, 2016 Number % of holding | As at 31st March, 2015 Number % of holding |
|----------------------------------|---|---|
| Equity Shares with Voting Rights | | |
| Dr Raju Narsa Manthena | 854,633 6.84% | 854,633 6.84% |
| Seetharamaraju Manthena | 712,992 5.70% | 712,992 5.70% |
| Sreelakshmi Manthena | 640,398 5.12% | 640,398 5.12% |

NOTE No.: 3 - RESERVES AND SURPLUS

| PARTICULARS | (Amount in Rupees) | |
|---|------------------------|------------------------|
| | As at 31st March, 2016 | As at 31st March, 2015 |
| GENERAL RESERVE | | |
| Opening Balance | 61,213,631 | 61,213,631 |
| (+) Addition during the year | - | - |
| Closing Balance | 61,213,631 | 61,213,631 |
| SECURITIES PREMIUM ACCOUNT | | |
| Opening Balance | 917,219,545 | 917,219,545 |
| (+) Premium on shares issued during the year | | |
| (-) Utilised during the year | | |
| Issuing bonus shares | | |
| Writing off preliminary expenses | | |
| Writing off shares / debentures issue expenses | | |
| Premium on redemption of redeemable preference shares / debentures | | |
| Buy back of shares | | |
| Closing Balance | 917,219,545 | 917,219,545 |
| FOREIGN CURRENCY TRANSLATION RESERVE | | |
| Opening Balance | 1,504,977 | 6,050,284 |
| (+) / (-): Effect of foreign exchange rate variations during the year | (7,445,535) | (4,545,307) |
| (+) / (-): Transferred to Statement of Profit and Loss on disposal of the net investment in non-integral foreign operations | | |
| Closing Balance | (5,940,558) | 1,504,977 |
| SURPLUS/(Deficit) in statement of Profit and Loss | | |
| Opening Balance | 79,900,621 | 180,630,338 |
| (+) Net Profit/(Loss) for the current year | (132,894,104) | (93,929,686) |
| Amounts transferred from: | | |
| General Reserve | | |
| Adjustment for transitional provision of depreciation as per Companies Act, 2013 | - | (6,800,031) |
| Closing Balance | (52,993,483) | 79,900,621 |
| Total | 919,499,135 | 1,059,838,776 |

NOTE No.: 4 - LONG TERM BORROWINGS

| PARTICULARS | (Amount in Rupees) | |
|--------------|------------------------|------------------------|
| | As at 31st March, 2016 | As at 31st March, 2015 |
| Secured | 359,717 | - |
| Unsecured | - | - |
| Total | 359,717 | - |

* The Loan is secured by hypothecation of vehicle

NOTE No.: 5 - OTHER LONG TERM LIABILITIES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---------------------------------------|------------------------|------------------------|
| Advance received against sale of land | 39,999,999 | - |
| Total | 39,999,999 | - |

NOTE No.: 6 - SHORT TERM BORROWINGS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Loans repayable on demand (Working Capital) | | |
| Secured | | |
| Cash Credit from State Bank of Hyderabad | 141,733,714 | 149,557,590 |
| (b) Other Loans and Advances | | |
| Unsecured Loans from Directors | 58,614,207 | 55,492,207 |
| Inter Corporate Deposits | 68,416,339 | 12,941,301 |
| Total | 268,764,260 | 217,991,098 |

NOTE NO.: 6.1
DETAILS OF SECURITY FOR SHORT TERM BORROWINGS

| PARTICULARS | NATURE OF SECURITY | As at 31st March, 2016 | As at 31st March, 2015 |
|--|---|---------------------------|---------------------------|
| Cash Credit from State Bank of Hyderabad | Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park and lands situated at Basanthpur (Nalgonda Dist and Amangal (Mahaboobnagar Dist) | 141,733,714 | 149,557,590 |
| Total | | 141,733,714 | 149,557,590 |

NOTE NO.: 6.2
DETAILS OF SHORT TERM BORROWINGS GUARANTED BY SOME OF THE DIRECTORS OR OTHERS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Loans repayable on demand from banks - Personal guarantee of Managing Director | 141,733,714 | 149,557,590 |
| Inter Corporate Deposits are secured by pledge of Directors shares in the Company | 68,416,339 | 12,941,301 |
| Total | 210,150,053 | 162,498,891 |

NOTE No.: 7 - TRADE PAYABLES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|------------------------|------------------------|------------------------|
| Trade Payables | | |
| Acceptances | | |
| Other than acceptances | 134,065,939 | 133,005,525 |
| Total | 134,065,939 | 133,005,525 |

NOTE No.: 8 - OTHER CURRENT LIABILITIES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Current maturities of finance lease obligations | 222,200 | - |
| (b) Interest accrued and due on borrowings | - | - |
| (c) Unpaid Dividends | 308,694 | 389,652 |
| (d) Application money received for allotment of securities and due for refund | 26,300 | 26,300 |
| (e) Statutory remittances: | | |
| Contribution to ESI | 434,008 | 287,677 |
| Contribution to PF | 6,157,581 | 5,236,807 |
| Professional Tax Payable | 148,164 | 103,114 |
| Excise Duty Payable | - | 531,388 |
| CST Payable | 2,207,480 | - |
| Service tax Payable | 19,938,622 | 18,725,655 |
| TDS Payable | 5,154,558 | 5,954,601 |
| Works Contract Tax | 968,886 | 968,886 |
| (f) Payables on purchase of fixed assets | 1,541,132 | 1,541,132 |
| (g) Interest accrued on others | 486,476 | 486,476 |
| (h) Advances from customers | 30,454,494 | 34,197,953 |
| Total | 68,048,595 | 68,449,641 |

NOTE No.: 9 - SHORT TERM PROVISIONS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------------|------------------------|------------------------|
| (a) Provision - Others: | | |
| Proposed Dividends | - | - |
| Provision for Tax on dividends | 2,027,757 | 2,027,757 |
| Provision for Income Tax | - | - |
| Total | 2,027,757 | 2,027,757 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE No.: 10 - FIXED ASSETS

| (Amount in Rupees) | | | | | | | | | | |
|--------------------------------|---------------------|---------------------------------|---|---------------------|--------------------|-------------------|---|--------------------|---------------------|---------------------|
| Particulars | Gross Block | | | Depreciation | | | | Net Block | | |
| | As at 01.04.2015 | Additions during the year | Deletions/ Adjustments during the year | As at 31.03.2016 | Upto 01.04.2015 | For the year | Deletions/ Transitional provision adjustment | Upto 31.03.2016 | AS AT 31.03.2016 | AS AT 31.03.2015 |
| TANGIBLE ASSETS | | | | | | | | | | |
| Land and Land Development | 254,701,388 | 327,469 | | 255,028,857 | - | - | - | - | 255,028,857 | 254,701,388 |
| Building - Own Use | 343,486,963 | - | - | 343,486,963 | 98,809,708 | 23,228,755 | | 122,038,463 | 221,448,500 | 244,677,255 |
| Plant and Equipment - Owned | 138,162,267 | - | - | 138,162,267 | 113,902,994 | 7,557,963 | | 121,460,957 | 16,701,310 | 24,259,273 |
| Furniture and Fixtures - Owned | 12,025,718 | - | - | 12,025,718 | 9,026,006 | 749,972 | | 9,775,978 | 2,249,740 | 2,999,712 |
| Vehicles - Owned | 7,846,548 | 827,813 | - | 8,674,361 | 7,315,943 | 322,574 | | 7,638,517 | 1,035,844 | 530,605 |
| Office Equipment - Owned | 9,531,002 | - | - | 9,531,002 | 9,167,495 | 201,720 | | 9,369,215 | 161,787 | 363,507 |
| Total | 765,753,886 | 1,155,282 | - | 766,909,168 | 238,222,146 | 32,060,984 | - | 270,283,130 | 496,626,038 | 527,531,740 |
| Previous Year | 765,753,886 | | - | 765,753,886 | 191,038,012 | 40,384,103 | 6,800,031 | 238,222,146 | 527,531,740 | 574,715,874 |
| Capital Work in Progress | 97,440,499 | - | - | 97,440,499 | - | - | - | - | 97,440,499 | 97,440,499 |
| | | | | | | | | | | |
| Particulars | Gross Block | | | Depreciation | | | | Net Block | | |
| | As at 01.04.2015 | Additions during the year | Deletions/ Adjustments during the year | As at 31.03.2016 | Upto 01.04.2015 | For the year | Deletions/ Transitional provision adjustment | Upto 31.03.2016 | AS AT 31.03.2016 | AS AT 31.03.2015 |
| INTANGIBLE ASSETS | | | | | | | | | | |
| Computer Software | 3,753,742 | | | 3,753,742 | 3,513,850 | 39,813 | | 3,553,663 | 200,079 | 239,895 |
| Previous Year | 3,753,742 | - | - | 3,753,742 | 2,241,406 | 1,272,443 | - | 3,513,849 | 239,895 | 1,512,336 |

NOTE No.: 11 - NON CURRENT INVESTMENTS

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | | As at 31st March, 2015 | |
|---|------------------------|-------------------|------------------------|-------------------|
| | Unquoted | Total | Unquoted | Total |
| (OTHER INVESTMENTS) (AT COST) | | | | |
| (a) Investment in Equity Shares of Subsidiaries | | | | |
| Avant-Garde Infosystems Inc USA (100% Subsidiary) | 11,830,950 | 11,830,950 | 11,830,950 | 11,830,950 |
| 35,80,000 Equity shares of US \$ 0.02 each | | | | |
| 17,99,240 Equity shares of US \$ 0.10 each | | | | |
| (Common Shares at no Par Value) | | | | |
| Total | | 11,830,950 | | 11,830,950 |

NOTE No.: 12 - LONG TERM LOANS AND ADVANCES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Capital Advances | 48,552,390 | 48,552,390 |
| Unsecured, Considered good | | |
| (b) Security Deposits | 3,037,991 | 3,293,437 |
| Unsecured, Considered good | | |
| (c) Loans and advances to related parties | - | - |
| Unsecured, Considered good - Avant-Garde Info Systems | | |
| (d) Advance Income Tax (Net) | 8,591,489 | 5,281,119 |
| Unsecured, Considered good | | |
| (e) MAT Credit entitlement | 11,760,102 | 13,917,506 |
| Unsecured, Considered good | | |
| Total | 71,941,972 | 71,044,452 |

NOTE No.: 12 - LONG TERM LOANS AND ADVANCES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (At Lower of Cost and net realisable value) | | |
| Raw Material | 116,874,538 | 128,032,939 |
| Work in Process (refer note 13.1 below) | 131,195,958 | 132,683,878 |
| Finished Goods | - | - |
| Total | 248,070,496 | 260,716,817 |

NOTE No.: 13.1 - DETAILS OF WORK IN PROGRESS

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------------|------------------------|------------------------|
| Work in Progress comprises of: | | |
| TCAS, ECM'S, ACDs AND RYCAS | 105,575,805 | 107,063,725 |
| ENR - Contracts | 25,620,153 | 25,620,153 |
| Total | 131,195,958 | 132,683,878 |

NOTE No.: 14 - TRADE RECEIVABLES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| Trade Receivables outstanding for more than six months from the date they were due for payment | | |
| Unsecured and considered good | 510,385,160 | 429,759,205 |
| Doubtful debts | | - |
| Other Trade Receivables | | |
| Unsecured and considered good | 8,501,323 | 94,543,303 |
| Total | 518,886,483 | 524,302,508 |

Note: The Debtors amount of Rs. 24.06 crores from Konkan Railway Corporation Limited (KRCL) is subject to reconciliation and confirmation.

NOTE No.: 15 - CASH AND BANK BALANCES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Cash on Hand | 489,343 | 220,620 |
| (b) Balances with Banks | | |
| (i) In Current Accounts | 6,855,303 | 367,600 |
| (ii) In EEFC Accounts | - | 102,892 |
| (iii) In Deposit Accounts (Refer Note (I) below) | 16,796,294 | 30,790,471 |
| (iv) In Earmarked Accounts | | |
| Unpaid Dividend Accounts | 324,439 | 406,347 |
| Share Application money received for allotment of securities and due for refund | 12,750 | 12,750 |
| Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below) | 26,880,140 | 23,668,979 |
| Escrow Accounts (Refer Note (ii) below) | 1,034,261 | 402,416 |
| Total | 52,392,530 | 55,972,075 |

Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statement is: 52,392,530 55,972,075

Notes:

(I) Balances with banks include deposits amounting to Rs. NIL (As at 31 March, 2016 Rs. NIL) and margin monies amounting to Rs. NIL (As at 31 March, 2016 Rs. NIL) which have an original maturity of more than 12 months.

(ii) Balances with banks - Other earmarked accounts (Escrow A/c) include Rs. NIL (As at 31 March, 2016 Rs. NIL) which have restriction on repatriation

NOTE No.: 16 - SHORT TERM LOANS AND ADVANCES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (a) Security Deposits Unsecured, considered good | 1,271,561 | 1,283,372 |
| (b) Loans and Advances to employees Unsecured, considered good | - | - |
| (c) Prepaid Expenses Unsecured, considered good | 2,231,699 | 1,285,581 |
| (d) Balances with Government Authorities Unsecured, considered good | 9,329,590 | 13,632,053 |
| (e) Advances to Suppliers and Services Unsecured, considered good | 34,185,444 | 31,918,437 |
| Total | 47,018,294 | 48,119,443 |

NOTE No.: 17 - OTHER CURRENT ASSETS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (a) Accruals Interest accrued on Deposits | 1,864,433 | 1,072,745 |
| (b) Others Rent Receivable | 4,724,316 | 4,533,321 |
| Total | 6,588,749 | 5,606,066 |

NOTE No.: 18 - REVENUE FROM OPERATIONS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (a) Sale of Products (Refer Note 18.1 below) | 42,064,336 | - |
| (b) Sale of Services (Refer Note 18.2 below) | 79,355,322 | 214,058,633 |
| Less: | | |
| (c) Excise Duty | - | - |
| Total | 121,419,658 | 214,058,633 |

NOTE NO.: 18.1
SALE OF PRODUCTS COMPRISES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-----------------------------------|------------------------|------------------------|
| SALE OF PRODUCT COMPRISES: | | |
| Manufactured Goods | - | - |
| Others | 42,064,336 | - |
| TRADED GOODS | | |
| M S Tubular Structures | - | - |
| Others | - | - |
| Total | 42,064,336 | - |

NOTE NO.: 18.2
SALE OF SERVICES COMPRISES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-------------------------------------|------------------------|------------------------|
| SALE OF SERVICES COMPRISES : | | |
| Software Services | - | 27,949,733 |
| Maintenance Contracts | 41,722,858 | 139,035,634 |
| Service Contracts - Egypt | 37,632,464 | 46,774,338 |
| Others | - | 298,928 |
| Total | 79,355,322 | 214,058,633 |

NOTE No.: 19 - OTHER INCOME

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Interest Income (Refer Note 19.1 below) | 4,819,145 | 6,226,352 |
| (b) Net gain on foreign currency transactions (other than considered as finance cost) | 7,640,825 | 736,144 |
| (c) Other non-operating income (net of expenses directly attributable to such income) (Refer Note 19.2 below) | 8,361,975 | 8,990,332 |
| Total | 20,821,945 | 15,952,828 |

NOTE NO.: 19.1
DETAILS OF INTEREST INCOME

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (i) Interest Income comprises: | | |
| Interest from banks on: | | |
| Deposits | 3,532,007 | 6,077,041 |
| Others | - | 149,311 |
| Interest on advances given to subsidiaries | - | - |
| Interest on Income Tax Refund | 1,287,138 | - |
| Total | 4,819,145 | 6,226,352 |

NOTE NO.: 19.2
DETAILS OF OTHER NON-OPERATING INCOME

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (I) Profit on Sale of Asset | 110,000 | - |
| (ii) Other Non-operating Income comprises: | | |
| Rental Income (Inclusive of Service Tax collected) | 7,224,264 | 7,487,280 |
| Other Misc. Income | 649,559 | 1,503,052 |
| Liabilities no longer needed written back | 378,152 | |
| Total | 8,361,975 | 8,990,332 |

NOTE No.: 20.1 - COST OF MATERIALS CONSUMED

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| Opening Stock | 128,032,939 | 101,418,310 |
| (+) Purchases | 38,256,890 | 60,350,117 |
| (+) Transfer from Work In Progress | - | 12,154,350 |
| | 166,289,829 | 174,422,777 |
| (-) Closing Stock | 116,874,538 | 128,032,939 |
| Cost of Materials Consumed | 49,415,291 | 46,389,838 |
| Material consumed comprises of Electronic Components | 49,415,291 | 46,389,838 |
| Total | 49,415,291 | 46,389,838 |

NOTE NO.: 20.2
CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK IN PROCESS AND STOCK IN TRADE

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Inventories at the end of the year | | |
| Work In Progress | 131,195,958 | 132,683,878 |
| | 131,195,958 | 132,683,878 |
| Inventories at the beginning of the year | | |
| Work In Progress | 132,683,878 | 113,345,300 |
| (-) Transfer to Raw Materials | - | 12,154,350 |
| | 132,683,878 | 101,190,950 |
| Net (increase)/decrease | 1,487,920 | (31,492,928) |

* An amount of Rs.1,21,54,350/- was transferred from WIP to raw materials for maintenance purpose for the year ended 31 March, 2015

NOTE No.: 21 - EMPLOYEE BENEFIT EXPENSES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Salaries and Wages | 62,529,140 | 82,014,924 |
| Contribution to Provident and other Funds | 2,990,414 | 3,915,747 |
| Directors Remuneration | 6,232,500 | 6,120,000 |
| Staff Welfare Expenses | 969,605 | 916,965 |
| Total | 72,721,659 | 92,967,636 |

NOTE No.: 22- FINANCE COSTS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Interest Expense on: | | |
| (i) Borrowings | 30,918,346 | 26,727,620 |
| (b) Other Borrowing Costs | 9,011,536 | 7,055,424 |
| (c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost) | 212,750 | 183,682 |
| Total | 40,142,632 | 33,966,726 |

NOTE No.: 23 - OTHER EXPENSES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Project Execution Expenses | 43,927,969 | 71,528,376 |
| Sales Tax Paid | 1,879,341 | - |
| Service Tax Paid | 4,196,021 | 11,574,313 |
| Excise Duty Paid | 2,415,365 | - |
| Repairs and Maintenance - Others | 3,524,774 | 5,862,015 |
| Insurance | 553,525 | 417,393 |
| Rates and Taxes | 4,669,093 | 3,151,235 |
| Postage, Telephone and Courier | 820,112 | 1,315,302 |
| Travelling and Conveyance | 2,236,020 | 2,177,185 |
| Directors Sitting Fees | 820,000 | 660,000 |
| Printing and Stationery | 328,030 | 519,477 |
| Freight | - | 5,076 |
| Business Promotion | 1,972,182 | 1,064,235 |
| Contribution to Political Party (Refer Note 23.3 below) | - | 500,000 |
| Professional & Consultancy Fees | 6,933,049 | 10,178,564 |
| Payment to Auditors (Refer Note 23.1 below) | 605,580 | 617,400 |
| Prior period items (net) # (Refer Note 23.2 below) | 233,664 | 1,376,758 |
| Books & Periodicals | 17,210 | 2,640 |
| Security Charges | 2,020,505 | 1,708,025 |
| Electricity Charges | 3,821,580 | 3,856,110 |
| Bad Debts Written Off | - | 26,242,767 |
| General Expenses | 1,554,349 | 587,573 |
| Total | 82,528,369 | 143,344,444 |

NOTE NO.: 23.1
Details of Payment for Auditors

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-------------------------------|-------------------------------|-------------------------------|
| Payment to Auditors | | |
| As Auditors - Statutory Audit | 600,000 | 600,000 |
| Re-imbursement of expenses | 5,580 | 17,400 |
| For Other Services | - | - |
| Total | 605,580 | 617,400 |

NOTE NO.: 23.2
Details of Prior period Expenses

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|-------------------------------|-------------------------------|
| Details of Prior period items (net) | | |
| Prior period expenses (details) | 233,664 | 1,376,758 |
| Expenditure Omitted in Previous years | 233,664 | 1,376,758 |
| Expenditure not booked in Previous year and paid during the year | - | - |
| Total | 233,664 | 1,376,758 |

NOTE NO.: 23.3
Details of Payment to political parties

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------|-------------------------------|-------------------------------|
| Donation to C.P.I. Party | - | 500,000 |
| Total | - | 500,000 |

NOTE NO.: 24
RELATED PARTY DISCLOSURES

DETAILS OF RELATED PARTIES:

| DESCRIPTION OF RELATIONSHIP | | NAMES OF RELATED PARTIES | | | | | |
|---|-----------------|--|------------|--------------------------|---------------------------------------|---|------------------|
| Subsidiaries | | Avant - Garde Info Systems Inc, USA (100% Wholly Owned Subsidiary) | | | | | |
| Key Management Personnel | | 1) Col. L.V.Raju (Retd.) - Managing Director | | | | | |
| | | 2) B Murali Mohan - Whole Time Director | | | | | |
| DETAILS OF RELATED PARTY TRANSACTIONS DURING THE YEAR ENDED 31 MARCH, 2016 AND OUTSTANDING BALANCES AS AT 31 MARCH, 2016 (Rupees in Lakhs) | | | | | | | |
| PARTICULARS | HOLDING COMPANY | SUBSIDIARIES | ASSOCIATES | KEY MANAGEMENT PERSONNEL | RELATIVES OF KEY MANAGEMENT PERSONNEL | ENTITIES IN WHICH KMP/ RELATIVE OF KMP HAVE SIGNIFICANT INFLUENCE | TOTAL |
| Receiving of Services-Remuneration (Previous Year Figures) | - | - | - | 62.32 (61.20) | - | - | 62.32 (61.20) |
| Finance - Interest Receivable on USL (Previous Year Figures) | - | - | - | - | - | - | - |
| Finance - USL Given (Previous Year Figures) | - | - | - | - | - | - | - |
| Balances outstanding at the end of the year | - | - | - | - | - | - | - |
| Loans & Advances (Previous Year Figures) | - | - | - | - | - | - | - |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE NO.: 25
DISCLOSURES UNDER ACCOUNTING STANDARD - 20
(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|-------------------------------|-------------------------------|
| Earnings per share | | |
| Basic | | |
| Continuing Operations | | |
| Net Profit / Loss for the year from the continuing operations | (132,894,104) | (93,929,686) |
| (-) Preference dividend and tax thereon | - | - |
| Net Profit / Loss for the year from the continuing operations attributable to equity share holders | (132,894,104) | (93,929,686) |
| Weighted average number of equity shares | 12,499,655 | 12,499,655 |
| Par value per share | 10.00 | 10.00 |
| Earnings per share from continuing operations - Basic | (10.63) | (7.51) |
| Diluted | | |
| The diluted earnings per share has been computed by dividing the Net Profit After Tax available for Equity Shareholders by the weighted average number of equity shares, after giving dilutive effect of the outstanding Warrants, Stock Options and Convertible bonds for the respective periods. Since, the effect of the conversion of Preference shares was anti-dilutive, it has been ignored. | | |
| Continuing Operations | | |
| Net Profit / Loss for the year from the continuing operations | (132,894,104) | (93,929,686) |
| (-) Preference dividend and tax thereon | - | - |
| Net Profit / Loss for the year from the continuing operations attributable to equity share holders | (132,894,104) | (93,929,686) |
| (+) Interest expense and exchange fluctuations on convertible bonds (net) | - | - |
| Net Profit / Loss for the year from the continuing operations attributable to equity share holders (dilution) | (132,894,104) | (93,929,686) |
| Weighted average number of equity shares for basic EPS | 12,499,655 | 12,499,655 |
| (+) Effects of warrants, ESOPs and Convertible bonds which are dilutive. | - | - |
| Weighted average number of equity shares for diluted EPS | 12,499,655 | 12,499,655 |
| Par value per share | 10.00 | 10.00 |
| Earnings per share from continuing operations - Diluted | (10.63) | (7.51) |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE NO.: 26
DISCLOSURES UNDER ACCOUNTING STANDARD - 22

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|-------------------------------|-------------------------------|
| Differed Tax (liability) / asset | | |
| Tax effect of items constituting deferred tax liability | | |
| On difference between book balance and tax balance of fixed assets | - | 2,230,359 |
| On expenditure deferred in the books but allowable for tax purposes | - | - |
| On items included in Reserves and Surplus and pending amortisation into the statement of Profit and Loss | - | - |
| Others | - | - |
| Tax effect of items constituting deferred tax liability | - | 723,640 |
| Tax effect of items constituting deferred tax asset | | |
| Provision for compensated absences, gratuity and other employee benefits | - | - |
| Provision for doubtful debts and advances | - | - |
| Disallowance U/s 40(a)(i), 43B of Income Tax Act, 1961 | 19,938,622 | 13,032,953 |
| On difference between book balance and tax balance of fixed assets | 914,709 | - |
| Unabsorbed depreciation carried forward | - | - |
| Brought forward business losses | - | - |
| On items included in Reserves and Surplus and pending amortisation into the statement of Profit and Loss | - | - |
| Others | - | - |
| Tax effect of items constituting deferred tax asset | 6,765,863 | 4,228,542 |
| Net Deferred Tax (liability) / asset | 6,765,863 | 3,504,902 |
| Credited to Statement of Profit and loss | 3,260,961 | 2,891,115 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE NO.: 27

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| CONTINGENT LIABILITY | | |
| (a) Claims against the Company not acknowledged as a debt, in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT | 4.13 | 4.13 |
| (b) Bank Guarantee Outstanding | 1,484.38 | 1,395.87 |
| (c) Income Tax (before High Court of A.P.) | 8.00 | 8.00 |
| COMMITMENTS | | |
| Estimated amount of contracts remaining to be executed on capital account and not provided for | | |
| Tangible Assets | 41.10 | - |
| Intangible Assets | | |

NOTE NO.: 28
DISCLOSURES REQUIRED UNDER SECTION 22 OF MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Principal amount remaining unpaid to suppliers as at the end of the accounting year | 0.23 | 0.94 |

Dues to Micro and Small Enterprises have been determined to the extent such parties have been identified on the basis of information collected by the Management.

NOTE NO.: 29
DISCLOSURE AS PER CLAUSE 32 OF THE LISTING AGREEMENTS WITH THE STOCK EXCHANGES

Loans and Advances in the nature of Advances given to Subsidiaries, Associates and Others

| Name of the Party | Relationship | As at 31st March 2016 | As at 31st March 2015 |
|--------------------------|--------------|-----------------------|-----------------------|
| Avant-Garde Info Systems | Subsidiary | - | - |
| (Previous Year) | | - | (357.00) |

NOTE NO.: 30
VALUE OF IMPORTS CALCULATED ON CIF BASIS:

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---------------|------------------------|------------------------|
| Raw Materials | 24.20 | 29.18 |
| Spare Parts | - | - |
| Capital Goods | - | - |

NOTE NO.: 31
EXPENDITURE IN FOREIGN CURRENCY:

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-----------------------------|-------------------------------|-------------------------------|
| Travelling & Other Expenses | 14.17 | 44.27 |
| Consultancy Fees | - | 7.58 |
| Egypt Branch | 55.63 | 110.20 |

NOTE NO.: 32
DETAILS OF CONSUMPTION OF IMPORTED AND INDIGENOUS ITEMS

| PARTICULARS | As at 31st March, 2016 | |
|------------------------|-------------------------------|-------------|
| | Rs. | % |
| IMPORTED | | |
| Raw Materials | 78.48 | 16% |
| (Previous Year) | (52.31) | 11% |
| Sub Total - Imported | 78.48 | 16% |
| (Previous Year) | (52.31) | 11% |
| INDIGENOUS | | |
| Raw Materials | 415.67 | 84% |
| (Previous Year) | (411.58) | 89% |
| Sub Total - Imported | 415.67 | 84% |
| (Previous Year) | (411.58) | 89% |
| GRAND TOTAL | 494.15 | 100% |
| (PREVIOUS YEAR) | (463.89) | 100% |

NOTE NO.: 33
EARNINGS IN FOREIGN EXCHANGE:

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|-------------------------------|-------------------------------|
| Export of Goods calculated on FOB basis and service income | 376.32 | 659.88 |
| Interest Earned on Advance given to subsidiary | - | - |

NOTE NO.: 34
DISCLOSURES UNDER ACCOUNTING STANDARD - 15
Employee Benefit Plans
Defined Contribution Plans

The Company makes Provident Fund contributions to defined contribution plans for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The Company recognized Rs. 25.72 Lakhs (Year ended 31 March, 2015 Rs.32.75 Lakhs) for Provident Fund contributions in the Statement of Profit and Loss. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes.

Defined Benefit Plans

(i) **Leave Encashment** : The company does not have any scheme for leave encashment.

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

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Components of employer expense : | | |
| Current Service Cost | 45.00 | - |
| Total Expenses recognised in statement of Profit and Loss | 45.00 | - |
| Actual Benefit Payments | 41.65 | 3.34 |
| Actual Contributions | - | - |

NOTE NO.: 35
DISCLOSURES UNDER ACCOUNTING STANDARD - 17
Segment Information

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

36. Trade Debtors and Advances are subject to Reconciliation and Confirmation.

PREVIOUS YEARS FIGURES

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

See Accompanying notes forming part of the financial statements
In Terms of our report attached

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

For And Behalf Of The Board Of Directors

(G. SATYANARAYANA MURTY)
Partner
Membership No. 29919
Place : Hyderabad
Date : 28-May-2016

B MURALI MOHAN
TECHNICAL DIRECTOR

S SRINIVAS KIRAN
COMPANY SECRETARY

COL. L. V. RAJU (RETD.)
MANAGING DIRECTOR

G A V N MURTHY
IN-CHARGE C F O

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CONSOLIDATED FINANCIAL STATEMENTS

2015-16

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Members of '
Kernex Micro Systems (India) Limited

Report on the consolidated Financial Statements

We have audited the accompanying Consolidated Financial statements of Kernex Micro Systems (India) Limited ("the Holding Company"), and its 100% subsidiary Avant-garde Info Systems inc. USA (Collectively referred to as "the company" or "the group"), comprising of the Consolidated Balance Sheet as at March 31, 2016, and the Consolidated Statement of Profit and Loss and the Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 ("the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Companies Act, 2013 ("the Act"), read with Rule 7 of the Companies (Accounts) Rules, 2014. The respective Board of Directors of the companies included in the group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements

by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion and to the best of our Information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group

as at 31st March, 2016, and their consolidated Loss and their consolidated cash flows for the year ended on that date.

Other Matter

We did not audit the financial statements of its 100% subsidiary Avant-garde Info Systems inc. USA, whose financial statements reflect total assets of Rs. 2,11,49,635 as at 31st March, 2016 and total revenues of Rs. (2,64,42,403) for the year ended on that date, as considered in the consolidated financial statements. These financial statements, unaudited and reviewed by the independent accountant have been furnished to us by the Management, and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiary, and our report in terms of sub-section (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiary, is based solely on the report of such unaudited financial statements.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements certified by the Management.

Report on Other Legal and Regulatory Requirements

1. Annexure for Statement on the matters specified in the paragraph 3 and 4 of the Order As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, on the consolidated balance sheet is not applicable.
2. As required by Section 143 (3) of the Act, we report, to the extent applicable, that:
 - a. We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
 - b. In our opinion, proper books of accounts as required by law relating to preparation of the aforesaid consolidated financial statements have been kept by the

Company so far as it appears from our examination of those books;

- c. The Consolidated balance sheet, the Consolidated statement of profit and loss and the Consolidated cash flow statement dealt with by this Report are in agreement with the books of accounts;
- d. in our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
- e. on the basis of the written representations received from the directors as on 31 March 2016 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2016 from being appointed as a director in terms of Section 164 (2) of the Act; and
- f. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. the Company has disclosed the impact of pending litigations on its financial position in its Consolidated financial statements – Refer Note 26 to the financial statements;
 - ii. the Holding Company and subsidiary did not have any material foreseeable losses on long term contracts including derivative contracts;
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

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

G. Satyanarayana Murty
Partner
Membership No: 29919

Place: Hyderabad
Date: 28th May, 2016

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2016

(Amount in Rupees)

| Sl. No. | PARTICULARS | Note No. | As at 31st March, 2016 | As at 31st March, 2015 |
|-----------|---|----------|------------------------|------------------------|
| I | EQUITY AND LIABILITIES | | | |
| 1 | SHAREHOLDERS' FUND | | | |
| a | Share Capital | 2 | 124,996,550 | 124,996,550 |
| b | Reserves and Surplus | 3 | 840,873,196 | 1,007,655,239 |
| | | | 965,869,746 | 1,132,651,789 |
| 2 | SHARE APPLICATION MONEY PENDING ALLOTMENT | | - | - |
| 3 | NON-CURRENT LIABILITIES | | | |
| a | Long Term Borrowings | 4 | 359,717 | - |
| b | Deferred Tax Liability(Net) | | - | - |
| c | Long Term Liabilities | 5 | 39,999,999 | - |
| d | Long Term Provisions | | - | - |
| | | | 40,359,716 | - |
| 4 | CURRENT LIABILITIES | | | |
| a | Short Term Borrowings | 6 | 268,764,260 | 217,991,098 |
| b | Trade Payables | 7 | 134,065,939 | 133,005,524 |
| c | Other Current Liabilities | 8 | 155,993,219 | 129,569,641 |
| d | Short Term Provisions | 9 | 2,027,757 | 2,027,757 |
| | | | 560,851,175 | 482,594,020 |
| | TOTAL | | 1,567,080,637 | 1,615,245,809 |
| II | ASSETS | | | |
| 1 | NON - CURRENT ASSETS | | | |
| a | Fixed Assets | | | |
| | Tangible Assets | 10 | 496,626,038 | 527,531,740 |
| | Intangible Assets | | 200,079 | 239,895 |
| | Capital Work in Progress | | 97,440,499 | 97,440,498 |
| b | Non-Current Investments | | - | - |
| c | Deferred tax asset(net) | 25 | 6,765,863 | 3,504,902 |
| d | Long term loans and advances | 11 | 71,941,972 | 71,044,452 |
| e | Other Non-Current Asset | | - | - |
| | | | 672,974,451 | 699,761,487 |
| 2 | CURRENT ASSETS | | | |
| a | Inventories | 12 | 248,070,496 | 260,716,817 |
| b | Trade Receivables | 13 | 518,886,484 | 524,302,508 |
| c | Cash and Bank Balances | 14 | 52,496,999 | 56,874,043 |
| d | Short term loans and advances | 15 | 47,018,294 | 48,119,443 |
| e | Other current assets | 16 | 27,633,913 | 25,471,511 |
| | | | 894,106,186 | 915,484,321 |
| | TOTAL | | 1,567,080,637 | 1,615,245,809 |
| | Significant Accounting Policies | 1 | | |

See Accompanying notes forming part of the financial statements

In Terms of our report attached

 For **GMK ASSOCIATES**

Chartered Accountants

Firm Regn No. 006945S

(G. SATYANARAYANA MURTY)

Partner

Membership No. 29919

Place : Hyderabad

Date : 28-May-2016

For And Behalf Of The Board Of Directors

B MURALI MOHAN
 TECHNICAL DIRECTOR

S SRINIVAS KIRAN
 COMPANY SECRETARY

COL. L. V. RAJU (RETD.)
 MANAGING DIRECTOR

G A V N MURTHY
 IN-CHARGE C F O

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2016
(Amount in Rupees)

| Sl. No. | PARTICULARS | Note No. | Year Ended 31st March, 2016 | Year Ended 31st March, 2015 |
|---------|---|----------|-----------------------------|-----------------------------|
| 1 | REVENUE FROM OPERATIONS | 17 | 121,419,658 | 195,144,329 |
| | Less: Excise Duty | | - | - |
| | Net Revenue | | 121,419,658 | 195,144,329 |
| 2 | OTHER INCOME | 18 | 20,822,048 | 15,217,855 |
| | Total Revenue (1+2) | | 142,241,706 | 210,362,184 |
| 3 | EXPENSES | | | |
| | Cost of Materials Consumed | 19.1 | 49,415,292 | 47,288,399 |
| | Purchase of Stock in Trade | | - | - |
| | Changes in Inventories of Finished goods, Stock-in-Process and stock in trade | 19.2 | 1,487,920 | (51,305,793) |
| | Employee Benefit Expenses | 20 | 72,721,659 | 92,967,636 |
| | Finance Costs | 21 | 63,848,059 | 33,981,395 |
| | Depreciation and Amortisation Expenses | 10 | 32,105,891 | 41,661,794 |
| | Other Expenses | 22 | 85,260,354 | 175,076,027 |
| | Total Expenses | | 304,839,175 | 339,669,458 |
| 4 | PROFIT/(LOSS) BEFORE TAX | | (162,597,469) | (129,307,273) |
| 5 | TAX EXPENSE | | | |
| a | Current Tax | | - | - |
| b | Deferred tax | 25 | (3,260,961) | (2,891,116) |
| c | MAT Credit | | - | - |
| d | Current tax expense relating to prior years | | - | - |
| 6 | PROFIT/(LOSS) FOR THE PERIOD | | (159,336,508) | (126,416,157) |
| 7 | Earnings per equity share: (Equity shares of par value of Rs.10/- each) | | | |
| a | Basic | 24 | (12.75) | (10.11) |
| b | Diluted | 24 | (12.75) | (10.11) |
| | Significant Accounting Policies | 1 | | |

See Accompanying notes forming part of the financial statements

In Terms of our report attached

 For **GMK ASSOCIATES**

Chartered Accountants

Firm Regn No. 006945S

For And Behalf Of The Board Of Directors

(G. SATYANARAYANA MURTY)

Partner

Membership No. 29919

Place : Hyderabad

Date : 28-May-2016

B MURALI MOHAN

TECHNICAL DIRECTOR

S SRINIVAS KIRAN

COMPANY SECRETARY

COL. L. V. RAJU (RETD.)

MANAGING DIRECTOR

G A V N MURTHY

IN-CHARGE C F O

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2016
(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|-----------------------------------|-----------------------------------|
| A. Cash Flow from Operating Activities | | |
| Net Profit/(Loss) before Extra-ordinary Items & Tax | (162,597,469) | (129,307,273) |
| Adjustments for: | | |
| Depreciation and Amortisation | 32,105,891 | 41,661,794 |
| (Profit) / Loss on Sale / Write off of Assets | - | - |
| Finance Costs | 63,848,059 | 33,981,395 |
| Interest Income | (4,819,248) | (6,227,523) |
| | 91,134,702 | 69,415,666 |
| Operating Profit/(Loss) before Working Capital changes | <u>(71,462,767)</u> | <u>(59,891,608)</u> |
| Changes in Working Capital: | | |
| Adjustments for (increase) / decrease in operating assets: | | |
| Inventories | 12,646,321 | (45,953,207) |
| Trade Receivables | 5,416,024 | 26,415,885 |
| Short Term Loans and Advances | 1,101,149 | 19,929,225 |
| Long Term Loans and Advances | (897,520) | (4,997,585) |
| Other Current Assets | (2,167,496) | 7,945,315 |
| Foreign Currency Reserve | (7,445,535) | (4,545,307) |
| Adjustments for increase / (decrease) in operating liabilities: | | |
| Trade Payables | 1,060,415 | 9,337,789 |
| Other Current Liabilities | 26,423,578 | (5,587,408) |
| Short Term Provisions | - | - |
| Long Term Provisions | - | - |
| | <u>36,136,936</u> | <u>2,544,707</u> |
| Cash Generated from Operations | (35,325,831) | (57,346,901) |
| Net Cash Flow from / (used in) operating activities (A) | <u>(35,325,831)</u> | <u>(57,346,901)</u> |
| B. Cash Flow from Investing Activities | | |
| Capital expenditure on fixed assets including capital advances | (1,155,282) | - |
| Proceeds from sale of fixed assets | - | - |
| Inter-corporate deposits | - | - |
| (Purchase)/Sale of Investments | - | - |
| Bank balances not considered cash or cash equivalents | | |
| - Placed | - | - |
| Interest Received | 4,819,248 | 3,663,966 |
| Net Income Tax (paid) / refunds | - | (163,297) |
| Net Cash Flow from / (used in) Investing activities (B) | <u>3,663,966</u> | <u>6,064,226</u> |

CASH FLOW STATEMENT (Contd.)

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|---------------------------|--------------------------------------|
| C Cash Flow from Financing Activities | | |
| Proceeds from issue of equity shares | - | - |
| Proceeds from long term borrowings | 359,717 | - |
| Proceeds towards Advance towards sale of land | 39,999,999 | - |
| Repayment of long term borrowings | - | - |
| Net increase / (decrease) in working capital borrowings | 50,773,162 | 10,112,540 |
| Finance Costs | (63,848,059) | 27,284,820 (33,981,395) (23,868,855) |
| Net Cash Flow from / (used in) Financing activities (c) | <u>27,284,820</u> | <u>(23,868,855)</u> |
| Net Increase / decrease in Cash or Cash Equivalents (A+B+C) | (4,377,045) | (75,151,529) |
| Cash and cash equivalents in the beginning of the year | 56,874,043 | 132,025,572 |
| Effect of exchange difference on restatement of foreign currency | - | - |
| Cash and cash equivalents in the end of the year | <u>52,496,999</u> | <u>56,874,043</u> |
| Reconciliation of cash and cash equivalents with Balance Sheet | | |
| Cash and cash equivalents at the end of the year* | <u>52,496,999</u> | <u>56,874,043</u> |
| * comprises: | | |
| (a) Cash | 489,343 | 220,621 |
| (b) Balances with Bank | - | - |
| - In current accounts | 6,959,772 | 1,269,569 |
| - In EEFC accounts | - | 102,892 |
| - In Deposit accounts | 16,796,294 | 30,790,471 |
| - In earmarked accounts | 28,251,590 | 24,490,492 |
| | <u>52,496,999</u> | <u>56,874,043</u> |

In Terms of our report attached

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

For And Behalf Of The Board Of Directors

(G. SATYANARAYANA MURTY)
 Partner
 Membership No. 29919

B MURALI MOHAN
 TECHNICAL DIRECTOR

COL. L. V. RAJU (RETD.)
 MANAGING DIRECTOR

 Place : Hyderabad
 Date : 28-May-2016

S SRINIVAS KIRAN
 COMPANY SECRETARY

G A V N MURTHY
 IN-CHARGE C F O

KERNEX MICROSYSTEMS (INDIA) LIMITED**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE****CORPORATE INFORMATION**

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

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

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2014 (as amended) and the relevant provisions of the Companies Act, 2013. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

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

1.2 Use of estimates

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

1.3 Inventories

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

1.4 Cash and cash equivalents

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

1.5 Cash flow statement

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

1.6 Depreciation

Depreciation has been provided on the fixed assets on WDV method as per the rates prescribed in Schedule II to the Companies Act, 2013.

Depreciation is calculated on the computer equipment. Office equipment and Furniture and fixtures over their estimated useful lives for the subsidiary.

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

1.7 Revenue recognition**Revenue from contracts**

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

Revenue from services

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

Sale of goods

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

1.8 Other income

Interest income is accounted on accrual basis.

1.9 Tangible fixed assets

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

Capital work-in-progress:

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

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

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

Measurement of foreign currency monetary items at the Balance Sheet date

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

Treatment of exchange differences

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

1.11 Employee benefits**Defined contribution plans**

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

Defined benefit plans

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

Short-term employee benefits

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

1.12 Segment reporting

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

1.13 Earnings per share

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

1.14 Taxes on income

"Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961. Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company."

"Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing

differences. Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability."

1.15 Provisions and contingencies

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE No.: 2 - SHARE CAPITAL

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 Number | As at 31st March, 2015 Number |
|--|----------------------------------|----------------------------------|
| AUTHORISED | | |
| Equity Shares of Rs.10/- each with voting rights | 15,000,000 150,000,000 | 15,000,000 150,000,000 |
| ISSUED, SUBSCRIBED AND PAID UP | | |
| Equity Shares of Rs.10/- each with voting rights | 12,499,655 124,996,550 | 12,499,655 124,996,550 |
| Company has only one class of shares i.e., Equity Shares with Voting Rights | | |
| Total | 12,499,655 124,996,550 | 12,499,655 124,996,550 |

NOTE NO.:2.1
RECONCILIATION OF NUMBER OF SHARES OUTSTANDING AT THE BEGINNING AND AT THE END OF THE REPROTING PERIOD

| PARTICULARS | Opening Balance | Fresh Issue | Closing Balance |
|---|--------------------|----------------|--------------------|
| Equity Shares with Voting Rights Year Ended 31st March, 2016 | | | |
| - Number of Shares | 12,499,655 | - | 12,499,655 |
| - Amount() | 124,996,550 | - | 124,996,550 |
| Year Ended 31 March, 2015 | | | |
| - Number of Shares | 12,499,655 | - | 12,499,655 |
| - Amount() | 124,996,550 | - | 124,996,550 |

NOTE NO.:2.2
Details of Shares held by shareholders holding more than 5% of the aggregate shares of the company:

| PARTICULARS | As at 31st March, 2016 Number % of holding | As at 31st March, 2015 Number % of holding |
|----------------------------------|---|---|
| Equity Shares with Voting Rights | | |
| Dr Raju Narsa Manthena | 854,633 6.84% | 854,633 6.84% |
| Seetharamaraju Manthena | 721,992 5.78% | 721,992 5.78% |
| Sreelakshmi Manthena | 640,398 5.12% | 640,398 5.12% |

NOTE No.: 3 - RESERVES AND SURPLUS

| PARTICULARS | (Amount in Rupees) | |
|---|------------------------|------------------------|
| | As at 31st March, 2016 | As at 31st March, 2015 |
| GENERAL RESERVE | | |
| Opening Balance | 61,213,631 | 61,213,631 |
| (+) Addition during the year | - | - |
| Closing Balance | 61,213,631 | 61,213,631 |
| SECURITIES PREMIUM ACCOUNT | | |
| Opening Balance | 917,219,545 | 917,219,545 |
| (+) Premium on shares issued during the year | | |
| (-) Utilised during the year | | |
| Issuing bonus shares | | |
| Writing off preliminary expenses | | |
| Writing off shares / debentures issue expenses | | |
| Premium on redemption of redeemable preference shares / debentures | | |
| Buy back of shares | | |
| Closing Balance | 917,219,545 | 917,219,545 |
| FOREIGN CURRENCY TRANSLATION RESERVE | | |
| Opening Balance | 1,504,977 | 6,050,284 |
| (+) / (-): Effect of foreign exchange rate variations during the year | (7,445,535) | (4,545,307) |
| (+) / (-): Transferred to Statement of Profit and Loss on disposal of the net investment in non-integral foreign operations | | |
| Closing Balance | (5,940,558) | 1,504,977 |
| SURPLUS/(Deficit) in statement of Profit and Loss | | |
| Opening Balance | 27,717,086 | 160,933,275 |
| (+) Net Profit/(Loss) for the current year | (159,336,508) | (126,416,157) |
| Amounts transferred from: | | |
| General Reserve | | |
| Adjustment for transitional provision of depreciation as per Companies Act, 2013 | - | 6,800,031 |
| Closing Balance | (131,619,422) | 27,717,086 |
| Total | 840,873,196 | 1,007,655,239 |

NOTE No.: 4 - LONG TERM BORROWINGS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------|------------------------|------------------------|
| Secured | 359,717 | - |
| Unsecured | - | - |
| Total | 359,717 | - |

* The Loan is secured by hypothecation of vehicle

NOTE No.: 5 - LONG TERM LIABILITIES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Advance received against sale of fixed assets | 39,999,999 | - |
| Total | 39,999,999 | - |

NOTE No.: 6 - SHORT TERM BORROWINGS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Loans repayable on demand (Working Capital) | | |
| Secured | | |
| Cash Credit from State Bank of Hyderabad | 141,733,714 | 149,557,590 |
| (b) Other Loans and Advances | | |
| Unsecured Loans from Directors | 58,614,207 | 55,492,207 |
| Inter Corporate Deposits | 68,416,339 | 12,941,301 |
| Total | 268,764,260 | 217,991,098 |

NOTE NO.: 6.1
DETAILS OF SECURITY FOR SHORT TERM BORROWINGS

| PARTICULARS | NATURE OF SECURITY | As at 31st March, 2016 | As at 31st March, 2015 |
|---|---|---------------------------|---------------------------|
| Cash Credit from State Bank of Hyderabad | Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park and lands situated at Basanthpur (Nalgonda Dist and Amangal (Mahaboobnagar Dist) | 141,733,714 | 149,557,590 |
| Total | | 141,733,714 | 149,557,590 |

NOTE NO.: 6.2
DETAILS OF SHORT TERM BORROWINGS GUARANTED BY SOME OF THE DIRECTORS OR OTHERS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| Loans repayable on demand from banks - Personal guarantee of Managing Director | 141,733,714 | 149,557,590 |
| Inter Corporate Deposits | 68,416,339 | 12,941,301 |
| Total | 210,150,053 | 162,498,891 |

NOTE No.: 7 - TRADE PAYABLES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|------------------------|------------------------|------------------------|
| Trade Payables | | |
| Acceptances | | |
| Other than acceptances | 134,065,939 | 133,005,524 |
| Total | 134,065,939 | 133,005,524 |

NOTE No.: 8 - OTHER CURRENT LIABILITIES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Current maturities of long term debt | 64,462,200 | 61,120,000 |
| (b) Interest accrued and due on borrowings | - | - |
| (c) Unpaid Dividends | 308,694 | 389,652 |
| (d) Application money received for allotment of securities and due for refund | 26,300 | 26,300 |
| (e) Statutory remittances: | | |
| Contribution to ESI | 434,008 | 287,677 |
| Contribution to PF | 6,157,581 | 5,236,807 |
| Professional Tax Payable | 148,164 | 103,114 |
| Excise Duty Payable | - | 531,388 |
| Service tax Payable | 19,938,622 | 18,725,655 |
| TDS Payable | 5,154,558 | 5,954,601 |
| Works Contract Tax | 968,886 | 968,886 |
| Sales Tax Payable | 2,207,480 | - |
| (f) Payables on purchase of fixed assets | 1,541,132 | 1,541,132 |
| (g) Interest accrued on others | 486,476 | 486,476 |
| (h) Advances from customers | 54,159,118 | 34,197,953 |
| Total | 155,993,219 | 129,569,641 |

NOTE No.: 9 - SHORT TERM PROVISIONS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------------|------------------------|------------------------|
| (a) Provision - Others: | | |
| Proposed Dividends | - | - |
| Provision for Tax on dividends | 2,027,757 | 2,027,757 |
| Provision for Income Tax | - | - |
| Total | 2,027,757 | 2,027,757 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE No.: 10 - FIXED ASSETS

(Amount in Rupees)

| Particulars | Gross Block | | | Depreciation | | | | Net Block | | |
|--------------------------------|---------------------|---------------------------------|---|---------------------|--------------------|-------------------|---|--------------------|---------------------|---------------------|
| | As at 01.04.2015 | Additions during the year | Deletions/ Adjustments during the year | As at 31.03.2016 | Upto 01.04.2015 | For the year | Deletions/ Transitional provision adjustment | Upto 31.03.2016 | AS AT 31.03.2016 | AS AT 31.03.2015 |
| TANGIBLE ASSETS | | | | | | | | | | |
| Land and Land Development | 254,701,388 | 327,469 | | 255,028,857 | - | - | - | - | 255,028,857 | 254,701,388 |
| Building - Own Use | 343,486,963 | - | | 343,486,963 | 98,809,708 | 23,228,755 | | 122,038,463 | 221,448,500 | 244,677,255 |
| Plant and Equipment - Owned | 138,162,267 | - | - | 138,162,267 | 113,902,994 | 7,557,963 | | 121,460,957 | 16,701,310 | 24,259,273 |
| Furniture and Fixtures - Owned | 12,025,718 | - | - | 12,025,718 | 9,026,006 | 749,972 | | 9,775,978 | 2,249,740 | 2,999,712 |
| Vehicles - Owned | 7,846,548 | 827,813 | - | 8,674,361 | 7,315,943 | 322,574 | | 7,638,517 | 1,035,844 | 530,605 |
| Office Equipment - Owned | 9,531,002 | - | | 9,531,002 | 9,167,495 | 201,720 | | 9,369,215 | 161,787 | 363,507 |
| Total | 765,753,886 | 1,155,282 | - | 766,909,168 | 238,222,146 | 32,060,984 | - | 270,283,130 | 496,626,038 | 527,531,740 |
| Previous Year | 765,753,886 | | - | 765,753,886 | 191,038,012 | 40,384,103 | 6,800,031 | 238,222,146 | 527,531,740 | 574,715,874 |
| Capital Work in Progress | 97,440,499 | - | - | 97,440,499 | - | - | - | - | 97,440,499 | 97,440,499 |
| | | | | | | | | | | |
| Particulars | Gross Block | | | Depreciation | | | | Net Block | | |
| | As at 01.04.2015 | Additions during the year | Deletions/ Adjustments during the year | As at 31.03.2016 | Upto 01.04.2015 | For the year | Deletions/ Transitional provision adjustment | Upto 31.03.2016 | AS AT 31.03.2016 | AS AT 31.03.2015 |
| INTANGIBLE ASSETS | | | | | | | | | | |
| Computer Software | 3,753,742 | | | 3,753,742 | 3,513,850 | 39,813 | | 3,553,663 | 200,079 | 239,891 |
| Previous Year | 3,753,742 | - | - | 3,753,742 | 2,241,407 | 1,272,443 | - | 3,513,850 | 239,895 | 1,512,335 |

NOTE No.: 11 - LONG TERM LOANS AND ADVANCES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (a) Capital Advances Unsecured, Considered good | 48,552,390 | 48,552,390 |
| (b) Security Deposits Unsecured, Considered good | 3,037,991 | 3,293,437 |
| (d) Advance Income Tax (Net) Unsecured, Considered good | 8,591,489 | 5,281,119 |
| (e) MAT Credit entitlement Unsecured, Considered good | 11,760,102 | 13,917,506 |
| Total | 71,941,972 | 71,044,452 |

NOTE No.: 12 - INVENTERIES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (At Lower of Cost and net realisable value) | | |
| Raw Material | 116,874,538 | 128,032,939 |
| Work in Process (refer note 12.1 below) | 131,195,958 | 132,683,878 |
| Finished Goods | - | - |
| Total | 248,070,496 | 260,716,817 |

NOTE No.: 12.1 - DETAILS OF WORK IN PROGRESS

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------------|------------------------|------------------------|
| Work in Progress comprises of: | | |
| TCAS, ECM'S, ACDs AND RYCAS | 105,575,805 | 107,063,725 |
| ENR - Contracts | 25,620,153 | 25,620,153 |
| Total | 131,195,958 | 132,683,878 |

NOTE No.: 13 - TRADE RECEIVABLES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| Trade Receivables outstanding for more than six months from the date they were due for payment | | |
| Unsecured and considered good | 510,385,160 | 429,759,205 |
| Doubtful debts | - | - |
| Other Trade Receivables | | |
| Unsecured and considered good | 8,501,324 | 94,543,303 |
| Total | 518,886,484 | 524,302,508 |

NOTE No.: 14 - CASH AND BANK BALANCES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Cash on Hand | 489,343 | 220,620 |
| (b) Money in Transit | - | - |
| (c) Balances with Banks | | |
| (i) In Current Accounts | 6,959,772 | 1,269,569 |
| (ii) In EEFC Accounts | - | 102,892 |
| (iii) In Deposit Accounts (Refer Note (I) below) | 16,796,294 | 30,790,471 |
| (iv) In Earmarked Accounts | | |
| Unpaid Dividend Accounts | 324,439 | 406,347 |
| Share Application money received for allotment of securities and due for refund | 12,750 | 12,750 |
| Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below) | 26,880,140 | 23,668,979 |
| Escrow Accounts (Refer Note (ii) below) | 1,034,261 | 402,416 |
| Total | 52,496,999 | 56,874,043 |

Of the above, the balances that meet the definition of

Cash and cash equivalents as per AS 3 Cash Flow Statement is: 52,496,999

56,874,043

Notes :

(I) Balances with banks include deposits amounting to Rs. NIL (As at 31 March, 2016 Rs. NIL) and margin monies amounting to Rs. NIL (As at 31 March, 2016 Rs. NIL) which have an original maturity of more than 12 months.

(ii) Balances with banks - Other earmarked accounts (Escrow A/c) include Rs. NIL (As at 31 March, 2016 Rs. NIL) which have restriction on repatriation

NOTE No.: 15 - SHORT TERM LOANS AND ADVANCES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (a) Security Deposits | 1,271,561 | 1,283,372 |
| Unsecured, considered good | | |
| (b) Loans and Advances to employees | - | - |
| Unsecured, considered good | | |
| (c) Prepaid Expenses | 2,231,699 | 1,285,581 |
| Unsecured, considered good | | |
| (d) Balances with Government Authorities | 9,329,590 | 13,632,053 |
| Unsecured, considered good | | |
| (e) Advances to Suppliers and Services | 34,185,444 | 31,918,437 |
| Unsecured, considered good | | |
| Total | 47,018,294 | 48,119,443 |

NOTE No.: 16 - OTHER CURRENT ASSETS

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---------------------------------------|------------------------|------------------------|
| (a) Unamortised expenses | | |
| (i) Product Development Expenses | - | - |
| (ii) Organisational and Startup Costs | 47,486 | 52,580 |
| (iii) Computer software (W-I-P) | 20,997,679 | 19,812,865 |
| (b) Accruals | | |
| Interest accrued on Deposits | 1,864,433 | 1,072,746 |
| (c) Others | | |
| Rent Receivable | 4,724,315 | 4,533,320 |
| Total | 27,633,913 | 25,471,511 |

NOTE No.: 17 - REVENUE FROM OPERATIONS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (a) Sale of Products (Refer Note 17.1 below) | 42,064,336 | - |
| (b) Sale of Services (Refer Note 17.2 below) | 79,355,322 | 195,144,329 |
| Less: | | |
| (c) Excise Duty | - | - |
| Total | 121,419,658 | 195,144,329 |

NOTE NO.: 17.1
SALE OF PRODUCTS COMPRISES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-----------------------------------|------------------------|------------------------|
| SALE OF PRODUCT COMPRISES: | | |
| Manufactured Goods | - | - |
| Others | 42,064,336 | - |
| TRADED GOODS | | |
| M S Tubular Structures | - | - |
| Others | - | - |
| Total | 42,064,336 | - |

NOTE NO.: 17.2
SALE OF SERVICES COMPRISES
(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-------------------------------------|------------------------|------------------------|
| SALE OF SERVICES COMPRISES : | | |
| Software Services | - | 9,035,429 |
| Maintenance Contracts | 41,722,858 | 139,035,634 |
| Service Contracts - Egypt | 37,632,464 | 46,774,338 |
| Others | - | 298,928 |
| Total | 79,355,322 | 195,144,329 |

NOTE No.: 18 - OTHER INCOME

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Interest Income (Refer Note 18.1 below) | 4,819,248 | 6,227,523 |
| (b) Net gain on foreign currency transactions (other than considered as finance cost) | 7,640,825 | 736,144 |
| (c) Other non-operating income (net of expenses directly attributable to such income) (Refer Note 18.2 below) | 8,361,975 | 8,990,332 |
| Total | 20,822,048 | 15,217,855 |

NOTE NO.: 18.1
DETAILS OF INTEREST INCOME

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------------|------------------------|------------------------|
| (i) Interest Income comprises: | | |
| Interest from banks on: | | |
| Deposits | 3,532,007 | 6,077,041 |
| Others | 103 | 150,482 |
| Interest on Income Tax Refund | 1,287,138 | - |
| Total | 4,819,248 | 6,227,523 |

NOTE NO.: 18.2
DETAILS OF OTHER NON-OPERATING INCOME

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| (I) Profit on Sale of Machinery | 110,000 | - |
| (ii) Other Non-operating Income comprises: | | |
| Rental Income (Inclusive of Service Tax collected) | 7,224,264 | 7,487,280 |
| Other Misc. Income | 649,559 | 1,503,052 |
| Liabilities no longer needed written back | 378,152 | |
| Total | 8,361,975 | 8,990,332 |

NOTE No.: 19.1 - COST OF MATERIALS CONSUMED

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Opening Stock | 128,032,939 | 101,418,310 |
| (+) Purchases | 38,256,891 | 61,748,678 |
| (+) Transfer from Work In Progress | - | 12,154,350 |
| | 166,289,830 | 175,321,338 |
| (-) Closing Stock | 116,874,538 | 128,032,939 |
| Cost of Materials Consumed | 49,415,292 | 47,228,399 |
| Material consumed comprises of Electronic Components | 49,415,292 | 47,228,399 |
| Total | 49,415,292 | 47,228,399 |

NOTE NO.: 19.2
CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK IN PROCESS AND STOCK IN TRADE

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Inventories at the end of the year | | |
| Work In Progress | 151,008,823 | 152,496,743 |
| | 151,008,823 | 152,496,743 |
| Inventories at the beginning of the year | | |
| Work In Progress | 152,496,743 | 113,345,300 |
| (-) Transfer to Raw Materials | - | 12,154,350 |
| | 152,496,743 | 101,190,950 |
| Net (increase)/decrease | 1,487,920 | (51,305,793) |

* An amount of Rs.1,21,54,350/- was transferred from WIP to raw materials for maintenance purpose for the year ended 31 March, 2015

NOTE No.: 20 - EMPLOYEE BENEFIT EXPENSES

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Salaries and Wages | 62,529,140 | 82,014,924 |
| Contribution to Provident and other Funds | 2,990,414 | 3,915,747 |
| Directors Remuneration | 6,232,500 | 6,120,000 |
| Staff Welfare Expenses | 969,605 | 916,965 |
| Total | 72,721,659 | 92,967,636 |

NOTE No.: 21- FINANCE COSTS

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| (a) Interest Expense on: | | |
| (i) Borrowings | 30,918,346 | 26,727,620 |
| (b) Other Borrowing Costs | 32,716,963 | 7,070,093 |
| (c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost) | 212,750 | 183,682 |
| Total | 63,848,059 | 33,981,395 |

NOTE No.: 22 - OTHER EXPENSES

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| Project Execution Expenses | 43,927,967 | 71,528,376 |
| Sales Tax Paid | 1,879,341 | - |
| Service Tax Paid | 4,196,021 | 11,574,313 |
| Excise Duty Paid | 2,415,365 | - |
| Repairs and Maintenance - Others | 3,524,774 | 9,284,735 |
| Insurance | 553,525 | 417,393 |
| Rates and Taxes | 4,778,156 | 3,572,782 |
| Postage, Telephone and Courier | 820,112 | 1,315,302 |
| Travelling and Conveyance | 2,236,020 | 2,177,185 |
| Directors Sitting Fees | 820,000 | 660,000 |
| Printing and Stationery | 328,030 | 519,477 |
| Freight | - | 5,076 |
| Business Promotion | 1,972,182 | 1,064,235 |
| Contribution to Political Party (Refer Note 22.3 below) | - | 500,000 |
| Professional & Consultancy Fees | 6,933,049 | 10,405,915 |
| Payment to Auditors (Refer Note 22.1 below) | 605,580 | 617,400 |
| Prior period items (net) # (Refer Note 22.2 below) | 233,664 | 1,376,758 |
| Books & Periodicals | 17,210 | 2,640 |
| Security Charges | 2,020,505 | 1,708,025 |
| Electricity Charges | 3,821,580 | 3,856,110 |
| Net loss on Foreign Currency Transactions and Translation (other than considered as Finance Cost) | 1,908,113 | - |
| Bad Debts Written Off | - | 26,242,767 |
| Development Expenses written off | - | 20,835,127 |
| General Expenses | 2,269,160 | 618,675 |
| Total | 85,260,354 | 175,076,027 |

NOTE NO.: 22.1
Details of Payment for Auditors

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-------------------------------|------------------------|------------------------|
| Payment to Auditors | | |
| As Auditors - Statutory Audit | 600,000 | 600,000 |
| Re-imbursement of expenses | 5,580 | 17,400 |
| For Other Services | - | - |
| Total | 605,580 | 617,400 |

NOTE NO.: 22.2
Details of Prior period Expenses

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|-------------------------------|-------------------------------|
| Details of Prior period items (net) | | |
| Prior period expenses (details) | 233,664 | 1,376,758 |
| Expenditure Omitted in Previous years | 233,664 | 1,376,758 |
| Expenditure not booked in Previous year and paid during the year | - | - |
| Total | 233,664 | 1,376,758 |

NOTE NO.: 22.3
Details of Payment to political parties

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--------------------------|-------------------------------|-------------------------------|
| Donation to C.P.I. Party | - | 500,000 |
| Total | - | 500,000 |

NOTE NO.: 23
RELATED PARTY DISCLOSURES

DETAILS OF RELATED PARTIES:

| DESCRIPTION OF RELATIONSHIP | | NAMES OF RELATED PARTIES | | | | | |
|---|-----------------|--|------------|--------------------------|---------------------------------------|---|------------------|
| Subsidiaries | | Avant - Garde Info Systems Inc, USA (100% Wholly Owned Subsidiary) | | | | | |
| Key Management Personnel | | 1) Col. L.V.Raju (Retd.) - Managing Director | | | | | |
| | | 2) B Murali Mohan - Whole Time Director | | | | | |
| DETAILS OF RELATED PARTY TRANSACTIONS DURING THE YEAR ENDED 31 MARCH, 2016 AND OUTSTANDING BALANCES AS AT 31 MARCH, 2016 (Rupees in Lakhs) | | | | | | | |
| PARTICULARS | HOLDING COMPANY | SUBSIDIARIES | ASSOCIATES | KEY MANAGEMENT PERSONNEL | RELATIVES OF KEY MANAGEMENT PERSONNEL | ENTITIES IN WHICH KMP/ RELATIVE OF KMP HAVE SIGNIFICANT INFLUENCE | TOTAL |
| Receiving of Services-Remuneration (Previous Year Figures) | - | - | - | 62.32 (61.20) | - | - | 62.32 (61.20) |
| Finance - Interest Receivable on USL (Previous Year Figures) | - | - | - | - | - | - | - |
| Finance - USL Given (Previous Year Figures) | - | - | - | - | - | - | - |
| Balances outstanding at the end of the year | - | - | - | - | - | - | - |
| Loans & Advances (Previous Year Figures) | - | - | - | - | - | - | - |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE NO.: 24
DISCLOSURES UNDER ACCOUNTING STANDARD - 20
(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|-------------------------------|-------------------------------|
| Earnings per share | | |
| Basic | | |
| Continuing Operations | | |
| Net Profit / Loss for the year from the continuing operations | (159,336,508) | (126,416,157) |
| (-) Preference dividend and tax thereon | - | - |
| Net Profit / Loss for the year from the continuing operations attributable to equity share holders | (159,336,508) | (126,416,157) |
| Weighted average number of equity shares | 12,499,655 | 12,499,655 |
| Par value per share | 10.00 | 10.00 |
| Earnings per share from continuing operations - Basic | (12.75) | (10.11) |
| Diluted | | |
| The diluted earnings per share has been computed by dividing the Net Profit After Tax available for Equity Shareholders by the weighted average number of equity shares, after giving dilutive effect of the outstanding Warrants, Stock Options and Convertible bonds for the respective periods. Since, the effect of the conversion of Preference shares was anti-dilutive, it has been ignored. | | |
| Continuing Operations | | |
| Net Profit / Loss for the year from the continuing operations | (159,336,508) | (126,416,157) |
| (-) Preference dividend and tax thereon | - | - |
| Net Profit / Loss for the year from the continuing operations attributable to equity share holders | (159,336,508) | (126,416,157) |
| (+) Interest expense and exchange fluctuations on convertible bonds (net) | - | - |
| Net Profit / Loss for the year from the continuing operations attributable to equity share holders (dilution) | (159,336,508) | (126,416,157) |
| Weighted average number of equity shares for basic EPS | 12,499,655 | 12,499,655 |
| (+) Effects of warrants, ESOPs and Convertible bonds which are dilutive. | - | - |
| Weighted average number of equity shares for diluted EPS | 12,499,655 | 12,499,655 |
| Par value per share | 10.00 | 10.00 |
| Earnings per share from continuing operations - Diluted | (12.75) | (10.11) |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE NO.: 25
DISCLOSURES UNDER ACCOUNTING STANDARD - 22
(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|-------------------------------|-------------------------------|
| Differed Tax (liability) / asset | | |
| Tax effect of items constituting deferred tax liability | | |
| On difference between book balance and tax balance of fixed assets | - | 2,230,359 |
| On expenditure deferred in the books but allowable for tax purposes | - | - |
| On items included in Reserves and Surplus and pending amortisation into the statement of Profit and Loss | - | - |
| Others | - | - |
| Tax effect of items constituting deferred tax liability | - | 723,640 |
| Tax effect of items constituting deferred tax asset | | |
| Provision for compensated absences, gratuity and other employee benefits | - | - |
| Provision for doubtful debts and advances | - | - |
| Disallowance U/s 40(a)(i), 43B of Income Tax Act, 1961 | 19,938,622 | 13,032,953 |
| On difference between book balance and tax balance of fixed assets | 914,709 | - |
| Unabsorbed depreciation carried forward | - | - |
| Brought forward business losses | - | - |
| On items included in Reserves and Surplus and pending amortisation into the statement of Profit and Loss | - | - |
| Others | - | - |
| Tax effect of items constituting deferred tax asset | 6,765,863 | 4,228,542 |
| Net Deferred Tax (liability) / asset | 6,765,863 | 3,504,902 |
| Credited to Statement of Profit and loss | 3,260,961 | 2,891,116 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
NOTE NO.: 26

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| CONTINGENT LIABILITY | | |
| (a) Claims against the Company not acknowledged as a debt, in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT | 4.13 | 4.13 |
| (b) Bank Guarantee Outstanding | 1,484.38 | 1,395.87 |
| (c) Income Tax (before High Court of A.P.) | 8.00 | 8.00 |
| COMMITMENTS | | |
| Estimated amount of contracts remaining to be executed on capital account and not provided for | | |
| Tangible Assets | 41.10 | - |
| Intangible Assets | | |

NOTE NO.: 27
DISCLOSURES REQUIRED UNDER SECTION 22 OF MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Principal amount remaining unpaid to suppliers as at the end of the accounting year | 0.23 | 0.94 |

Dues to Micro and Small Enterprises have been determined to the extent such parties have been identified on the basis of information collected by the Management.

NOTE NO.: 28
DISCLOSURE AS PER CLAUSE 32 OF THE LISTING AGREEMENTS WITH THE STOCK EXCHANGES

Loans and Advances in the nature of Advances given to Subsidiaries, Associates and Others

| Name of the Party | Relationship | As at 31st March 2016 | As at 31st March 2015 |
|--------------------------|--------------|-----------------------|-----------------------|
| Avant-Garde Info Systems | Subsidiary | - | - |
| (Previous Year) | | - | (357.00) |

NOTE NO.: 29
VALUE OF IMPORTS CALCULATED ON CIF BASIS:

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---------------|------------------------|------------------------|
| Raw Materials | 24.20 | 29.18 |
| Spare Parts | - | - |
| Capital Goods | - | - |

NOTE NO.: 30
EXPENDITURE IN FOREIGN CURRENCY:

(Amount in Rupees)

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|-----------------------------|------------------------|------------------------|
| Travelling & Other Expenses | 14.17 | 44.27 |
| Consultancy Fees | - | 7.58 |
| Egypt Branch | 55.63 | 110.20 |

NOTE NO.: 31
DETAILS OF CONSUMPTION OF IMPORTED AND INDIGENOUS ITEMS

| PARTICULARS | As at 31st March, 2016 | |
|------------------------|------------------------|-------------|
| | Rs. | % |
| IMPORTED | | |
| Raw Materials | 78.48 | 16% |
| (Previous Year) | (52.31) | 11% |
| Sub Total - Imported | 78.48 | 16% |
| (Previous Year) | (52.31) | 11% |
| INDIGENOUS | | |
| Raw Materials | 415.67 | 84% |
| (Previous Year) | (411.58) | 89% |
| Sub Total - Imported | 415.67 | 84% |
| (Previous Year) | (411.58) | 89% |
| GRAND TOTAL | 494.15 | 100% |
| (PREVIOUS YEAR) | (463.89) | 100% |

NOTE NO.: 32
EARNINGS IN FOREIGN EXCHANGE:

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|--|------------------------|------------------------|
| Export of Goods calculated on FOB basis and service income | 376.32 | 659.88 |
| Interest Earned on Advance given to subsidiary | - | - |

NOTE NO.: 33
DISCLOSURES UNDER ACCOUNTING STANDARD - 15
Employee Benefit Plans
Defined Contribution Plans

The Company makes Provident Fund contributions to defined contribution plans for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The Company recognized Rs. 25.72 Lakhs (Year ended 31 March, 2015 Rs.32.75 Lakhs) for Provident Fund contributions in the Statement of Profit and Loss. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes.

Defined Benefit Plans

(i) **Leave Encashment** : The company does not have any scheme for leave encashment.

(ii) **Gratuity** : Gratuity benefit is applicable to all the permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes

into account each completed year of service or part there of in excess of 6 months. Annual contribution to the Employee's Gratuity Fund, established under LIC of India (LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

| PARTICULARS | As at 31st March, 2016 | As at 31st March, 2015 |
|---|------------------------|------------------------|
| Components of employer expense : | | |
| Current Service Cost | 45.00 | - |
| Total Expenses recognised in statement of Profit and Loss | 45.00 | - |
| Actual Benefit Payments | 41.65 | 3.34 |
| Actual Contributions | - | - |

NOTE NO.: 34
ADDITIONAL DISCLOSURES

| Name of the Entity | Net Assets | | Share in Profit or Loss | |
|--------------------------------------|--------------------------|--------------------|-------------------------------------|----------------------|
| | As % of Consolidated Net | Amount Rs. | As % of Consolidated Profit or Loss | Amount Rs. |
| PARENT | | | | |
| Kernex Microsystems (India) Limited | 91.86% | 1,044,495,685 | 83.40% | (132,894,104) |
| SUBSIDIARIES | | | | |
| FOREIGN | | | | |
| 1. Avant-Garde Infosystems Inc., USA | 8.14% | (78,625,939) | 16.60% | (26,442,404) |
| TOTAL | 100.00% | 965,869,746 | 100.00% | (159,336,508) |

NOTE NO.: 35
DISCLOSURES UNDER ACCOUNTING STANDARD - 17
Segment Information

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

36. Trade Debtors and Advances are subject to Reconciliation and Confirmation.

PREVIOUS YEARS FIGURES

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

See Accompanying notes forming part of the financial statements
In Terms of our report attached

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

For And Behalf Of The Board Of Directors

(G. SATYANARAYANA MURTY)
Partner
Membership No. 29919
Place : Hyderabad
Date : 28-May-2016

B MURALI MOHAN
TECHNICAL DIRECTOR

S SRINIVAS KIRAN
COMPANY SECRETARY

COL. L. V. RAJU (RETD.)
MANAGING DIRECTOR

G A V N MURTHY
IN-CHARGE C F O

FORM AOC-1

(Pursuant to first proviso to sub-section(3) of section 129 read with rule 5 of Companies (Accounts) Rules, 2014)

Statement containing salient features of the financial statement of subsidiaries / associate companies / joint ventures as per the Companies Act, 2013.

PART "A" – Subsidiaries

| | | |
|-----|--|------------------------------|
| 1. | Name of the Subsidiary | Avant-Garde Infosystems Inc. |
| 2. | Reporting period for the subsidiary concerned, if different from the holding company's reporting period. | No |
| 3. | Reporting currency and Exchange rate as on the last date of the relevant Financial year in the case of foreign subsidiaries. | US \$ 64.24 |
| 4. | Share Capital | 118.30 |
| 5. | Reserves & Surplus | (786.26) |
| 6. | Total Assets | 211.02 |
| 7. | Total Liabilities | 642.00 |
| 8. | Investments | - |
| 9. | Turnover | 0.001 |
| 10. | Profit before taxation | (264.42) |
| 11. | Provision for Taxation | - |
| 12. | Profit after taxation | (264.42) |
| 13. | Proposed Dividend | - |
| 14. | Percentage of shareholding | 100% |

PART "B" - Associates and Joint Ventures

Statement pursuant to Section 129(3) of the Companies Act, 2013 related to Associate Companies and Joint Ventures

| | |
|--|------|
| Name of Associates / Joint Venture | N.A. |
| 1. Latest audited Balance Sheet Date | — |
| 2. Shares of Associates / Joint Ventures held by the company at the year end | — |
| Amount of Investment in Association / Joint Venture Extend of Holding % | — |
| 3. Description of how there is significant influence | — |
| 4. Reason why the associate / Joint venture is not consolidated | — |
| 5. Networth attribute to Shareholding as per latest audited Balance Sheet | — |
| 6. Profit / Loss for the year | — |
| i. Considered in Consolidation | — |
| ii. Not considered in Consolidation | — |

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

(G. SATYANARAYANA MURTY)
 Partner
 Membership No. 29919

Place : Hyderabad
 Date : 28-May-2016

For And Behalf Of The Board Of Directors

B MURALI MOHAN
 TECHNICAL DIRECTOR

S SRINIVAS KIRAN
 COMPANY SECRETARY

COL. L. V. RAJU (RETD.)
 MANAGING DIRECTOR

G A V N MURTHY
 IN-CHARGE C F O

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**KERNEX MICROSYSTEMS (INDIA) LIMITED**

Corporate Identification No. (CIN) – L30007TG1991PLC013211
 Registered Office: "THRUSHNA" Plot No.7, Software Units Layout,
 Madhapur, Hyd-500081. Phone: +91-40-23113192/94, Fax: +91-40-23113189/91,
 E-mail: md@kernexmail.in/kernex@kernexmail.in
 Web site: www.kernex.in

ATTENDANCE SLIP

24th Annual General Meeting on Tuesday, 18th October, 2016 at 3.00 P.M. At Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500003.

| | |
|----------------|--|
| DP Id* | |
| Client Id* | |
| Regd.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 24th Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Tuesday, the October 18, 2016.

 ** 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.

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**KERNEX MICROSYSTEMS (INDIA) LIMITED**

Corporate Identification No. (CIN) – L30007TG1991PLC013211
 Registered Office: "THRUSHNA" Plot No.7, Software Units Layout,
 Madhapur, Hyd-500081. Phone: +91-40-23113192/94, Fax: +91-40-23113189/91,
 E-mail: md@kernexmail.in/kernex@kernexmail.in
 Web site: www.kernex.in

PROXY FORM

(Form No. MGT-11)

(Pursuant to Section 105(6) of the Companies Act, 2013 and Rule 19(3) of the Companies (Management and Administration) Rules, 2014)

Name of the Member(s) : _____

Registered address : _____

E-mail Id : _____

Folio No./Client ID No. : _____ DP ID No. _____

I / We, being the member(s) ofShares of Kernex Microsystems (India) Limited, hereby appoint

1. Name : E-mail Id:
 Address :
 Signature :
 or failing him

2. Name : E-mail Id:
 Address :
 Signature :
 or failing him

3. Name : E-mail Id:
 Address :
 Signature :

as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the Twenty Fourth Annual General Meeting of the Company to be held on Tuesday, 18th October, 2016 at 3.00 p.m. at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500003 and at any adjournment thereof in respect of such resolutions as are indicated below :

| Resolution No. | Resolution | Optional | |
|----------------|---|----------|---------|
| | | For | Against |
| 1 | Adoption of Statement of Profit and Loss, Balance Sheet, Report of Board of Directors and Auditors for the year ended March 31, 2016. | | |
| 2 | Re-appointment of Dr. Anji Raju, as a Director of the Company. | | |
| 3 | Re-appointment of Dr. Vinta Janardhan Reddy as a Director of the Company. | | |
| 4 | Re-Appointment of Auditors | | |
| 5 | Special resolution under Section 196, 197, 203 of the Companies Act, 2013 for Re-appointment of Mr. B. Murali Mohan, Director (WTD), as Director (Technical) of the Company w.e.f: 16th July-2016 to 31st March-2017. | | |

Signed this.....day of.....2016

Affix Re.1
Revenue
Stamp

Signature of shareholder.....

Signature of Proxy holder(s).....

NOTES:

- This Form in order to be effective should be duly completed and deposited at the Registered Office of the Company at "THRUSHNA" Plot No.7, Software Units Layout, Madhapur, Hyd-500081, not less than 48 hours before the commencement of the Meeting.
Those Members who have multiple folios with different joint holders may use copies of this Attendance slip/Proxy.
- A Proxy need not be a member of the Company
- A person can act as a proxy on behalf of members not exceeding fifty and holding in the aggregate not more than 10% of the total share capital of the Company carrying voting rights. A member holding more than 10% of the total share capital of the Company carrying voting rights may appoint a single person as proxy and such person shall not act as a proxy for any other person or shareholder.
- For the Resolutions, Explanatory Statement and Notes, please refer to the Notice of the 24th Annual General Meeting.
- *It is optional to put an 'X' in the appropriate column against the Resolutions indicated in the Box. If you leave the 'For' or 'against' column blank against any or all Resolutions, your Proxy will be entitled to vote in the manner as he/she thinks appropriate.
- Please complete all details including details of member(s) in above box before submission.

[illegible]

[illegible]

[illegible]

[illegible]



Kernex Microsystems (India) Limited

"Thrushna" Plot No. 7, Software Units Layout.

Madhapur, Hyderabad - 500 081, Telangana, INDIA.

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

Website: www.kernex.in, e-mail: kernex@kernexmail.in