

PROSPECTUS

Dated: December 6, 2005

Please read Section 60B of the Companies Act, 1956

(100 % Book Built Issue)



KERNEX MICROSYSTEMS (INDIA) LIMITED

(Originally incorporated as Kernex Microsystems (India) Private Limited on September 16, 1991 under the Companies Act, 1956 and converted to Public Limited Company on June 30, 2000. We shifted the Registered Office address from 404, Maitrivanam, HUDA Complex, S.R.Nagar, Hyderabad - 500038 to "THRUSHNA" Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad - 500 081 with effect from June 18, 2004).

Registered & Corporate Office : "THRUSHNA" Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad - 500 081

Tel No: 040-23113192-94; **Fax No:** 040-23113189; **E-mail:** ipo@kernex.in; **Website:** www.kernex.in

Contact Person: Mr. I. Srinivas - *Company Secretary & Compliance Officer.*

PUBLIC ISSUE OF 3,960,444 EQUITY SHARES OF RS.10 EACH FOR CASH AT A PRICE OF RS. 250/- PER EQUITY SHARE AGGREGATING TO RS. 990.11 MILLION ('THE ISSUE'). THE ISSUE WOULD CONSTITUTE 34.85% OF THE FULLY DILUTED POST ISSUE PAID UP EQUITY CAPITAL OF KERNEX MICROSYSTEMS (INDIA) LIMITED.

**ISSUE PRICE : Rs. 250/- PER EQUITY SHARE OF FACE VALUE OF RS. 10/- EACH,
THE ISSUE PRICE IS 25 TIMES OF THE FACE VALUE**

In case of revision in the Price Band, the Bidding Period / Issue Period will be extended for three additional days after revision of the Price Band subject to the Bidding Period / Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bidding Period, if applicable, will be widely disseminated by notification to Bombay Stock Exchange Limited and the National Stock Exchange of India Ltd., by issuing a press release and also by indicating the change on the websites of the Book Running Lead Managers and at the terminals of the Syndicate.

The issue is being made through the 100% Book Building process where up-to 50% of the Issue Size shall be allocated on a discretionary basis to Qualified Institutional Buyers ("QIBs"). Further, not less than 15% of the Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the issue shall be available for allocation on a proportionate basis to Retail Individual Bidders subject to valid Bids being received at or above the Issue Price.

RISK IN RELATION TO FIRST ISSUE

This being the first issue of Kernex Microsystems (India) Limited, there has been no formal market for the shares of the Company. The Face value per share is Rs.10 and the issue price is 25 times the face value. The issue price (as has been determined and justified by the Book Running Lead Managers and Kernex Microsystems (India) Limited as stated herein under the paragraph on Justification of Premium) should not be taken to be indicative of the market price of the equity shares after the shares are listed. No assurance can be given regarding an active and/or sustained trading in the shares of the Company or regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISKS

Investment in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the issuer and the offer including the risks involved. The Equity Shares offered in this Issue have not been recommended or approved by the Securities and Exchange Board of India (SEBI), nor does SEBI guarantee the accuracy or adequacy of this Document. Specific attention of the investors is invited to the statements in Risk Factors beginning on page ix of this Prospectus.

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer Company Kernex Microsystems (India) Limited having made all reasonable inquiries, accepts responsibility for and confirms that this offer document contains all information with regard to Kernex Microsystems (India) Limited and the Issue, which is material in the context of the Issue, that the information contained in this offer document is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The Equity Shares Issued through this Prospectus (RHP) are proposed to be listed on Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE). We have received in-principle approval from BSE & NSE for the listing of our shares vide their letter no. DCS/Smd/sm/2005, dated September 01, 2005 and letter No: NSE/LIST/16696-7 dated September 12, 2005 respectively. BSE shall be the Designated Stock Exchange.

BOOK RUNNING LEAD MANAGERS



BOB CAPITAL MARKETS LIMITED

(Wholly owned Subsidiary of Bank of Baroda)
Ground floor, Noble Chamber (Vatsa House)
20-C/D, S.A.Brelvi Road, Fort, Mumbai -400 001
Tel. :022-22844892/93 Fax : 022-22845208
Email: kernex@bobcapitalmarkets.com
Website: www.bobcapitalmarkets.com
Contact Person : Mr. A. Daniel



ALLIANZ SECURITIES LIMITED

33, Vaswani Mansion, 6th Floor,
Dinshaw Vachha Road, Opp. K.C. College,
Churchgate, Mumbai - 400 020
Tel : 022-22870580, Fax : 022-22870581
Email : kernex@aslfincial.com
Website : www.aslfincial.com
Contact Person: Ms. Alpa Joshi

REGISTRAR TO THE ISSUE



KARVY COMPUTERSHARE (P) LIMITED

Karvy House, 46, Avenue 4,
Street No.1, Banjara Hills,
Hyderabad 500 034
Tel.: 040 - 2331 2454
Fax.: 040 - 2331 1968
E-mail: kernex.ipo@karvy.com
Contact Person: Mr.Murali Krishna

BID/ISSUE OPENS ON: MONDAY, NOVEMBER 28, 2005

BID/ISSUE CLOSURES ON: SATURDAY, DECEMBER 03, 2005



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DEFINITIONS AND ABBREVIATIONS

General Terms

Terms	Description
“Kernex” or “KMIL” or “Issuer Company” or “the Company” or “Our Company” or “Kernex Microsystems (India) Limited” or “we” or “us” or “our”	Kernex Microsystems (India) Limited, a public limited company incorporated under the Companies Act, 1956 having its registered office at “THRUSHNA”, Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad - 500 081
“Konkan” or “KRCL” or “Konkan Railway Corporation”	Konkan Railway Corporation Limited, a Government of India undertaking under Ministry of Railways, having its headquarters and Corporate Office at Plot No. 6, Sector 11, Belapur Bhavan, CBD Belapur, Navi Mumbai - 400 614

Conventional Terms

Terms	Description
Articles/Articles of Association	Articles of Association of Kernex Microsystems (India) Limited.
Auditors	The Statutory Auditors of the Company, viz., GMK Associates , Hyderabad.
Board of Directors / Board	The Board of Directors of Kernex Microsystems (India) Limited.
Companies Act	The Companies Act, 1956, as amended from time to time.
Depositories Act	The Depositories Act, 1996, as amended from time to time.
Director(s)	Director(s) of Kernex Microsystems (India) Limited, unless otherwise specified.
EPS	Earnings per Share.
Equity Shares	Equity Shares of the Company of face value of Rs. 10/- each unless otherwise specified.
GIR Number	General Index Registry Number.
Head Office	“THRUSHNA”, Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad - 500 081.
Indian GAAP	Generally Accepted Accounting Principles in India.
MOA/ Memorandum/ Memorandum of Association	Memorandum of Association of KMIL.
Non Residents	Non Resident is a person resident outside India, as defined under FEMA .
NRIs/ Non-Residents Indians	Non-Resident is a person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under FEMA (Transfer or Offer of Security by a Person Resident Outside India) Regulations, 2000.
Overseas Corporate Body / OCB	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs including overseas trusts, in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
Person or Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organization, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other entity or organization validly constituted and/or incorporated in the jurisdiction in which it exists and operates, as the context requires.
Registered Office of the Company	“THRUSHNA”, Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad - 500 081.



Terms	Description
SCRR	The Securities Contracts (Regulation) Rules, 1957, as amended from time to time.
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act, 1992.
SEBI Act	Securities and Exchange Board of India Act, 1992, as amended from time to time.
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time.
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended from time to time.
Stock Exchanges	BSE and NSE.
U.S. GAAP	Generally Accepted Accounting Principles in the United States of America.

Issue Related Terms

Terms	Description
Allianz	Allianz Securities Limited.
Allotment	Issue of the Equity Shares pursuant to the Issue to the successful Bidders.
Allottee	The successful bidder to whom the Equity Shares have been issued.
Appraisal Report	Appraisal Report of BOB Capital Markets Ltd.
Bankers to the Issue	ICICI Bank Ltd, Standard Chartered Bank, Kotak Mahindra Bank Ltd., UTI Bank Ltd., and Centurion Bank Ltd.
Bid	An indication to make an offer during the Bidding Period by a prospective investor to subscribe to our Equity Shares at a price within the Price Band, including all revisions and modifications thereto.
Bid Amount	The highest value of the optional Bids indicated in the Bid-cum-Application Form and payable by the Bidder on submission of the Bid in the Issue.
Bid Closing Date/ Issue Closing date	The date after which the members of the Syndicate will not accept any Bids for the Issue, which shall be notified in an English National Newspaper, Hindi National Newspaper and Telugu Newspaper with wide circulation.
Bid- cum-Application Form/ Bid Form	The form in terms of which the bidder shall make an offer to purchase the equity shares of the Company and which will be considered as the application for issue and transfer of the Equity Shares in terms of this Prospectus.
Bid Opening Date/ Issue Opening Date	The date on which the members of the Syndicate shall start accepting Bids for the Issue, which shall be the date notified in an English National Newspaper, Hindi National Newspaper and Telugu Newspaper with wide circulation.
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Prospectus
Bidding Period/ Issue Period	The period between the Bid/Issue Opening Date and the Bid/Issue Closing Date inclusive of both days and during which prospective Bidders may submit their Bids.
BOB/BOB Capital/BCML	BOB Capital Markets Limited.
Book Building Process	Book Building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Issue is being made.
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Issue being BOB Capital Markets Limited and Allianz Securities Limited.
CAN/ Confirmation of Allocation Note	Means the note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares in the Book Building Process.
Cap Price	The higher end of the Price Band, above which Issue Price will not be finalized and above which no Bids will be accepted, which is fixed at Rs. 250 per Equity Share.



Co-Manager to the Issue	Shriyam Broking Intermediary Limited.
Cut-off Price	Any price within the price band finalized by us in consultation with BRLMs. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band.
Depository	A depository registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996 as amended from time to time.
Depository Participant	A depository participant as defined under the Depositories Act.
Designated Date	The date on which funds are transferred from the Escrow Account to the Public Issue Account after the Prospectus is filed with the RoC, following which the Board of Directors shall allot the Equity Shares to successful Bidders.
Designated Stock Exchange	Bombay Stock Exchange Limited.
Escrow Account	Account opened with the Escrow Collection Bank(s) and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount when submitting a Bid.
Escrow Agreement	Agreement entered into amongst the Company, Syndicate Members, the Registrar, the Escrow Collection Bank(s) and the BRLMs for collection of the Bid Amounts and for remitting refunds (if any) of the amounts collected to the Bidders.
Escrow Collection Bank(s)	The banks which are clearing members and registered with SEBI as Bankers to the Issue at which the Escrow Account will be opened.
First Bidder	The bidder whose name appears first in the bid cum application form or revision form.
Floor Price	The lower end of the Price Band, below which the Issue Price will not be finalised and below which no Bids will be accepted, which in this case being Rs. 225 per Equity Share.
Issue Price	The final price at which the Equity Shares will be allotted in terms of this Prospectus, as determined by the Company and the BRLMs on the Pricing Date.
Issue Account / Public Issue Account	Account opened with the Bankers to the Issue to receive monies from the Escrow Account for the Issue on the Designated Date.
Issue Period	The period between the Bid / Issue Opening Date and Bid / Issue Closing Date and Including both these dates.
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, being 0% to 100% of the Bid Amount.
Non-Institutional Bidders	All Bidders that are not Qualified Institutional Buyers or Retail Individual Bidders and who have bid for an amount more than Rs. 100,000.
Non-Institutional Portion	The portion of the Issue being 594,067 Equity Shares of Rs. 10/- each available for allocation to Non-Institutional Bidders.
Pay-in-Date	Bid Closing Date or the last date specified in the CAN sent to Bidders, as applicable.
Pay-in-Period	(i) With respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid / Issue Opening Date and extending until the Bid / Issue Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid / Issue Opening Date and extending until the closure of the Pay-in Date, as specified in the CAN.
Price Band	Being the price band of a minimum price of Rs. 225 per Equity Share (Floor Price) and the maximum price of Rs. 250 per Equity Share (Cap Price) (both inclusive), and including revision thereof.



Pricing Date	Means the date on which the Company, in consultation with the BRLMs, finalizes the Issue Price.
Prospectus	The Prospectus, filed with the RoC containing, <i>inter- alia</i> , the Issue Price that is determined at the end of the Book Building Process, the size of the Issue and certain other information.
Promoters	Col. L.V. Raju, Kishore Babu Gottimukkala, Jyoti Raju, Dr. Narsa Raju Manthena, Dr. Anji Raju Manthena, Swati Raju and Jyotsna Lakamraju are our Promoters for the purpose of this Prospectus.
Promoter Group	Persons forming part of Promoter Group other than the Promoters, Seeta Rama Raju Manthena, Lakshmi Manthena, Venkat R Lakamraju, Manthena Srinivasa Raju, Shilpa Lakamraju, L V Narasa Raju, Manthena Parvathi, Madhuvalli Lakamraju, Jhansi Lakshmi Bai, Krishna Mantena, Madhav Mantena, Namrata Kapoor, Jagannadha L Raju, L Suseela and L V Subba Raju are our promoter group.
Public Issue/ Offer/Issue	Public Issue of 39,60,444 Equity Shares of Rs. 10/- each for Cash at a Price of Rs.250/- per Equity Share aggregating to Rs. 990.11 million.
Public Issue Account	Account opened with Banker(s) to the Issue for the purpose of transfer of monies from the Escrow Account on the Designated Date.
Qualified Institutional Buyers or QIBs	Public financial institutions as specified in Section 4A of the Companies Act, FII, Scheduled Commercial Banks, Mutual Funds registered with SEBI, Venture Capital Funds registered with SEBI, Foreign Venture Capital Investors registered with SEBI, State Industrial Development Corporations, Insurance Companies registered with the Insurance Regulatory and Development Authority, Provident Funds with minimum corpus of Rs. 250 million and Pension Funds with minimum corpus of Rs. 250 million.
QIB Portion	The portion of the Issue being 1,980,220 Equity Shares of Rs. 10/- each available for allotment to QIB Bidder(s).
Red Herring Prospectus or RHP	The Red Herring Prospectus issued in accordance with Section 60B of the Companies Act, which does not have complete particulars of the price at which the Equity Shares are offered. The Red Herring Prospectus will be filed with the RoC at least three days before the Bid/Issue Opening Date and will become a Prospectus after filing with the RoC after pricing.
Registrar/Registrar to the Issue	Registrar to the Issue being Karvy Computershare Private Limited, Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad 500 034.
RoC / Registrar of Companies	Registrar of Companies, Hyderabad (Andhra Pradesh).
Retail Individual Bidders	Bidders who applies or bids for Equity Shares of or for a value of not more than Rs. 100,000.
Retail Portion	The portion of the Issue being 1,386,157 Equity Shares of Rs. 10/- each available for allocation to Retail Individual Bidder(s).
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid Price in any of the Bid options as per their Bid-cum-Application Form and as modified by their subsequent Revision Form(s), if any.
Syndicate Agreement	Agreement to be entered into among the BRLMs, Syndicate Member(s) and the Company in relation to the collection of Bids in the Issue.
Syndicate Members	Intermediaries registered with SEBI and eligible to act as underwriters appointed by the BRLMs.
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Member to the Bidder as proof of registration of the Bid.
Underwriters	The BRLMs and the Syndicate Members.
Underwriting Agreement	The Agreement between the Underwriters and our Company to be entered into on the Pricing Date.


Company and Industry Related Terms

ACD	Anti Collision Device
ADD	Auto Driving Device
ARES	Advanced Railroad Electronics System
ARSS	Advanced Railway Signal System
ATMC	Advanced Traffic Management System
BMS	Building Management System
CPU	Central Processing Unit
DCS	Distributed Control System
DOC	Disk-On-Chip
EPABX	Electronic Phone and Branch Exchange
ERP	Enterprise Resource Planning
ESS	Environmental Stress Screening
GPS	Global Positioning System
GUI	Graphical User Interface
HWB	Hot Wheel Bearings
ISO	International Standards Organisation
ITCS	Incremental Train Control System
ITTC	Intelligent Transportation Technology Center
LCD	Liquid Crystal Display
MLC	Manned Level Crossing
PCB	Printed Circuit Board
NASSCOM	National Association of Software & Service Companies
PTC	Positive Train Control System
QAP	Quality Assurance Plan
RFID	Radio Frequency Identification Device
SCADA	Supervisory Control And Data Acquisition
SIL	Safety Integrity Level
SPAD	Signal Passing At Danger
STPH	Software Technology Park, Hyderabad
TAS	Terminal Automation System
TAWD	Train Actuated Warning Device
UMLC	Unmanned Level Crossing
UPS	Uninterrupted Power Supply
VF	Video Frequency



Abbreviations

Abbreviation	Full Form
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India
A/c	Account
BSE	Bombay Stock Exchange Limited
CDSL	Central Depository Services (India) Limited
DPR	Detailed Project Report
EGM	Extraordinary General Meeting
EOU	Export Oriented Unit
FCNR Account	Foreign Currency Non Resident Account
FEMA	Foreign Exchange Management Act
FIPB	Foreign Investment Promotion Board
FY / Fiscal/Financial Year	Financial year ending period of twelve months ended March 31, of that particular year, unless otherwise stated
Gol	Government Of India
HUF	Hindu Undivided Family
IPO	Initial Public Offering
MF	Mutual Funds
MoU	Memorandum of Understanding
N.A.	Not Applicable
NPV	Net Present Value
NRE Account	Non Resident External Account
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
P.A.	Per Annum
P/E Ratio	Price/Earning Ratio
PAN	Permanent Account Number
RBI	The Reserve Bank of India
RoC	Registrar of Companies, Hyderabad (Andhra Pradesh)
ROE	Return on Equity
RONW	Return on Net Worth
Rs./ Rupees/ INR	Indian Rupees
SBH	State Bank of Hyderabad, Overseas Branch, Hyderabad
USD/US\$	United States Dollar



CERTAIN CONVENTIONS: USE OF MARKET DATA

Unless stated otherwise, the financial data in this Prospectus is derived from the restated unconsolidated financial information as of and for the fiscal years 2001, 2002, 2003, 2004, 2005 and for the period period ended 31st August, 2005, all prepared in accordance with Indian GAAP and included in this Prospectus. The fiscal year commences on April 1st and ends on March 31st of each year, and therefore all references to a particular fiscal year are to the 12 months period ended March 31st of that year. In this Prospectus any discrepancies in any table between the total and the sums listed are due to rounding.

For additional definitions, see the section titled 'Definitions and Abbreviations' on page i of this Prospectus. In the section titled 'Main Provisions of Articles of Association of the Company' beginning on page 172 of this Prospectus, defined terms have the meaning given to such terms in the Articles of Association of the Company.

Unless stated otherwise, industry data used throughout this Prospectus has been obtained from data internal to the Company, Ministry of Railways - Corporate Safety Plan 2003-13. Although we believe that data used in this Prospectus is reliable, it has not been independently verified and confirmed.



FORWARD-LOOKING STATEMENTS

We have included statements in this Prospectus which contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, that are “forward-looking statements”.

All forward looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: -

- General economic and business conditions in India and other countries
- Regulatory changes relating to the Software and Hardware / Technology Sector in India and Overseas and our ability to respond to them
- Our ability to successfully implement our strategy, our growth and expansion plan, technological changes, our exposure to market risks that have an impact on our business activities or investments.
- The monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in our kind of industry.
- Changes in the value of the Rupee and other currencies.
- The occurrence of natural disasters or calamities
- Change in political condition in India

For further discussion of factors that could cause our actual results to differ, see the section titled “Risk Factors” beginning on page ix of this Prospectus. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither the Company nor the members of Syndicate, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company, and the BRLMs will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.



RISK FACTORS

An investment in equity securities involves a high degree of risk. You should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below, before making an investment in our Equity Shares. Any of the following risks as well as the other risks and uncertainties discussed in this Prospectus could have a material adverse effect on our business, financial condition and results of operations and could cause the market price of our Equity Shares to decline, which could result in the loss of all or part of your investment.

Prior to making an investment decision, prospective investors should carefully consider all of the information contained in this Prospectus, including the restated consolidated financial statements beginning on Page no. 100. Unless stated otherwise, the financial data in this section is as per our restated consolidated financial statements prepared in accordance with Indian GAAP.

Unless specified or quantified in the relevant risk factors below, we are not in a position to quantify the financial or other implications of any of the risks described in this section.

INTERNAL RISK FACTORS

1. *We have not entered into any definitive agreements to utilize the proceeds of the Issue.*

We intend to use the net proceeds of the Issue for the capital expenditures described in section "Objects of the Issue" beginning on page 28 of this Prospectus. Except for the appointment of certain consultants, we have not entered into any definitive agreements to utilize such net issue proceeds. The proposed expansion and diversification requires huge tract of land acquisition to the extent of more than 1000 acres, particularly for establishing Intelligent Transportation Technology Centre. We are in the process of negotiating the price of land and obtaining legal clearances. These are being progressed simultaneously, and as soon as, equity funds are realized from the proposed IPO, the land can be acquired and accordingly, the implementation project would go as per the schedule of implementation. We have not yet placed any orders for items of plant and machinery for the projects described in the "Objects of the Issue" on page 28 of this Prospectus. Pending any use of net proceeds of the Issue, we intend to invest the funds in liquid instruments. We intend to rely on our internal systems and control to monitor the use of such proceeds. Some of the equipments we intend to deploy are expected to be imported and must be paid for in foreign currency. Changes in foreign exchange rates adversely affecting the value of the Rupee may adversely affect the cost of the project.

2. *Presently, we are dependent entirely on our Anti Collision Systems and related activities for our revenues*

Our revenues from Anti Collision Systems and related activities, accounted for 99% of our turnover for the fiscal 2005. We are in the process of diversifying into Auto Driving Devices and Advance Railway Signal System but they have yet to contribute to the revenue. Any adverse effect on the demand for ACDs and related systems will affect our business and financial operations adversely.

3. *We are dependent on Konkan Railway Corporation Limited for marketing Anti Collision Devices in India and in turn presently dependent on them for our revenues.*

We are presently dependent on Konkan Railways for our revenues derived from marketing of ACDs, ADDs and related services in railway safety. In the past few years, Indian Railways have focused more towards various railway safety measures that include mitigation against train collisions. Keeping in view the requirements of railways for the above, KRCL developed ACDs in association with Kernex under a technology partnership agreement. Further, we have entered into an exclusive agreement with KRCL in 2003 for manufacturing, installation, commissioning and maintenance of ACDs on Railways installations. In the last 2 years, ACDs have been deployed on 2466 KMs stretch on Konkan route and on Northeast Frontier route. We are not allowed to sell / merge the division / sections / facilities / installation involved in development and manufacture of ACDs to any other parties in India during the period of currency of the said Agreement. In case, KRCL is not able to sell ACDs in India, our operations relating to ACDs will get adversely affected.



4. Intellectual Property Rights of ACDs is not in the name of our Company.

According to the agreement entered between us and KRCL, the Intellectual Property Rights vest with Konkan Railway Corporation Limited, who have registered the same as “Raksha Kavach” in the name of The President of India and we are only the sole licensee for manufacturing, installation, commissioning and providing maintenance support for all types of ACDs. We are liable to pay royalty to KRCL for marketing the product outside India and we are also liable to obtain prior approval of KRCL to carry out any major changes or modifications in the patented designs. In case we do not receive approval of KRCL for such modifications for meeting the requirements of international users, our efforts to market ACDs to overseas users may not materialize and our business and results may be adversely affected.

5. Railways are free to adopt different technologies in future.

Manufacture of ACDs, ADDs or any other railway safety system are technology driven mechanisms and Railways are free to adopt different technologies for these devices/systems which may affect our business operations adversely.

6. In ever improving technological scenario, different solutions for traffic congestion in small and big cities will always remain a threat to us.

We are dependent on safety systems for railways only and various State Governments are opting different solutions for traffic congestion in their States besides railways. In the recent example, Konkan Railway Corporation Limited has completed trials on model test track at Goa, but Government of Goa decided to drop Metro Sky Bus proposal and invited expression of interest for setting up monorail to link three major cities in Goa. Similarly, other options are also available for traffic congestions with various government agencies and may affect our business operations in future adversely.

7. International development of new and superior technologies at lower or comparable prices

Internationally, number of players are developing railway safety systems to suit the requirements of various global users. In case superior technologies at competitive prices are offered by these players, we may face problems in marketing our products internationally.

8. Increase of capacity in manufacturing facilities may not be utilized immediately as utilization will depend on the anticipated orders for the future.

We have capacity to manufacture 4200 ACDs per annum at the existing premises. According to our agreement with KRCL we are required to increase the manufacturing capacity to 9000 ACDs per annum. We propose to establish an exclusive manufacturing facility for 10,000 ACDs, 1000 ADDs and 500 Advanced Railways Signal Systems per annum. However, as of now we do not have any firm orders for utilizing the proposed enhanced capacity for ACDs and the capacity being created for ADDs and Signal System

9. We rely on import of some of the components and accordingly face exchange rate risks.

A significant portion of our expenses is incurred on import of raw materials in U.S. Dollars and other foreign currencies. While depreciation of the Rupee against the U.S. Dollar and other foreign currencies increases the Rupee value of such imports and an appreciation of the Rupee, particularly with respect to the U.S. Dollar, decreases the Rupee value of such imports. Any adverse change in currency exchange rates will increase the cost of our imports.

10. Our expansion plans are subject to the risk of cost and time overruns

Our plan for capacity expansion and diversification as referred to in the section titled “Objects of the Issue” on page 28 of this Prospectus, contains project costs and implementation schedules, appraised by BOB Capital Markets Limited. We intend to utilize the net proceeds of the Issue to increase the production capacity and diversifying into other products, for which we are yet to acquire the land, machinery etc. Our expansion plans are subject to a number of contingencies, including foreign exchange fluctuations, changes in laws and regulations, government action, delays in obtaining approvals, delays in getting requisite land, inability to obtain machinery and other supplies at quoted or at acceptable terms, accidents, natural calamities, terrorist activity and other factors, many of which may be beyond our control. We, therefore, cannot assure you that the costs incurred or time taken for implementation of these plans will not vary from our estimated parameters or as appraised by the appraising agency.



11. BOB Capital Markets Limited, the appraiser is not having any financial commitment.

BOB Capital Markets Limited, one of the Book Running Lead Manager and also appraiser of the proposed project expansion and diversification for which the present IPO is intended for, is not having any financial commitment through Debt or Equity. Further they are not the monitoring agency to the utilization of issue proceeds. However, we have appointed State Bank of Hyderabad (Overseas Branch, Somajiguda, Hyderabad) as the monitoring agency for this purpose.

12. Our expansion plans require significant expenditure and if we are unable to obtain the necessary funds for expansion and diversification, our business may be adversely affected

We will need significant additional capital to finance our business plan and in particular, our plan for capacity expansion and diversification as referred to in the section titled "Objects of the Issue" on page 28 of this Prospectus. Our proposed plans will be funded through equity. Due to various extraneous factors such as changes in Indian Capital Market or our inability to obtain financing on acceptable terms, we may not be able to finance our capital expenditure plans in time, which would in turn adversely affect growth prospects and our business plans.

13. Our business is dependent on our manufacturing facilities to a large extent. The loss of or shutdown of operations at any of our manufacturing facilities may have a material adverse effect on our business, financial condition and results of operations.

Our existing and proposed manufacturing facilities are subject to operating risks, such as the breakdown or failure of equipment, power supply or processes, performance below expected levels of output or efficiency, obsolescence, labour disputes, continued availability of services of our external contractors, earthquakes and other natural disasters, industrial accidents and the need to comply with the directives of relevant government authorities. The occurrence of any of these risks could significantly affect our operating results.

14. Our success depends in large part upon our Senior Management, Directors and Key Managerial Personnel and our ability to retain them

We are highly dependent on our senior management, our Directors and our other key managerial personnel. Our future performance will depend upon the continued services of these persons. Competition for senior management in our industry is intense, and we may not be able to retain our senior management personnel or attract and retain new senior management personnel in the future. The loss of any of key managerial personnel may adversely affect our business and results of operations.

15. We have incurred and shall continue to incur substantial expenditure in developmental activities. However, no assurance of returns on these investments can be given.

Research and Development activities are very critical to our business. During the past five years 2001 to 2005 we have incurred a total of Rs.24.44 million towards developmental expenses for ACDs, ADDs and Satdham Safety System and Rs.20.84 million for the development of Patient Data Management System (through our wholly owned subsidiary) and shall continue to incur such expenditure in the future to strengthen our existing activities and add new activities. There is no assurance that such expenditure on research and development activities will fructify into returns to us.

16. Our insurance coverage may not adequately protect us against certain operating risks and this may have a material adverse affect on our business.

Our significant insurance policies consist of a comprehensive coverage for risks relating to physical loss or damage as well as business interruption loss. In addition, we have obtained separate insurance coverage for personnel related risks, motor vehicle risks and loss of movable assets risks. For details of our insurance policies see the section titled "Our Business - Insurance" on page 76 of this Prospectus. While we believe that the insurance coverage we maintain, would reasonably be adequate to cover all normal risks associated with the operation of our business, there can be no assurance that any claim under the insurance policies maintained by us will be honored fully, in part or on time. To the extent that we suffer loss or damage that is not covered by insurance or exceeds our insurance coverage, or the insurance policy covering such risk is not honored, our results of operations and cash flow may be adversely affected.



17. We will be controlled by our Promoters as long as they own a majority of our Equity Shares, and our other shareholders will be unable to influence the outcome of shareholders voting during such time.

After the completion of the Issue, the Promoters will own approximately 58.86% of our issued Equity Share Capital. So long as the Promoters own a majority of our Equity Shares, they will be able to elect our entire board of directors and remove any director, by way of a resolution approved by a simple majority of shareholders in a general meeting. Our Promoters will be able to control most matters affecting us, including the appointment and removal of our officers; our business strategy and policies; any determinations with respect to mergers, business combinations and acquisitions or dispositions of assets; our dividend payout; and our capital structure and financing. Further, the extent of the Promoters shareholding in our company may result in delays or prevention of a change of management or control of our company, even if such transaction may be beneficial to our other shareholders.

18. The trademark for our logo may not be registered in the name of our Company

We have applied for registration of our logo in the name of our Company- Kernex Microsystems (India) Limited. We cannot assure you that the registration of the trademark of our logo will be issued in the name of our Company and that our Company will be the registered owners of the same.

19. We have a loss making subsidiary

We have one 100% subsidiary Company viz. Avant Garde Infosystems Inc., incorporated in U.S. for implementation of software products. The said Company has incurred continuous losses up to March 31, 2004 and the accumulated losses as of March 31, 2005 are to the extent of Rs. 0.53 Million. We have invested Rs. 11.83 million (US\$ 0.25 million) in equity and Rs 13.18 million (US\$ 0.30 million) in the form of unsecured loans including interest thereon.

20. We are yet to make our presence in International market for railway safety systems.

We are yet to understand the need for railway safety systems of the international users. We have chalked out a plan to set up marketing offices abroad for marketing the railway safety systems to the international users, the details of which is referred to in the section titled "Objects of the Issue" on page 28 the success of such efforts cannot be assured by us.

21. If we are not able to renew or maintain our statutory and regulatory permits and approvals required to operate our existing or proposed business, it may have a material effect on our business

In future, we will be required to renew such permits and approvals and obtain new permits and approvals for our proposed operations. While we believe that we will be able to renew or obtain such permits and approvals at such times as may be required, there can be no assurance that the relevant authorities will issue any of such permits or approvals in the time-frame anticipated by us or may not be issued at all. Failure by us to renew, maintain or obtain the required permits or approvals, including those set forth above, may result in the interruption of our operations or delay or prevent our expansion plans and may have a material adverse effect on our business, financial condition and results of operations.

22. We have contingent liabilities, which may affect our financial condition

As on August 31, 2005 the contingent liabilities appearing in our restated audited financial statements were:

- Claims against the Company not acknowledged as debt Rs. 0.80 Million in respect of income tax for the Assessment Year 1998-99 for which the Department has preferred an appeal against the order of the Commissioner of Income Tax Appeals in favour of the Company.
- Bank Guarantees outstanding Rs. 61.10 Million.
- Claims against the Company not acknowledged as debt of Rs. 0.24 Million in respect of CENVAT claims.



23. Weaknesses enumerated in the appraisal report of BOB Capital Markets Ltd dated June 16, 2005

The following weaknesses are enumerated in the Project Appraisal Report:

- The company has not entered into any definitive agreements to utilize the proceeds of the Issue.
- Presently, the company is dependent entirely on Anti Collision Systems and related activities for revenues
- The company is dependent on Konkan Railway Corporation Limited for marketing Anti Collision Devices in India.
- Intellectual Property Rights of ACDs is not in the name of the Company.
- Railways are free to adopt different technologies in future
- International development of new and superior technologies at lower or comparable prices
- Increase of capacity in manufacturing facilities may not be utilized immediately as utilization will depend on the anticipated orders for the future.
- The proposed expansion plans require significant expenditure and if the company is unable to obtain the necessary funds for expansion and diversification, the projected business cannot be achieved.

24. There was negative cash-flow from operating activities for the period April 1, 2005 to August 31, 2005 and during F.Y. 2002-03 on account of increase in receivables due for less than 6 months.

25. We are subject to restrictive covenants in short term debt liabilities provided to us by our lenders

We have entered into agreement with State Bank of Hyderabad for short-term loans. These agreements contain certain restrictive covenants, some of which require prior permission of the Bank, inter alia pertain to the alteration of capital structure, implementing any scheme of expansion or acquiring fixed assets, formulation of any scheme of amalgamation or reconstruction, investment by way of share capital in or lending or advancing funds to or place deposits with any other concerns except in normal course of business or as advance to employees, undertaking guarantee obligations on behalf of others, declaring dividends for any year except out of profits relating to that year's profit after making all due and necessary provisions and any drastic changes in the management set up.

26. We are involved in legal proceedings, which may have some financial implications on us.

Given below is a summary of outstanding litigation of our company, for details of the same, refer to our Chapter on "Outstanding Litigations" appearing on page 135 of Prospectus.

Our company is involved in legal proceedings, which are classified under the following various heads :

Sr. No.	Category of Litigation	Total number of cases	Total financial implications (Rupees)
1.	Income Tax	One	800,000
2.	Criminal Suit	One	348,000
3.	Civil Suit	Three	763,962

These legal proceedings are pending at different levels of adjudication before various courts, enquiry officers. Should any new development arise, such as a change in Indian law or ruling against us, we may need to establish reserves in our financial statements, which could increase our expenses and our current liabilities to that extent.

27. One Promoter and employees of our company have been allotted 165000 equity shares of Rs. 10 each issued at Rs. 5 as sweat equity on November 8, 2004.

28. The valuation in the software / IT industry are presently high and may not be sustained in future and may also not be reflective of future valuations for industry as applicable. There is no standard valuation methodology or accounting practices in the industry. Our financials are not comparable with any other player in this industry.



EXTERNAL RISK FACTORS

1. Domestic Competition from other manufacturers

Our current expansion plan contemplates substantial increase in the capacity of our existing product and diversification into manufacturing of new railway safety products. The prospects for profitability in the business could lead to other companies entering into this segment. Although we are presently the only manufacturer of products and have exclusive manufacturing agreement with KRCL, no assurance can be given that we will be able to fully utilize our increased capacity and sell our increased production at prices that maintain or enhance our profit margins.

2. We face foreign exchange risks, which may adversely affect our cash flows and results of operations

A significant portion of our expenses is incurred on import of raw materials U.S. Dollars and other foreign currencies. While depreciation of the Rupee against the U.S. Dollar and other foreign currencies increases the Rupee value of such imports and an appreciation of the Rupee, particularly with respect to the U.S. Dollar, decreases the Rupee value of such imports. Any adverse change in currency exchange rates will increase the cost of our imports.

3. A slowdown in economic growth in India could cause our business to suffer.

The Indian economy has shown sustained growth over the last few years with GDP growing at 6.9% in fiscal 2005, 8.5% in fiscal 2004 and 4.0% in fiscal 2003. Industrial growth was 8.0% in fiscal 2005, 6.6% in fiscal 2004 and 6.6% in fiscal 2003. In its monetary policy statement announced on April 28, 2005, the RBI forecast GDP growth for fiscal 2006 to around 7.0% and year-end inflation rate from 5.0% to 5.5% subject to the impact of growing uncertainty on account of oil price. However, any slowdown in the Indian economy could adversely affect our financial performance.

4. A significant change in the Government of India's economic and deregulation policies could disrupt our business and cause the price of our Equity Shares to decline.

Our assets and customers are predominantly located in India. The Government of India has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. Its economic policies have had and could continue to have a significant effect on private sector entities, including us, and on market conditions and prices of Indian securities, including the Equity Shares. The present government, which was formed after the Indian parliamentary elections in April-May 2004, is headed by the Indian National Congress and is a coalition of several political parties. Any significant change in the government's policies or any political instability in India could adversely affect business and economic conditions in India and could also adversely affect our business, our future financial performance and the price of our Equity Shares.

5. Taxes and other levies imposed by the Government of India or other state governments, as well as other financial policies and regulations, may have a material adverse effect on our business, financial condition and results of operations.

Taxes and other levies imposed by the central or state governments in India that affect our industry include customs duties, excise duties, sales tax, income tax, service tax and other taxes, duties or surcharges introduced on a permanent or temporary basis from time to time. The central and state tax scheme in India is extensive and subject to change from time to time. Any adverse changes in any of the taxes levied by the central or state governments may adversely affect our competitive position and profitability.

Several state governments in India have recently introduced a value added tax regime. The impact of the introduction of the value added tax regime on our business and operations would depend on a range of factors including the rates applicable and the exemptions available to our facilities. Currently, we are unable to ascertain the impact of the value added tax regime on our business and operations.

6. Natural calamities could have a negative impact on the Indian economy and cause our business to suffer.

India has experienced natural calamities such as earthquakes, tsunamis, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy. For example, as a result of drought conditions in the country during fiscal 2003, the agricultural sector



recorded a negative growth of 5.2%. The erratic progress of the monsoon in 2004 has also adversely affected sowing operations for certain crops. Further prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business and the price of our Equity Shares.

7. *Terrorist attack, civil unrest and other acts of violence or war involving India and other countries could adversely affect the financial markets and our business.*

Terrorist attacks, such as the ones that occurred in New York and Washington, D.C. on September 11, 2001, New Delhi on December 13, 2001, Gandhinagar in Gujarat on September 24, 2002, Bali on October 12, 2002 and Mumbai on August 25, 2003 and other acts of violence or war may negatively affect the Indian markets and also adversely affect the worldwide financial markets. These acts may also result in loss of business confidence and make other services more difficult and ultimately adversely affect our business. After the December 13, 2001 attack in New Delhi and a terrorist attack on May 14, 2002 in Jammu, India, diplomatic relations between India and Pakistan became strained and there was a risk of intensified tensions between the two countries. The Governments of India and Pakistan have recently been engaged in conciliatory efforts. However, any deterioration in relations between Indian and Pakistan might result in investor concern about stability in the region, which could adversely affect the price of the Equity Shares.

India has also witnessed civil disturbances in recent years and it is possible that future civil unrest as well as other adverse social, economic and political events in India could have an adverse impact on us. Regional or international hostilities, terrorist attacks or other acts of violence or war could have a significant adverse impact on international or Indian financial markets or economic conditions or in government policy. Such incidents could also create a greater perception that investment in Indian companies involves a high degree of risk and could have an adverse impact on our business and the price of our Equity Shares.

8. *Any further issuance of Equity Shares by us or sale of our Equity Shares by our significant shareholders may adversely affect the trading price of the Equity Shares.*

Any further issuance of our Equity Shares by us could dilute your shareholding. Any such future issuance of our Equity Shares or Sales of our Equity Shares by any significant shareholder, including our Promoters, may also adversely affect the trading price of our Equity Shares, and could impact our ability to raise capital through an offering of our securities. In addition, any perception by investors that such issuances or sales might occur could also affect the trading price of our Equity Shares.

**NOTES TO RISK FACTORS:**

- Investors are advised to refer to the para on “Basis for the issue price” on page no. 46 before making any investment in this issue.
- Investors may note that in case of Oversubscription, allotment to the retail investors and non Institutional Investor shall be on proportionate basis and will be finalized in consultation with the designated stock exchange.
- The Book Value per share of our company as on August 31 2005 was Rs. 41.66
- The Net worth of our Company as per Audited Financial statements of the company as on August 31, 2005 was Rs. 308.07 million.
- The Post Issue Net Worth of our Company will be Rs. 1298.18 million.
- Public Issue of 39,60,444 Equity Shares of RS.10 each for cash at a price of Rs. 250/- per Equity Share aggregating to Rs. 990.11 Million.
- The Issue is being made under clause 2.2.1 of the SEBI (DIP) Guidelines, 2000 and its subsequent amendments there of, through 100% book built method where-in up to 50% of the issue size will be allocated on discretionary basis to QIBs. Further, not less than 15% of the offer will be available for allocation on proportionate basis to Non- Institutional bidders and not less than 35% of the net offer will be available for allocation to retail Individual Bidders, subject to valid bids being received at or above the offer price.
- For related party transactions, please refer to the section titled “Related Party Transactions” on page 97 of this Prospectus.
- Our Promoters/ Directors/ Key Managerial personnel are interested to the extent of the normal remuneration, reimbursement of the expenses incurred, or benefits such as sitting fees and those relating to their respective shareholdings in our company.
- The investor may contact BRLMs or the Compliance Officer for any complaint/ Clarification/ information pertaining to the issue who will be obliged to attend to the same.
- In addition to the Book Running Lead Managers, we are obliged to update the prospectus and keep the public informed about any material changes till listing and trading commences in respect of the shares issued through this issue.
- We have not transacted with Group/Subsidiary Company during the last one year except that we have given an amount of US\$ 15,000 to Avant-GardeInfosystems Inc, USA, the wholly owned subsidiary of our Company as Inter Corporate Deposit to meet its short term working capital requirements.
- Average cost of acquisition of shares by Promoters :

The Average cost of acquisition of equity shares currently held by the promoters as on the date of filing of this Prospectus is tabulated below:

Name	Average cost of acquisition Rs. Per share
Col L V Raju	2.92
Raju N Mantena	4.62
Kishore B Gottimukkala	6.77
Manthana Anji Raju	31.96
Jyotsna Lakamraju	5.91
Jyoti Raju	4.62
Swati Raju	5.23



SUMMARY

You should read the following summary with the Risk factors included from page ix and more detailed information about our business on page no.57 and our financial statements included on page100 in this Prospectus.

Industry Overview

A white paper on “Safety on the Indian Railways” presented to the Parliament in April’ 2003 highlighted the requirement for modernization of infrastructure and examination of the role of “Human Element”, more specifically ‘failure of Railway staff’ in accidents.

Accordingly, the Corporate Safety Plan for 2003-2013 released by, Ministry of Railways, Gol on August 23, 2003 prioritized safety related works and laid down a time frame, investments proposed and set benchmarks for safety achievements. The said corporate plan aims, inter-alia, to totally eliminate Rail collisions by extensive use of Anti-Collision Devices (ACDs), to reduce the Level Crossing accidents by using Train Actuated Warning Device (TAWD) & ACDs and improving the signaling system by providing SPADs, etc. It also aims to work on IT based projects to solve safety related problems by mapping rail network and tracking of trains using Global Positioning System (GPS). The said Corporate Safety Plan also estimated that the total expenditure involved for various safety enhancement works would be Rs.31,835 Crore out of which Rs.1,885 Crore (Rs. 235 Cr for ACDS already sanctioned + Rs. 62 Cr for TPWS + Rs. 8 Cr for TAWD + Rs. 1580 Cr for ACDs proposed) was allocated to implement ACDs over 56,000 KMs, TAWD and TPWS works. (Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in)

International Scenario:

Today, on global basis, there are about 1.2 million KMs of rail tracks on which trains move every day. Out of this national, regional and local railways having medium to low-density traffic, of passenger and freight trains, use 70% of tracks. This means nearly 840,000 KMs tracks are to be equipped with ACD like equipment in the next 15 years or so (Source:Locoprol Ref no. IST 2001 - 28103 April 2002 website: www.locoprol.org).

Our Business

We are presently engaged in the business of manufacturing, installing and maintaining of anti-collision systems as well as conceptualizing, designing, and developing, certain railway safety and signal systems for Konkan Railways Corporation Ltd. These safety and signal systems are suitable for medium to low speed & density railway tracks like in India and other developing countries.

We entered into technology partnership with Konkan Railway Corporation Ltd, Navi Mumbai for design, engineering and development of anti-collision systems for providing safety to trains in Railways. We hold exclusive license for manufacturing, installation, commissioning and maintenance of anti-collision systems in India. We are also an outsourced facility for the Konkan Railways Corporation Ltd. for manufacture and supply of ACDs and related accessories. We are also a technology partner for the development and implementation of ADDs for Metro Sky-Bus Urban Transportation System, Advanced Railway Signal Systems (Sat-Dham) and other safety systems. We hold the exclusive marketing rights of ACD systems all over the world except India.

The Anti Collision System consists of a network of ACDs for preventing Rail accidents by collisions, which may be due to system faults or human errors. The devices, which are presently being installed on the Railways, are ideally suited for medium to low-density rail routes such as those in India and in many developing countries.

Our Competitive Strengths

- **The only manufacturer of ACDs in India**

We have developed this product after about five years of R&D, testing, field trials and hold the unique distinction of being the only technology company in India manufacturing and supplying net-worked ACDs to KRCL, who are the agency deploying the same for the Indian Railways. We are continuing with our R&D efforts for improving the existing product both in features and standards. Non-availability of domain knowledge, long lead-time for development and non-availability of real time testing platforms are entry barriers for others to enter this market.



Anti Collision System is the result of synergy of ideas and technological skills of KRCL and Kernex with their dedicated and untiring efforts. The ACD systems developed correspond to the functional and operational requirements of Indian Railways.

- ***Exclusive manufacturing rights***

Our agreement with KRCL entered in February, 2003 defines the scope of the Agreement, which inter-alia provides Kernex as the Sole Licensee of KRCL for manufacturing, installation, commissioning and providing maintenance support, etc. of all types of ACDs, excluding the auto braking unit. It also includes the framework for us to work as technology partners for value addition by developing and providing Moving Block System, Sat-dham Safety System, which are also based on ACD technology.

- ***Exclusive International Marketing rights***

We also have the exclusive International marketing rights of ACDs as per our above-referred agreement with a royalty payment to KRCL to be mutually agreed upon. The anti-collision devices manufactured by us are suitable and cost-effective on medium to low density routes, both for passenger and freight trains, in the developing countries. The systems will be customized according to the functional requirement specifications of overseas clients. We plan to enter into international markets with marketing offices in New Mexico in USA for North and South America, Mauritius for Africa, Italy for Europe and Bangkok for South-East Asia with an international marketing headquarters at Hyderabad.

- ***Ability to execute project under adverse conditions***

We have undertaken track surveys, erection of towers and accessories for installing anti-collision devices along the railway tracks in some of the most inhospitable geographical locations of India i.e. in Assam and on the Konkan route and hence we have proven ability to undertake and execute turn key projects in a time bound manner under adverse conditions.

- ***Exclusive rights to manufacture ADDs for Metro Sky-Bus Urban Transport system***

We are entitled to hold intellectual property rights for the Auto Driving Devices for Metro Sky Bus Urban Transport System and we are the sole supplier of the ADDs to KRCL or their licensees according to the Memorandum of Understanding entered into between KRCL and us on June 6, 2005.

- ***Existing profit making Company since inception***

We have been operating profitably since inception and paying dividends during all the financial years since 1997-98 except in the year 2002-03. For financial year 2004-05 we earned PAT of Rs. 89.55 million in comparison to Rs. 30.86 million during the Financial Year 2003-04.

- ***Strong management & technical team***

We have a very strong management and technical team who have developed products and executed projects in very adverse geographical locations strictly within the time frames stipulated by the users. Our team planned, designed and executed projects; both on the Konkan route and North Frontier Railways in the record time of 5 to 7 months each. Our Company is managed by a team of experienced and professional managers exclusively focused on different aspects of railway safety and signal systems including research & development, marketing, quality control and finance. Our management has substantial experience in this industry and its ancillary activities. We believe that our professionals have been able to anticipate the developments in railway safety and signal systems and deliver newer products to our clients and have contributed to our growth and success. Our Company's human resources policy revolves around a commitment to create an organisation that nurtures talents and motivate its work force. We have a very low attrition ratio, which has provided continuity and stability to our business.

- ***Research & Development capabilities***

We have developed ACDs and are in the process of developing and innovating a number of products viz. additional features for anti-collision devices, auto driving devices, SAT-DHAM Advanced Signal Systems, Signal Passing at Danger (SPAD), Train Actuated Warning Devices (TAWD), and technologies for determining the position of the trains at a given time, Hot-box and vibration detector for Wagons/Coaches etc. We have technical capabilities to undertake development of any electronic proto-type equipment. Our emphasis on Research & Development has enabled us to devise new processes and technologies to expand our scientific and engineering capabilities. We believe that continued focus on Research and Development will enable us to further develop new products, processes and novel applications for the transportation field and possibly help us enter new lines of business.



- **Quality Control**

We follow thorough quality standards, protocols and have received ISO 1900-2001 certifications revalidated up to 30th June 2008. The finished products are not only inspected internally by our technical personnel to comply with the Quality Assurance Plan but also by M/s. Lloyds Registry Asia (LRA), on behalf of KRCL, which is an internationally recognized quality testing agency for electronic systems, before delivering the products to the users.

- **Superior operational performance**

We have the capability to develop high quality products and execute projects within short notices and within the strict time frames allowed by the users and in adverse conditions etc, which vouch for the superior operational performance of our company. We have executed projects on the Konkan route which is interspersed with inhospitable terrains, rivers and tunnels in the Western Ghats of Maharashtra, Karnataka and Goa spanning over 736 KMs from Roha in Maharashtra to Mangalore in Karnataka and also in one of the under developed, hostile and forest areas of North East Frontier Railways starting from Kathihar in Bihar to Dibrugarh in Assam spanning over 1730 KMs. The area is subject to frequent floods, heavy rains and insurgency threats. We have successfully executed the projects by supplementing with Solar Power where electricity was not available and where accessibility towards the railway track was difficult. We have also integrated the landslide warning devices with the train ACDs to protect the trains from accidents arising out of landslides and boulders especially along the routes in Western Ghats on the Konkan Railways.

- **Products for Distinctive applications**

- We provided intelligent data acquisition system to 53 stations on the Konkan route for automatically monitoring the arrival and departure timings of trains for each stations and inputting the data into their existing systems.
- We have designed, engineered and manufactured ADDs for Metro Sky Bus in a period of four months, which was used in the Sky Bus Metro trials on a live track of 1.5 KMs, and the Sky Bus was operated successfully up to a speed of 70 KMs per hour. This device replaces the driver and facilitates auto driving of Sky Bus coaches, stopping at the required stations and opening and closing of doors.
- We have the technological capabilities/know-how for the following:
 - ❖ to design and manufacture devices that can protect trains against avalanches, land slides, overflowing bridges and tracks or displacement of tracks due to natural calamities;
 - ❖ developing at a short notice SPADs (Signal Passing at Danger) which is to be essentially installed at the entry and exit of each station area for high speed trains running at 150 KMs or more per hour;
 - ❖ detect defective and hot wheel bearings in railway passenger coaches and goods wagons by using infrared thermal imaging technology;
 - ❖ vehicle tracking and security systems that can be deployed for fleet management, VIP security and Material Management and Security. Our expertise in GPS and Data Communication Technology can also be used for fishing trawlers management system;
 - ❖ RFID technology which can be used for tracking of materials, tracking of railway wagons and moving assets on the roads and also to sense the tracks on which trains move;
 - ❖ embedded systems to design and develop products; and carry out verification and validation conforming to international standards;
 - ❖ telemetry systems for monitoring the flood levels in the rivers and reservoirs, land slide and avalanche warning system in the border areas and foot hills and mine management systems for open cast mines to improve the productivity of the heavy earth moving machinery, and avoiding collisions and accidents.

- **Cost effective**

Railways are one of the largest and cheapest transportation systems in the world and providing safety systems for the entire network will require substantially large amount of funds. We believe in providing products of appropriate technology following strict quality standards and at economical price so that the systems can be deployed both in developed and under developed countries. The systems are cost effective due to R&D, manufacturing, project and maintenance service costs being low and also due to adoption of Distributed Control System which uses GPS Technology available free of cost.



- **Continuous stream of Maintenance Revenues**

We are solely responsible for providing continuous maintenance support during the life of the equipment and the charges per annum work out to approximately 15% of the cost of the equipment, which is an additional revenue comfort for us. Further, if the user decides to upgrade the equipment or to add additional features to the existing hardware and software, it will enable us to earn additional revenues.

Our Business Strategy

Our Corporate vision is “to emerge as a global player by being a multi product and system developing Company with hardware and software capabilities”. The following are our strategies to achieve this vision.

- **Expand our facility for manufacturing ACDs and create manufacturing facility for other products.**

Our present facility for manufacturing ACDs are limited and cannot cater to the growing demand in the domestic as well as international markets. We also plan to create facilities for manufacturing auto driving devices and advanced railway signal systems. We intend to establish facilities for manufacturing 10000 ACDs, 1000 ADDs and 500 Advanced Railway Signal Systems. For this purpose we will be building up new facilities with over 80000 sq.ft of built up space for Raw Material Storage, Inward Quality testing, assembling and manufacturing including testing and quality certification. Facilities for R&D, training and field-testing are being added/created , which is also a part of the present expansion plan. Indian Railways according to their Corporate Safety Plan has to provide ACD coverage on approximately 56000 KMs of rail routes in the next 5-7 years. Similarly in the international market over 0.8 million KMs of track of medium to low-density traffic require ACD type of equipment. Taking 30% as an acceptance factor approximately 240,000 KMs of rail tracks in the world need to have ACDs. Combining both the domestic and international markets approximately 10000 to 12000 ACDs are required to be supplied per year, based on a very conservative estimate. According to the Agreement with KRCL on 29 October 2004, we have to increase our production to 9000 units per annum.

- **Increase our Research & Development focus**

We have been moving forward in developing safety application systems that have social relevance with the latest technologies. We also integrated the Inclinator switches with the ACD network to warn against landslides in hilly terrains. We have identified up-gradation of ACDs to international standards, up-gradation of ADDs for Metro Sky-bus for obtaining safety certifications, Train Actuated Warning Devices for manned level crossings, Signal Passing at Danger (SPAD), Hot Box and Vibration Detectors for wagons and coaches as thrust areas.

- **Expand our International operations**

Presently we have a wholly owned subsidiary in the US engaged in software development activities and for supporting our products in US markets. We are planning to expand the operations by setting up marketing offices at strategic locations of the world to cater to the needs for transportation safety systems in the developing and developed countries. Immediately for marketing of ACDs, we plan to open marketing offices in New Mexico in USA for North and South America, Mauritius for Africa, Italy for Europe and Bangkok for South-East Asia. Senior Marketing & Sales Managers of the Level of Vice President supported by Marketing Managers will head these offices. We also plan to manufacture and make available trial equipment for covering about 50 KMs of track in foreign countries to demonstrate the efficacy of the equipment to the prospective clients. We are also expanding marketing of software application packages for Hospital Management & Health care Services; and Medical Records Tracking System Software package in the US and other overseas markets.

- **Be cost-competitive by increasing our capacity to benefit from economies of scale**

We expect to save on costs of our products by scaling up the operations and through bulk purchasing of some of the components, which are outsourced and further by economies of scale by automation processes.

- **Backward integration**

We are planning to create in house capabilities to manufacture components, which are presently outsourced, by manufacturing some of the key components, like Radio Modems, DC/DC Converters, and ADD Motors for Sky-bus. We would be able to reduce our dependency and also achieve economies of scale and reduce Lead-time for imported components.



THE ISSUE

Particulars	No. of Equity Shares
FRESH ISSUE OF EQUITY SHARES	3,960,444 Equity Shares
<i>Of which:</i>	
Qualified Institutional Buyers Portion	Up to 1,980,220 Equity Shares <i>(Allocation on a discretionary basis)</i>
Non Institutional Portion	At least 594,067 Equity Shares <i>(Allocation on a proportionate basis)</i>
Retail Portion	At least 1,386,157 Equity Shares <i>(Allocation on a proportionate basis)</i>
Equity Shares outstanding prior to the Issue	7,402,879 Equity Shares
Equity Shares outstanding after the Issue	11,363,323 Equity Shares
Objects of the Issue	Please see the section entitled "Objects of the Issue" on page 28 of this Prospectus.

Under Subscription, if any, in any of the categories, would be allowed to be met with spill over(s) from any of the other categories including from over-subscriptions at our sole discretion in consultation with the BRLMs.



SUMMARY OF RESTATED CONSOLIDATED FINANCIAL & OPERATING DATA

The tables sets forth selected financial information of our Company derived from its audited financial statements as at August 31, 2005, March 31, 2005, March 31, 2004, March 31, 2003, March 31, 2002 March 31, 2001 all prepared in accordance with Indian GAAP, the Companies Act, 1956 and SEBI Guidelines and as described in the Auditor's report of M/s GMK Associates, Chartered Accountants included in the section titled "Restated Consolidated Financial Statements" on page 100 of this Prospectus and should be read in conjunction with those financial statements and the notes thereto. For further discussion on our financial statements, please see "Management Discussion and Analysis of Financial Condition and Results of Operations" on page 126 and "Our Business" on page 57 of this Prospectus.

Consolidated Statement of Profit and Loss Account:

(Rupees in Million)

PARTICULARS	For the Year Ended March 31,					Period ended 31 st August
	2001	2002	2003	2004	2005	2005
INCOME :						
Sales & Services						
a. Manufacture / services	48.34	38.18	70.31	130.71	463.69	188.28
b. Trading goods	-	-	-	22.83	61.87	10.80
Other Income	5.01	9.53	4.17	10.69	5.81	2.31
Increase/decrease in WIP	(1.87)	12.05	(7.78)	16.38	1.47	(7.17)
Total Income	51.48	59.77	66.69	180.62	532.84	194.22
EXPENDITURE :						
Cost of Sales & services	2.46	9.80	17.41	66.87	264.74	61.65
Personnel Expenses	13.29	16.09	16.78	25.75	38.07	16.75
Operating, Admn & Selling Expences	13.26	16.91	15.06	26.19	62.74	24.27
Finance Charges	1.27	1.45	3.26	7.98	8.81	2.08
Depreciation and Amortization	4.44	5.68	3.92	5.25	12.81	4.48
Preliminary expences written off	-	-	-	-	-	-
Total Expenditure	34.73	49.93	56.43	132.04	387.16	109.23
Net Profit Before Tax	16.76	9.84	10.26	48.58	145.68	84.99
A. Income Tax	1.96	1.32	4.50	17.85	58.40	23.10
B. Deferred Tax	-	-	(0.12)	(0.13)	(2.27)	(0.75)
C. Fringe Benefit Tax	-	-	-	-	-	0.20
Net Profit before Extra Ordinary items / Prior period Adjustments	14.79	8.52	5.88	30.86	89.55	62.44
Prior Period (Exp)/ Income	-	(0.24)	-	-	-	-
Net Profit After Extra Ordinary - items / Prior period Adjustments	14.79	8.28	5.88	30.86	89.55	62.44
Dividend	4.86	3.00	-	6.84	7.40	-
Dividend tax	0.50	-	-	0.89	0.97	-
Transfer to General Reserve	5.00	3.00	1.00	5.00	5.00	-
Profit B/f less bonus shares	3.56	3.14	2.41	4.03	18.74	94.92
Balance carried to Balance sheet	7.99	5.41	7.29	22.16	94.92	157.35



Consolidated Statement of Assets and Liabilities:

(Rupees in Million)

Particulars	As at March 31,					Period ended 31st August 2005
	2001	2002	2003	2004	2005	
Sources of Funds						
Shareholders fund						
Share Capital						
- Equity Share Capital	57.26	62.11	65.12	68.38	74.03	74.03
Reserves and Surplus						
Share Premium	48.57	48.57	48.71	48.71	58.94	58.94
Reserves and Surplus	12.80	12.59	13.00	31.98	109.83	172.21
Deferred Tax Liability	-	-	1.07	0.94	-	-
Loan Fund						
Secured Loans	5.53	12.71	50.57	71.02	21.53	41.26
Total Liabilities	124.16	135.99	178.48	221.04	264.33	346.44
Application of Funds						
Fixed Assets						
At cost less Depreciation	16.60	12.33	21.68	90.74	83.47	79.77
Capital Work in Progress	8.14	13.15	30.78	-	-	-
Investments	-	28.72	28.72	-	-	-
Current assets, loans & advances						
Jobs in process / W.I.P.	0.90	12.95	7.12	32.99	54.11	30.72
Sundry debtors	22.13	19.87	36.32	67.49	108.86	203.17
Cash and Bank Balance	79.71	46.24	39.93	71.24	91.65	85.03
Deposit, Loans and Advances	6.94	7.15	8.41	37.51	37.80	85.01
Sub total	109.68	86.22	91.78	209.23	292.42	403.94
Less : Current Liabilities & Provisions	10.68	26.30	18.64	103.87	133.83	160.28
Net Current Assets	99.00	59.92	73.14	105.35	158.59	243.66
Misc. Expenditure (not written off)	0.42	0.31	0.20	0.10	0.10	0.10
Preliminary Expenses	0.00	0.00	-	-	-	-
R & D Expenses	-	21.55	23.95	24.83	20.84	20.84
Deferred Tax Asset	-	-	-	-	1.33	2.07
Total Assets	124.16	135.99	178.48	221.04	264.33	346.44



GENERAL INFORMATION

Kernex Microsystems (India) Limited

(Originally incorporated as Kernex Microsystems (India) Private Limited on September 16, 1991)

Registered Office: "THRUSHNA" Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad - 500081.
(Our Registered Office was earlier situated at 404, Maitrivanam, HUDA Complex, S.R.Nagar, Hyderabad - 500038)

Registration No.: 01-13211

Address of ROC: The Registrar of Companies, Andhra Pradesh, 2nd floor, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad - 500-195

Board of Directors:

S.No	Name	Age	Address
1	Mr. S.V. Subba Raju Chairman	72	Plot No.52, Srinivasa Nagar (West), Hyderabad - 500 038
2	Col. L.V. Raju (Retd.) Managing Director	61	19/B, Gautam Enclave, AWHO Colony, Sikh Road, Secunderabad - 500 009
3	Mr. B. Murali Mohan Director (Technical)	57	Plot No.F-6, Officers Colony, Near Dr.A.S.Rao Nagar, Hyderabad - 500 062
4	Mr. R. Sankaran Director	72	Flat No.GB Sivedaa Apartments, New No.27 III Avenue, Besant Nagar, Chennai - 600 090
5	DR. Anji Raju Director	60	1906, Ray Shell CT, Seabrook, TX 77586, USA
6	Col. S.S. Rajan Director	61	77, Shankar Mutt, Parallel Road, Shankara Park, Bassannagudi, Bangalore - 560 004
7	Mr. S Nandakumar Director	53	G-C, Sapphire Building, 6-3-713, Amrutha Hills, Punjagutta, Hyderabad - 500 082
8	Ms. Dr. Jyoti Raju Director	31	5953, Killarney Circle, Sanjose, CA 95138, USA

For more details regarding our Directors please refer to "Our Management" on page 83 of this Prospectus.

Compliance Officer & Company Secretary

Mr. I Srinivas

"THRUSHNA" Plot No. 7
Software Units Layout
Infocity Madhapur
Hyderabad - 500 081
Phone : 040-23113192 (Ext 234)
Fax: 040-23113189
E-mail : ipo@kernex.in

Investors can contact the Compliance Officer in case of any pre-issue or post-issue related problems such as non-receipt of refund orders, non-credit of allotted shares in the respective beneficiary account, etc.



Book Running Lead Managers

<p>BOB CAPITAL MARKETS LIMITED (Wholly Owned Subsidiary of Bank of Baroda) Ground Floor, Noble Chambers (Vatsa House) 20-C/D, S.A. Brelvi Road, Fort Mumbai - 400001 Tel. : 022-22844892/93 Fax : 022-22845208 Website : www.bobcapitalmarkets.com Email: kernex@bobcapitalmarkets.com Contact Person: Mr.A.Daniel</p>	<p>ALLIANZ SECURITIES LIMITED 33, Vaswani Mansion, 6th Floor, Dinshaw Vachha Road, Opp. K.C. College, Churchgate, Mumbai - 400 020 Phone : 022-22870580 Fax : 022-22870581 Email : kernex@aslfinancial.com Website : www.aslfinancial.com Contact Person: Ms. Alpa Joshi</p>
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STATEMENT OF INTER-SE ALLOCATION OF RESPONSIBILITIES

The following table sets forth the distribution of the responsibilities of various activities

S.No	Activities	Responsibility	Co-coordinator
1	Capital structuring with relative components and formalities such as composition of debt and equity, type of instruments.	BCML Allianz	BCML
2	Due diligence of the Company's operations/management /business plans/ legal etc.	BCML Allianz	BCML
3	Drafting and Design of the offer document and of statutory advertisement including memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges and SEBI including finalisation of the Prospectus and filing with the Stock Exchanges.	BCML Allianz	BCML
4	Drafting and approval of all publicity material other than statutory advertisement as mentioned above including Corporate advertisement, brochure, etc.	BCML Allianz	BCML
5	Appointment of other Intermediaries: (a) Printers; (b) Registrar; (c) Advertising Agency; (d) Syndicate Members and (e) Banker to the Issue.	Allianz BCML	Allianz
6	Marketing of the Issue to Institutional Investors / Retail Investors / Non-Institutional Investors, which will cover inter alia, formulating marketing strategies, preparation of publicity budget, finalize media & PR strategy, finalize centers for holding conferences for brokers, press, etc., finalize collection centers, follow-up on distribution of publicity and issue material including application forms, RHP and deciding on the quantum of the issue material.	Allianz BCML	Allianz
7	Managing the Book, coordination with Stock Exchanges, pricing and allocation to QIBs.	Allianz BCML	Allianz
8	The Post-issue activities involve essential follow-up steps, finalization of basis of allotment/weeding out of multiple application, etc. Major ones are : <ul style="list-style-type: none"> ● Listing of securities ● Dispatch of certificates and refunds ● The various agencies connected with the work such as Registrars to the issue ● Bankers to the issue and the bank handling refund business ● Submission of Statutory reports to SEBI 	Allianz BCML	Allianz
9	Even if many of these post-issue activities would be handled by other intermediaries, the designated Lead Merchant Banker shall be responsible for ensuring that these agencies fulfill their functions and enable them to discharge this responsibility through suitable agreements with the issuer company	Allianz BCML	Allianz



Syndicate Members To The Issue

BOB Capital Markets Limited

Ground Floor, Noble Chambers,
Near Horniman Circle, (Vatsa House)
20-C/D, S.A. Brelvi Road, Fort,
Mumbai - 400001
Tel. : 022-22844892/93
Fax : 022-22845208
Email: kernex@bobcapitalmarkets.com

Allianz Securities Limited

33, Vaswani Mansion,
6th Floor, Dinshaw Vachha Road,
Opp. K.C. College, Churchgate,
Mumbai - 400 020
Tel : 022-22870580
Fax : 022-22870581
Email : kernex@asfinancial.com

Almondz Capital Markets (P) Limited

Vaswani Mansion, 6th Floor,
Dinshaw Vachha Road,
Opp. K.C. College, Churchgate,
Mumbai - 400 020
Tel : 022-22870580
Fax: 022-22870581
Email: kernex@almondz.com

Co-Manager to the Issue

Shriyam Broking Intermediary Limited

712-715, Tulsiani Chambers, 212, Nariman Point,
Mumbai - 400 021
Tel : 022-30228500
Fax: 022-56308609
Email: sundaresan@shriyam.com

Registrars to the Issue

Karvy Computershare Private Limited

Karvy House, 46, Avenue 4, Street No.1, Banjara Hills,
Hyderabad 500 034
Tel.: 040 - 2331 2454
Fax.: 040 - 2331 1968
E-mail: kernex.ipo@karvy.com
Contact Person: Mr.Murali Krishna

Legal Advisors to the issue

Luthra & Luthra

Luthra & Luthra Law Offices
103, Ashoka Estate,
Barakhamba Road, New Delhi-110001
Tel : 011-23350633
Fax : 011-23723909
E-mail: luthra@luthra.com



Bankers to the Company

State Bank of Hyderabad

Overseas Branch
Somajiguda, Hyderabad - 500 082
Tel: 040-23398188
Fax: 040-23312576
Email: sbhobhyd@sancharnet.in

Bankers to the Issue and Escrow Collection Bankers

ICICI Bank Limited

30, Mumbai Samachar Marg,
Fort, Mumbai 400 001
Tel: 022-22655285
Fax: 022-22611138
Email: sidhartha.routray@icicibank.com

Kotak Mahindra Bank Limited

36-38, Nariman Bhawan, A Wing,
227, Nariman Point,
Mumbai 400 021
Tel: 022-56596216
Fax: 022-2281 7527
Email: mahesh.shekdar@kotak.com

Standard Chartered Bank

270, D.N. Road, Fort,
Mumbai 400 001
Tel: 022-22092216/13/22683831
Fax: 022-22096068
Email: banhid.bhattacharya@in.standardchartered.com

UTI Bank Limited

6-3-879/B, G. Pulla Reddy Building
First Floor, Begumpet Road,
Hyderabad 500 016.
Tel: 040-2340 5182 /5185 / 23415186
Fax: 040-23407184.
Email: roshan.mathias@utibank.co.in

Centurion Bank Ltd.

Central Bombay Infotech Park,
Ground Floor, 101, K.Khadye Marg,
Mahalaxmi,
Mumbai 400 011.
Tel : 022-55540252
Fax: 022-55540011
Email: kn.amarnath@centurionbank.com

Auditors to the Company

GMK Associates

Chartered Accountants
607, Raghavaratna Towers
Chirag Ali Lane. Abids, Hyderabad- 500001
Tel: 040-23201357
Email: gmkassociates@rediffmail.com

Credit Rating

This being an issue of equity shares, credit rating is not required.

Trustees

As the issue is of equity shares the appointment of trustee is not required.

**Appraiser**

BOB CAPITAL MARKETS LTD.
(Wholly owned Subsidiary of Bank of Baroda)
 Corporate Finance Department
 Ground floor, Noble Chamber (Vatsa House)
 20-C/D, S.A.Brelvi Road, Fort, Mumbai -400001
 Tel. : 022-22844892/93
 Fax : 022-22845208
 Email : mbd@bobcapitalmarkets.com

Monitoring Agency:

STATE BANK OF HYDERABAD
 Overseas Branch
 Somajiguda,
 Hyderabad - 500 082
 Tel : 040-23398188
 Fax : 040-23312576
 Email : sbhobhyd@sancharnet.in

Book Building Process

Book building refers to the process of collection of Bids, on the basis of the Prospectus within a given Price Band. The Issue Price is fixed after the Bid Closing Date/Issue Closing Date.

Principal parties involved in the Book Building Process are:

- The Issuer Company;
- Book Running Lead Managers;
- Syndicate Members who are intermediaries registered with SEBI or registered as brokers with BSE/NSE and eligible to act as Underwriters. Syndicate Members are appointed by the BRLMs;
- Escrow Collection Bank(s); and
- Registrar to the Issue.

The SEBI Guidelines permits issue of securities to the public through the 100% Book Building Process, wherein up to 50% of the Issue shall be allocated on a discretionary basis to QIBs. Further, not less than 15% of the Issue shall be available for allotment on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Issue shall be available for allotment on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. We will comply with the SEBI Guidelines for this Issue. In this regard, we have appointed the BRLMs to manage the Issue and to procure subscriptions to the Issue. Pursuant to amendments to the SEBI Guidelines, QIBs are not allowed to withdraw their bid(s) after the Bid Closing Date/Issue Closing Date and for further details see the section titled "Terms of the Issue" on page 149 of this Prospectus.

The process of Book Building under SEBI Guidelines is relatively new and investors are advised to make their own judgment about investment through this process prior to making a Bid or Application in the Issue.

Illustration of Book Building and Price Discovery Process (Investors should note that this example is solely for illustrative purposes and is not specific to the Issue): Bidders can bid at any price within the given price band. For instance, assume a price band of Rs. 20 to Rs. 24 per share, issue size of 3,000 equity shares and receipt of five bids from bidders, details of which are shown in the table below. A graphical representation of the consolidated demand and price would be made available at the bidding centers during the bidding period. The illustrative book as shown below shows the demand for the shares of the company at various prices and is collated from bids from various investors.

Bid Quantity	Bid Price (Rs.)	Cumulative Quantity	Subscription
500	24	500	16.67%
1000	23	1500	50.00%
1500	22	3000	100.00%
2000	21	5000	166.67%
2500	20	7500	250.00%

The price discovery is a function of demand at various prices. The highest price at which the issuer is able to issue the desired number of shares is the price at which the book cuts off, i.e., Rs. 22 in the above example. The issuer, in consultation with the book running lead managers, will finalize the issue price at or below such cut off price, i.e., at or below Rs. 22. All bids at or above this issue price and cut-off bids are valid bids and are considered for allocation in the respective categories.



Steps to be taken for bidding:

- Check eligibility for bidding, see the section titled "Issue Procedure-Who Can Bid" on page 153 of this Prospectus;
- Ensure that the Bidder has a demat account; and
- Ensure that the Bid cum Application Form is duly completed as per instructions given in this Prospectus and in the Bid cum Application Form.

Underwriting Agreement

After the determination of the Issue Price and allocation of our Equity Shares but prior to filing of the Prospectus with the Designated Stock Exchange, our Company will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered through this Issue. The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

This portion has been intentionally left blank and will be filled in before filing of the Prospectus with the Designated Stock Exchange.

(Rs. in million)

Name and address of the underwriter	Indicated no. of equity shares to be underwritten	Amount underwritten
BOB Capital Markets Ltd. Ground floor, Noble Chambers, (Vatsa House), 20-C/D, S.A.Brelvi Road, Fort, Mumbai -400001	792,100	198.025
Allianz Securities Limited No. 3, 2 nd Floor, Scindia House, Janpath, New Delhi - 110001	3,168,244	792.061
Almondz Capital Markets (P) Limited Vaswani Mansion, 6th Floor, Dinshaw Vachha Road, Opp. K.C. College, Churchgate, Mumbai - 400 020	100	0.025
Total	3,960,444	990.111

The above-mentioned amount is indicative underwriting and this would be finalized after pricing and actual allocation. The above Underwriting Agreement is dated December 6, 2005.

In the opinion of our Board of Directors (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the Securities and Exchange Board of India Act, 1992 or registered as brokers with one or more of the Stock Exchanges.

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. In the event of any default, the respective Underwriter in addition to other obligations to be defined in the Underwriting Agreement will also be required to procure/subscribe to the extent of the defaulted amount. Notwithstanding the above table, the Underwriters shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them, provided, however, it is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that their respective Syndicate Members do not fulfill their underwriting obligations. Allocation to QIBs is discretionary as per the terms of this Prospectus and may not be proportionate in any way and the patterns of allocation to the QIBs could be different for the various Underwriters.



CAPITAL STRUCTURE

(Rs. in Million)

	Aggregate amount at Nominal Value	Aggregate amount at Issue Price
A. Authorized Capital 15,000,000 equity shares of 10 Each	150.00	150.00
B. Issued, Subscribed and Paid up Equity Share Capital 7,402,879 equity shares of Rs. 10 each	74.03	74.03
C. Present Issue to the public in terms of this Prospectus 3,960,444 Equity Shares of Rs. 10 each fully paid up	39.60	990.11
D. Paid Up Equity Capital After the Issue 11,363,323 Equity Shares of Rs. 10 each fully paid up	113.63	1,064.14
E. Share Premium account		
Before the issue	-	58.94
After the issue	-	1,009.45

Notes to Capital Structure

1. Details of Increase in Authorised Capital

Date	Authorized Capital (Rs. in Million)	Face value (Rs)	No of Shares	Particulars
16.09.91	1.00	10.00	100,000	Subscription to Memorandum
15.03.93	2.50	10.00	250,000	Increase
28.12.98	5.00	10.00	500,000	Increase
28.01.99	20.00	10.00	2,000,000	Increase
26.07.99	35.00	10.00	3,500,000	Increase
05.02.00	55.00	10.00	5,500,000	Increase
02.12.00	100.00	10.00	10,000,000	Increase
02.05.05	150.00	10.00	15,000,000	Increase

2. Share Capital History our Company (Capital Build-Up)

Date of Allotment	No. of equity Shares	Face value (Rs)	Issue Price (Rs)	Consideration	Reasons for Allotment	Cumulative Paid up Capital (Rs in Million)
16.09.91	300	10.00	10.00	Cash	Initial Allotment	0.003
21.04.94	101,600	10.00	10.00	Cash	Expansion of Capital Base	1.019
20.03.95	146,700	10.00	10.00	Cash	Expansion of Capital Base	2.486
04.02.99	93,832	10.00	10.00	Cash	Expansion of Capital Base	3.424



Date of Allotment	No. of equity Shares	Face value (Rs)	Issue Price (Rs)	Consideration	Reasons for Allotment	Cumulative Paid up Capital (Rs in Million)
10.03.99	40,000	10.00	10.00	Cash	Expansion of Capital Base	3.824
28.07.99	1,720,944	10.00	-	Bonus	Bonus Issue	21.034
17.01.00	857,480	10.00	12.00	Cash	Expansion of Capital Base	29.609
03.05.00	859,008	10.00	12.00	Cash	Expansion of Capital Base	38.199
30.06.00	1,211,204	10.00	-	Bonus	Expansion of Capital Base	50.311
15.12.00	680,365	10.00	75.00	Cash	Expansion of Capital Base	57.114
24.01.01	1,999	10.00	75.00	Cash	Expansion of Capital Base	57.134
15.03.01	12,109	10.00	75.00	Cash	Expansion of Capital Base	57.255
31.08.01	485,749	10.00	-	Bonus	Bonus Issue	62.113
18.11.02	300,445	10.00	-	Bonus	Bonus Issue	65.117
13.02.03	486	10.00	300.00	Cash	Expansion of Capital Base	65.122
27.02.04	325,611	10.00	-	Bonus	Bonus Issue	68.378
28.06.04	58,155	10.00	200.00	Cash	Expansion of Capital Base	68.960
15.10.04	341,892	10.00	-	Bonus	Bonus Issue	72.379
08.11.04	165,000	10.00	5.00	Services	Sweat Equity	74.029
	7,402,879					

3. Promoters' And Promoters' Group Contribution And Lock in

In terms of the SEBI Guidelines, the shareholding of Promoters and Promoters' Group would be locked in for a period of three years as under: -

S.No.	Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock in Period
1. Col L V Raju								
	10.03.99	10.03.99	4670	Cash	10	10	0.04	3 years
	28.07.99	28.07.99	45,002	Bonus	10	-	0.40	3 years
	30.06.00	30.06.00	28,490	Bonus	10	-	0.25	3 years
	31.08.01	31.08.01	7,647	Bonus	10	-	0.07	3 years
	18.11.02	18.11.02	4,398	Bonus	10	-	0.04	3 years
	27.02.04	27.02.04	4,777	Bonus	10	-	0.04	3 years
	15.10.04	15.10.04	5,016	Bonus	10	-	0.88	3 years
	Total		100,000					



S.No.	Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock in Period
2.Raju N.Manthena								
	30.06.00	30.06.00	127,765	Bonus	10	-	1.12	3 years
	31.08.01	31.08.01	60,844	Bonus	10	-	0.54	3 years
	18.11.02	18.11.02	34,510	Bonus	10	-	0.30	3 years
	27.02.04	27.02.04	37,503	Bonus	10	-	0.33	3 years
	15.10.04	15.10.04	39,378	Bonus	10	-	0.35	3 years
	Total		300,000				2.64	
3.Kishore B.Gottimukkala								
	30.06.00	30.06.00	36,307	Bonus	10	-	0.32	3 years
	15.12.00	15.12.00	12,109	Cash	10	75	0.11	3 years
	31.08.01	31.08.01	37,374	Bonus	10	-	0.33	3 years
	18.11.02	18.11.02	21,679	Bonus	10	-	0.19	3 years
	27.02.04	27.02.04	23,542	Bonus	10	-	0.21	3 years
	15.10.04	15.10.04	24,719	Bonus	10	-	0.22	3 years
	Total		155,730				1.37	
4. Mantena Anji Raju								
	30.06.00	30.06.00	61,504	Bonus	10	-	0.54	3 years
	15.12.00	15.12.00	60,546	Cash	10	75	0.53	3 years
	31.08.01	31.08.01	25,024	Bonus	10	-	0.22	3 years
	18.11.02	18.11.02	16,449	Bonus	10	-	0.14	3 years
	27.02.04	27.02.04	17,793	Bonus	10	-	0.16	3 years
	15.10.04	15.10.04	18,684	Bonus	10	-	0.16	3 years
	Total		200,000				1.76	
5. Jyotsna Lakamraju								
	17.01.00	17.01.00	35,571	Cash	10	12	0.31	3 years
	03.05.00	03.05.00	72,350	Cash	10	12	0.64	3 years
	30.06.00	30.06.00	52,087	Bonus	10	-	0.46	3 years
	15.12.00	15.12.00	6,033	Cash	10	75	0.05	3 years
	31.08.01	31.08.01	27,730	Bonus	10	-	0.24	3 years
	18.11.02	18.11.02	5,937	Bonus	10	-	0.05	3 years
	27.02.04	27.02.04	17,215	Bonus	10	-	0.15	3 years
	15.10.04	15.10.04	18,077	Bonus	10	-	0.16	3 years
	Total		235,000				2.07	
6. Jyoti Raju								
	17.01.00	17.01.00	8,523	Cash	10	12	0.08	3 years
	30.06.00	30.06.00	33,612	Bonus	10	-	0.30	3 years
	31.08.01	31.08.01	11,642	Bonus	10	-	0.10	3 years
	18.11.02	18.11.02	6,575	Bonus	10	-	0.06	3 years
	27.02.04	27.02.04	7,147	Bonus	10	-	0.06	3 years
	15.10.04	15.10.04	7,501	Bonus	10	-	0.07	3 years
	Total		75,000				0.66	



S.No.	Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock in Period
7. Swati Raju								
	03.05.00	03.05.00	15,233	Cash	10	12	0.13	3 years
	30.06.00	30.06.00	28,489	Bonus	10	-	0.25	3 years
	31.08.01	31.08.01	10,946	Bonus	10	-	0.10	3 years
	18.11.02	18.11.02	6,302	Bonus	10	-	0.06	3 years
	27.02.04	27.02.04	6,846	Bonus	10	-	0.06	3 years
	15.10.04	15.10.04	7,184	Bonus	10	-	0.06	3 years
	Total		75,000				0.66	
SUB-TOTAL			1,140,730				10.04	
Relatives of Promoters								
8.Seeta Rama Raju Manthena								
	30.06.00	30.06.00	38,733	Bonus	10	-	0.34	3 years
	15.12.00	15.12.00	30,420	Cash	10	75	0.27	3 years
	31.08.01	31.08.01	44,854	Bonus	10	-	0.34	3 years
	18.11.02	18.11.02	26,670	Bonus	10	-	0.23	3 years
	27.02.04	27.02.04	28,938	Bonus	10	-	0.25	3 years
	15.10.04	15.10.04	30,385	Bonus	10	-	0.27	3 years
	Total		200,000				1.76	
9.Lakshmi Manthena								
	30.06.00	30.06.00	54,863	Bonus	10	-	0.48	3 years
	15.12.00	15.12.00	30,226	Cash	10	75	0.27	3 years
	31.08.01	31.08.01	39,503	Bonus	10	-	0.35	3 years
	18.11.02	18.11.02	23,385	Bonus	10	-	0.21	3 years
	27.02.04	27.02.04	25,377	Bonus	10	-	0.22	3 years
	15.10.04	15.10.04	26,646	Bonus	10	-	0.23	3 years
	Total		200,000				1.76	
10.Manthena Srinivasa Raju								
	30.06.00	30.06.00	60,504	Bonus	10	-	0.53	3 year
	15.12.00	15.12.00	30,226	Cash	10	75	0.27	3 year
	31.08.01	31.08.01	37,554	Bonus	10	-	0.33	3 year
	18.11.02	18.11.02	22,240	Bonus	10	-	0.20	3 year
	27.02.04	27.02.04	24,135	Bonus	10	-	0.21	3 year
	15.10.04	15.10.04	25,341	Bonus	10	-	0.22	3 year
	Total		200,000				1.76	



S.No.	Date of Allotment	Date when made fully paid-up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock in Period
11. Shilpa Lakamraju								
	17.01.00	17.01.00	24,245	Cash	10	12	0.21	3 year
	03.05.00	03.05.00	72,350	Cash	10	12	0.64	3 year
	30.06.00	30.06.00	53,455	Bonus	10	-	0.47	3 year
	15.12.00	15.12.00	6,033	Cash	10	75	0.05	3 year
	31.08.01	31.08.01	28,097	Bonus	10	-	0.25	3 year
	18.11.02	18.11.02	16,057	Bonus	10	-	0.14	3 year
	27.02.04	27.02.04	17,445	Bonus	10	-	0.15	3 year
	15.10.04	15.10.04	18,318	Bonus	10	-	0.16	3 year
	Total		236,000				2.08	
12. L V Narasa Raju								
	28.07.99	28.07.99	85,984	Bonus	10	-	0.76	3 years
	30.06.00	30.06.00	64,100	Bonus	10	-	0.56	3 years
	24.01.01	24.01.01	666	Cash	10	75	0.01	3 years
	31.08.01	31.08.01	17,217	Bonus	10	-	0.15	3 years
	18.11.02	18.11.02	9,928	Bonus	10	-	0.09	3 years
	27.02.04	27.02.04	10,783	Bonus	10	-	0.09	3 years
	15.10.04	15.10.04	11,322	Bonus	10	-	0.10	3 years
	Total		200,000				1.76	
13. Manthena Parvathi								
	30.06.00	30.06.00	26,884	Bonus	10	-	0.24	3 years
	15.12.00	15.12.00	30,226	Cash	10	75	0.27	3 years
	31.08.01	31.08.01	13,885	Bonus	10	-	0.12	3 years
	18.11.02	18.11.02	9,013	Bonus	10	-	0.08	3 years
	27.02.04	27.02.04	9,752	Bonus	10	-	0.09	3 years
	15.10.04	15.10.04	10,240	Bonus	10	-	0.09	3 years
	Total		100,000				0.88	
14. Madhuvalli Lakamraju								
	30.06.00	30.06.00	25,234	Bonus	10	-	0.22	3 years
	15.12.00	15.12.00	6,033	Cash	10	75	0.05	3 years
	31.08.01	31.08.01	15,088	Bonus	10	-	0.13	3 years
	18.11.02	18.11.02	8,882	Bonus	10	-	0.08	3 years
	27.02.04	27.02.04	9,641	Bonus	10	-	0.08	3 years
	15.10.04	15.10.04	10,122	Bonus	10	-	0.09	3 years
	Total		75,000				0.66	
15. Jhansi Lakshmi Bai								
	30.06.00	30.06.00	28,165	Bonus	10	-	0.25	3 years
	31.08.01	31.08.01	7,646	Bonus	10	-	0.07	3 years
	18.11.02	18.11.02	4,397	Bonus	10	-	0.04	3 years
	27.02.04	27.02.04	4,777	Bonus	10	-	0.04	3 years
	15.10.04	15.10.04	5,015	Bonus	10	-	0.04	3 years
	Total		50,000				0.44	
SUB-TOTAL (B)			1,261,000				11.10	3 years
Grand Total (A + B)			2,401,730				21.14	3 years



Promoters will not participate in this issue. The Equity Shares will be locked in for the period specified above from the date of allotment of Equity Shares in this Issue. The 2,401,730 Equity Shares locked in for a period of three years have been computed as 21.14% of our equity capital after the issue. In terms of Clause 4.11.2 of the SEBI Guidelines, the lock-in shall start from the date of allotment in the proposed public issue and the last date of the lock-in shall be reckoned as three years from the date of commencement of commercial production or the date of allotment in the public issue whichever is later.

Locked in Equity Shares held by the Promoters can be pledged with banks or financial institutions as collateral security for loans granted by such banks or financial institutions. In terms of clause 4.16 (b) of the SEBI Guidelines, Equity Shares held by the Promoter may be transferred to a new promoter or persons in control of the company subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI Takeover Regulations, as applicable.

Other than as stated above, the entire pre issue equity share capital of our Company i.e. 5,001,149 equity shares will be locked in for the period of one year from the date of allotment of Equity Shares in this issue.

Summary of Lock-in of Promoters holding :

Particulars	Shares under Lock-in for		Total shares held
	1 year	3 years	
A. PROMOTER			
Col L V Raju	105,330*	100,000	205,330
Raju N Mantena	526,941	300,000	826,941
Kishore B Gottimukkala	363,369	155,730	519,099
Manthena Anji Raju	192,344	200,000	392,344
Jyotsna Lakamraju	134,702	235,000	369,702
Jyoti Raju	82,573	75,000	157,573
Swati Raju	75,942	75,000	150,942
SUB-TOTAL (A)	1,481,201	1,140,730	2,621,931
B. PROMOTERS GROUP			
Relative of Promoters			
Venkat R Lakamraju	966,560	Nil	966,560
Seeta Rama Raju Manthena	438,086	200,000	638,086
Lakshmi Manthena	359,564	200,000	559,564
Manthena Srinivasa Raju	332,173	200,000	532,173
Shilpa Lakamraju	148,668	236,000	384,668
L V Narasa Raju	37,766	200,000	237,766
Manthena Parvathi	115,047	100,000	215,047
Madhuvalli Lakamraju	137,570	75,000	212,570
Jhansi Lakshmi Bai	55,324	50,000	105,324
Krishna Mantena	100,237	Nil	100,237
Madhav Mantena	100,237	Nil	100,237
Namrata Kapoor	7,198	Nil	7,198
Jagannadha L Raju	4,006	Nil	4,006
L Suseela	1,574	Nil	1,574
L V Subba Raju	1,053	Nil	1,053
SUB-TOTAL (B)	2,805,063	1,261,000	4,066,063
Grand Total (A + B)	4,286,264	2,401,730	6,687,994

* includes 100,000 equity shares issued as sweat equity with three year lock-in.



4. The details of capital build up of Promoters' Shareholding are as under:

COL L V RAJU

Date of Allotment	Date when made fully paid -up	No of shares	Conside-ration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock-in period in years
10.03.99	10.03.99	10,000	Cash	10	10	0.09	5,330 - 1 yr 4,670 - 3 yr
28.07.99	28.07.99	45,002	Bonus	10	-	0.40	3
30.06.00	30.06.00	28,490	Bonus	10	-	0.25	3
31.08.01	31.08.01	7,647	Bonus	10	-	0.07	3
18.11.02	18.11.02	4,398	Bonus	10	-	0.04	3
27.02.04	27.02.04	4,777	Bonus	10	-	0.04	3
15.10.04	15.10.04	5,016	Bonus	10	-	0.04	3
08.11.04	08.11.04	100,000	Sweat equity	10	5	0.88	
Total		205,330				1.84	

#Sweat equity shares are locked in for 3 years from the date of allotment and are not considered as part of promoters contribution qualified for lock-in pursuant to 4.6.2 of SEBI (DIP) Guidelines. The shares last allotted shall be locked in first.

RAJU N MANTENA

Date of Allotment	Date when made fully paid -up	No of shares	Conside-ration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock in period in years
21.04.94	21.04.94	30,735	Cash	10	10	0.27	1
04.02.99	04.02.99	27,924	Cash	10	10	0.25	1
28.07.99	28.07.99	263,965	Bonus	10	-	2.32	1
17.01.00*	17.01.00	144,466	Cash	10	12	1.27	1
30.06.00	30.06.00	167,114	Bonus	10	-	1.47	39,349-1 yr 127,765 -3 yrs
30.06.00*	30.06.00	20,502	Bonus	10	-	0.18	1
31.08.01	31.08.01	44,853	Bonus	10	-	0.39	3
31.08.01*	31.08.01	15,991	Bonus			0.14	3
18.11.02	18.11.02	25,795	Bonus	10	-	0.23	3
18.11.02*	18.11.02	8,715	Bonus	10	-	0.08	3
27.02.04	27.02.04	28,019	Bonus	10	-	0.25	3
27.02.04*	27.02.04	9,484	Bonus	10	-	0.08	3
15.10.04	15.10.04	29,420	Bonus	10	-	0.26	3
15.10.04*	15.10.04	9,958	Bonus	10	-	0.09	3
Total		826,941				7.28	

* Allotment to the above NRI made pursuant to approval from the Department of Industrial Policy and Promotion vide their letters dated January 7, 2000 and April 10, 2000 on a repatriation basis and subsequent approval from Reserve Bank of India.

**KISHORE B GOTTIMUKKALA**

Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock-in period in years
21.04.94	21.04.94	10,435	Cash	10	10	0.09	1
04.02.99	04.02.99	18,928	Cash	10	10	0.17	1
28.07.99	28.07.99	132,133	Bonus	10	-	1.16	1
17.01.00*	17.01.00	72,009	Cash	10	12	0.63	1
03.05.00*	3.05.00	72,300	Cash	10	12	0.64	1
30.06.00	30.06.00	83,652	Bonus	10	-	0.74	47,345 - 1 yr 36,307 - 3 yrs
30.06.00*	30.06.00	10,219	Bonus	10	-	0.09	1
15.12.00*	15.12.00	12,109	Cash	10	75	0.11	3
31.08.01	31.08.01	22,452	Bonus	10	-	0.20	3
31.08.01*	31.08.01	14,922	Bonus	10	-	0.13	3
18.11.02	18.11.02	12,912	Bonus	10	-	0.11	3
18.11.02*	18.11.02	8,767	Bonus	10	-	0.08	3
27.02.04	27.02.04	14,026	Bonus	10	-	0.12	3
27.02.04*	27.02.04	9,516	Bonus	10	-	0.18	3
15.10.04	15.10.04	14,727	Bonus	10	-	0.13	3
15.10.04*	15.10.04	9,992	Bonus	10	-	0.09	3
Total		519,099				4.57	

* Allotment to the above NRI made pursuant to approval from the Department of Industrial Policy and Promotion vide their letter dated January 7, 2000 and April 10, 2000 on a repatriation basis and subsequent approval from Reserve Bank of India.

MANTHENA ANJI RAJU

Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock-in period in years
21.04.94	21.4.94	30,405	Cash	10	10	0.27	1
28.07.99	28.07.99	136822	Bonus	10	-	1.20	1
30.06.00	30.06.00	86,621	Bonus	10	-	0.76	25,117- 1 yr 61,504 - 3 yrs
15.12.00*	15.12.00	60,546	Cash	10	75	0.53	3
31.08.01	31.08.01	23,249	Bonus	10	-	0.20	3
31.08.01*	31.08.01	1,775	Bonus	10	-	0.02	3
18.11.02	18.11.02	13,370	Bonus	10	-	0.12	3
18.11.02*	18.11.02	3,079	Bonus	10	-	0.03	3
27.02.04	27.02.04	14,523	Bonus	10	-	0.13	3
27.02.04*	27.02.04	3,270	Bonus	10	-	0.03	3
15.10.04	15.10.04	15,250	Bonus	10	-	0.13	3
15.10.04*	15.10.04	3,434	Bonus	10	-	0.03	3
Total		392,344				3.45	

* Allotment to the above NRI made pursuant to approval from the Department of Industrial Policy and Promotion vide their letter dated January 7, 2000 and April 10, 2000 on a repatriation basis and subsequent approval from Reserve Bank of India.

**JYOTSNA LAKAMRAJU**

Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock-in period in years
04.02.99	04.02.99	13,500	Cash	10	10	0.12	1
28.07.99	28.07.99	60,750	Bonus	10	-	0.53	1
17.1.00*	17.1.00	96,023	Cash	10	12	0.84	60,452 - 1 yr 35,571- 3 yrs
03.05.00*	03.05.00	72,350	Cash	10	12	0.64	3
30.06.00	30.06.00	38,460	Bonus	10	-	0.34	3
30.06.00*	30.06.00	13,627	Bonus	10	-	0.12	3
15.12.00*	15.12.00	6,033	Cash	10	75	0.05	3
31.08.01	31.08.01	10,323	Bonus	10	-	0.09	3
31.08.01*	31.08.01	17,407	Bonus	10	-	0.15	3
18.11.02	18.11.02	5,937	Bonus	10	-	0.05	3
27.02.04	27.02.04	6,448	Bonus	10	-	0.06	3
27.02.04*	27.02.04	10,767	Bonus	10	-	0.09	3
15.10.04	15.10.04	6,771	Bonus	10	-	0.06	3
15.10.04*	15.10.04	11,306	Bonus	10	-	0.10	3
Total		369,702				3.25	

* Allotment to the above NRI made pursuant to approval from the Department of Industrial Policy and Promotion vide their letter dated January 7, 2000 and April 10, 2000 on a repatriation basis and subsequent approval from Reserve Bank of India.

JYOTI RAJU

Date of Allotment	Date when made fully paid -up	No of shares	Consideration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock-in period in years
10.03.99	10.03.99	10,000	Cash	10	10	0.09	1
28.07.99	28.07.99	45,000	Bonus	10	-	0.40	1
17.01.00*	17.01.00	36,096	Cash	10	12	0.32	27,573-1 yr 8,523-3 yrs
30.06.00	30.06.00	28,489	Bonus	10	-	0.25	3
30.06.00*	30.06.00	5,123	Bonus	10	-	0.05	3
31.08.01	31.08.01	7,646	Bonus	10	-	0.07	3
31.08.01*	31.08.01	3,996	Bonus	10	-	0.04	3
18.11.02	18.11.02	4,397	Bonus	10	-	0.04	3
18.11.02*	18.11.02	2,178	Bonus	10	-	0.02	3
27.02.04	27.02.04	4,777	Bonus	10	-	0.04	3
27.02.04*	27.02.04	2,370	Bonus	10	-	0.02	3
15.10.04	15.10.04	5,015	Bonus	10	-	0.04	3
15.10.04*	15.10.04	2,486	Bonus	10	-	0.02	3
Total		157,573				1.39	



* Allotment to the above NRI made pursuant to approval from the Department of Industrial Policy and Promotion vide their letter dated January 7, 2000 and April 10, 2000 on a repatriation basis and subsequent approval from Reserve Bank of India.

SWATI RAJU

Date of Allotment	Date when made fully paid -up	No of shares	Conside-ration	Face Value (Rs)	Issue Price (Rs)	% of post issue capital	Lock-in period in years
10.03.99	10.03.99	10,000	Cash	10	10	0.09	1
28.07.99	28.07.99	45,000	Bonus	10	-	0.40	1
03.05.00*	03.05.00	36,175	Cash	10	12	0.32	20942-1 yr 15233-3 yrs
30.06.00	30.06.00	28,489	Bonus	10	-	0.25	3
31.08.01	31.08.01	7,646	Bonus	10	-	0.07	3
31.08.01*	31.08.01	3,300	Bonus	10	-	0.03	3
18.11.02	18.11.02	4,397	Bonus	10	-	0.04	3
18.11.02*	18.11.02	1,905	Bonus	10	-	0.02	3
27.02.04	27.02.04	4,777	Bonus	10	-	0.04	3
27.02.04*	27.02.04	2,069	Bonus	10	-	0.02	3
15.10.04	15.10.04	5,015	Bonus	10	-	0.04	3
15.10.04*	15.10.04	2,169	Bonus	10	-	0.02	3
Total		150,942				1.33	

* Allotment to the above NRI made pursuant to approval from the Department of Industrial Policy and Promotion vide their letter dated January 7, 2000 and April 10, 2000 on a repatriation basis and subsequent approval from Reserve Bank of India.

5. The promoters' contribution has been brought in to the extent of not less than the specified minimum lot and from persons defined as promoters and promoters group.
6. Neither we, nor our Directors or our Promoters, or the BRLMs have entered into any buyback and / or standby arrangements for the purchase of our Equity Shares from any person.
7. An over subscription to the extent of 10% of the net offer to public can be retained for the purpose of rounding off to the nearer multiple of minimum allotment lot.
8. The securities offered through this public issue shall be made fully paid up or may be forfeited within 12 months from the date of allotment of shares in the manner specified as per clause 8.6.2 of the Disclosure & Investor Protection Guidelines.
9. In case of over-subscription in all categories, up to 50% of the shares offered shall be available for allocation on a discretionary basis to Qualified Institutional Buyers, a minimum of 15% for allocation on a proportionate basis to Non-Institutional Bidders and a minimum of 35% of the Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Under-subscription, if any, in any category would be met with spill over from other categories at the sole discretion of Issuer Company in consultation with the BRLMs.



10. a) Details of Top Ten shareholders on date of filing Prospectus with RoC.

S. NO	NAME OF THE SHAREHOLER	TOTAL NO. OF SHARES
1	Venkat R Lakamraju	966,560
2	Raju N Mantena	826,941
3	Seeta Rama Raju Manthena	638,086
4	Lakshmi Manthena	559,564
5	Manthena Srinivasa Raju	532,173
6	Kishore B Gottimukkala	519,099
7	Manthena Anji Raju	392,344
8	Shilpa Lakamraju	384,668
9	Jyotsna Lakamraju	369,702
10	L V Narasa Raju	237,766

b) Details of Top ten shareholders Ten days before the date of filing Prospectus with RoC

S NO	NAME OF THE SHAREHOLER	TOTAL NO.OF SHARES
1	Venkat R Lakamraju	966,560
2	Raju N Mantena	826,941
3	Seeta Rama Raju Manthena	638,086
4	Lakshmi Manthena	559,564
5	Manthena Srinivasa Raju	532,173
6	Kishore B Gottimukkala	519,099
7	Manthena Anji Raju	392,344
8	Shilpa Lakamraju	384,668
9	Jyotsna Lakamraju	369,702
10	L V Narasa Raju	237,766

c) Details of Top Ten shareholders two years prior to date of filing Prospectus with RoC

S. NO	NAME OF THE SHAREHOLER	TOTAL NO. OF SHARES
1	Venkat R Lakamraju	915,378
2	Raju N Mantena	750,060
3	Seeta Rama Raju Manthena	578,763
4	Lakshmi Manthena	507,541
5	Manthena Srinivasa Raju	482,697
6	Kishore B Gottimukkala	470,838
7	Manthena Anji Raju	355,867
8	Shilpa Lakamraju	348,905
9	Jyotsna Lakamraju	344,319
10	L V Narasa Raju	215,661


11. Pre-Issue and Post-Issue Shareholding of Promoter and Promoter Group

Particulars	Pre-Issue		Post -Issue	
	No. of Equity Shares	% to the present share capital	No. of Equity Shares	% to the post share capital
Promoter / Core Promoter*	2,621,931	35.41	2,621,931	23.08
Promoter Group*	4,066,063	54.93	4,066,063	35.78
Total Promoter & Promoter Group	6,687,994	90.34	6,687,994	58.86
Others	714,885	9.66	4,675,329	41.14
Total	7,402,879	100.00	11,363,323	100.00

* Details of Promoter / Promoter Group are disclosed at point no. 7 below.

12. Details of Promoter / Promoter Group

Name of Promoter		Total No of shares held
A.	PROMOTER	
	Col L V Raju	205,330
	Raju N Mantena	826,941
	Kishore B Gottimukkala	519,099
	Manthena Anji Raju	392,344
	Jyotsna Lakamraju	369,702
	Jyoti Raju	157,573
	Swati Raju	150,942
	SUB-TOTAL (A)	2,621,931
B.	PROMOTERS GROUP	
	Relative of Promoters	
	Venkat R Lakamraju	966,560
	Seeta Rama Raju Manthena	638,086
	Lakshmi Manthena	559,564
	Manthena Srinivasa Raju	532,173
	Shilpa Lakamraju	384,668
	L V Narasa Raju	237,766
	Manthena Parvathi	215,047
	Madhuvalli Lakamraju	212,570
	Jhansi Lakshmi Bai	105,324
	Krishna Mantena	100,237
	Madhav Mantena	100,237
	Namrata Kapoor	7,198
	Jagannadha L Raju	4,006
	L Suseela	1,574
	L V Subba Raju	1,053
	SUB-TOTAL (B)	4,066,063
	Grand Total (A + B)	6,687,994



13. The Promoters' Group/Directors have not purchased / sold / financed / acquired any shares of the company during the past 6 months.
14. We have not raised any bridge loan against the proceeds of the present issue. For details on use of the proceeds, see the section titled "Objects of the Issue" on page 28 of this Prospectus.
15. A Bidder cannot make a bid for more than the number of Equity Shares offered in this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
16. There would be no further issue of capital in any manner whether by way of issue of bonus shares, preferential allotment, rights issue, public issue or otherwise during the period commencing from submission of the Prospectus with SEBI till the securities offered through this Prospectus have been listed or the application monies refunded on account of non listing or under-subscription, etc.
17. We presently do not have any intention or proposal to alter its capital structure for a period of six months from the date of opening of the Issue, by way of split/consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into exchangeable, directly or indirectly for Equity Shares) whether preferential or otherwise except that we may issue options to our employees pursuant to any employee Stock Option plan, or if we go for acquisitions and joint ventures we may consider raising additional capital to fund such activity or use shares as currency for acquisition and / or participation in such joint venture.
18. We have not issued any equity shares out of revaluation reserves. However, we had issued 341,892 Bonus shares of Rs.10/- each on 15.10.04 by capitalization of free reserves (other than revaluation reserves). The total bonus capital is Rs. 43,858,450.
19. We shall ensure that at any given point of time, there shall be only one denomination for the Equity Shares and comply with such disclosure and accounting norms specified by SEBI from time to time.
20. In terms of clause 4.16(a) of the SEBI Guidelines the equity shares held by persons other than Promoters prior to IPO which are locked in may be transferred to any other person holding shares which are locked in subject to the continuation of lock in with transferees for the remaining period and in compliance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable. The equity shares held by the promoters under lock in period shall not be sold/hypothecated/transferred during the lock in period. However, the equity shares held by promoters, which are locked in, may be transferred to/ and among promoter/promoter group or to a new promoter or persons in control of the Company, subject to the continuation of lock in with the transferees for the remaining period and in compliance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable. The Promoters may pledge their Equity Shares with banks or financial institutions, as collateral security for loans whenever availed by them from banks or financial institutions provided pledge of shares is one of the terms of sanction of loan.
21. We have 82 members as on the date of filing of the Prospectus with SEBI.
22. Our shareholders do not hold any outstanding warrant, options and right to convert a debenture, loan or any other instrument, which would entitle them to acquire further shares of the Company. We have issued sweat equity to its employees.

23. DETAILS OF SWEAT EQUITY

Pursuant to the special resolution passed at the Extraordinary General Meeting held on September 18, 2004, we have issued 1,65,000 equity shares of Rs. 10/- each at an exercisable discount price of Rs. 5 each (aggregating to 2.23% of the pre issue paid up capital) to our Directors and certain employees in recognition of their invaluable services. The value of the sweat equity shares is within the ceiling limits approved by the shareholders in the said Meeting. The said shares would be locked in for a period of 3 years from the date of allotment of the same. We have filed Form No. 2 and Form No. 23 as required by section 75 and 79A of the Companies Act, 1956. We have complied with Section 79A of the Companies Act, 1956 read with the provisions of Unlisted Companies (Issue of Sweat Equity Shares) Rules, 2003.

The details of the sweat equity shares allotted and the Directors/ employees to whom they are allotted are stated below.

**Sweat Equity Allotment**

Name	Status Director/Employee	No. of Shares allotted	Relationship with the company
Col L V Raju (Retd)	Managing Director	1,00,000	Promoter/ Managing Director
Mr. B. Murali Mohan	Director - Technical	25,000	Whole Time Director
Mr. K. Somasekhara Rao	General Manager (Projects)	2,500	Nil
Mr. Joseph Chakravarthy	Manager - Software Services	7,500	Nil
Mr. L. Muralidhara Raju	Vice-President -Marketing & Head - Validation team	7,500	Nil
Mr. M.B. Narayana Raju	Administrative Officer	3,000	Nil
Mr. Gopala Reddy	Accounts Officer	2,500	Nil
Mr. Sampath Kumar	Assistant Company Secretary	2,500	Nil
Mr. Krishna Murthy	Software Consultant	2,000	Nil
Mr. K.L.Sankara Rao	Manager-Quality Control	2,000	Nil
Mr. Susheel Kumar	Manager - Production	2,000	Nil
Mr. Shankar Prasad	Deputy Project Manager	1,500	Nil
Mr. H. Ramesh Rao	Research & Development Section	1,000	Nil
Mr. Srinivasa Rao	Research & Development Section	1,000	Nil
Mr. Jaihind Kumar	Production Supervisor	1,000	Nil
Mrs. Madhuri	Quality Control Section	1,000	Nil
Mr. Surendra Reddy	Quality Control Section	1,000	Nil
Mr. Ravindra Kumar	Production Department	1,000	Nil
Mr. Veeranjanyulu	Store Keeper	1,000	Nil
	TOTAL	165,000	

Sweat equity shares are locked in for a period of 3 years from the date of allotment of the shares. Sweat equity shares are not qualified and are not considered for the purpose of promoter's contribution and for the purpose of lock-in.



OBJECTS OF THE ISSUE

We intend to utilize the proceeds of the Issue for expansion of manufacturing facilities of Anti-collision Devices from 4200 ACDs to 10,000 ACDs and create facilities for manufacturing 1000 Auto Driving Devices by setting up an exclusive manufacturing facility at the Hardware Technology Park which is being set up by the State Government of Andhra Pradesh at Shamshabad about 30 KMs from Hyderabad City. This will enable us to take advantage of the anticipated growth in demand for ACDs and other railway safety related systems in India and abroad.

We also plan to establish an Intelligent Transportation Technology Centre for simulation & testing of advanced transportation control systems in Nalgonda District of Andhra Pradesh, which will require a large tract of land for test tracks installations. We are also plan to undertake special R&D projects for upgrading ACDs, ADDs for international requirements, development of control and automation systems for metro skybus project, TAWDs, Railway Diagnostic System for hot bearings and implementation of SPAD feature in ACD system for Indian Railways at the manufacturing facility proposed to be setup at Hardware Technology Park.

We are planning to add features for the ACDs for the domestic consumption and also upgrading and customizing the product according to the functional requirement specifications of users in other countries including developed countries where rail systems are of high density i.e. larger number of fast moving trains with greater frequency. These efforts and our plans to develop safety devices such as Signal Passing at Danger, Advanced Signal Systems, Train Actuated Warning Systems etc will require setting up a separate wing dedicated to undertake these special R&D projects.

We are also planning to establish 4 international marketing offices in New Mexico in USA for North and South America, Mauritius for Africa, Italy for Europe and Bangkok for South-East Asia for marketing our transportation safety systems. Four Project Centres and eight nodal maintenance centres are proposed to be established for providing decentralized and efficient maintenance support services for the ACDs installed and commissioned by us at different locations in India.

APPRAISAL

The Project has been appraised by the Corporate Finance Department of BOB Capital Markets Limited, Mumbai as per their report dated June 16, 2005. The scope and purpose of the appraisal was to study the financial aspects of the proposed expansion and diversification plans and to assess the financial viability of the proposed capital expenditure plan. Appraisal by BOB Capital has been used as a basis for this document wherever required. BOB Capital Markets Limited vide their letter dated June 16, 2005, have given their consent for their name being included as appraising agency and for their appraisal report being used in this document. However, the appraiser did not have any financial commitment in the proposed project expansion nor they have been appointed as the Monitoring Agency for the deployment of funds.

Requirement of funds for the Expansion and Diversification Projects

The details of funds required for expansion / diversifications as per the appraisal report are given hereunder:

S.No.	Particulars	(Rs. in Million)
A)	Setting up Infrastructure for manufacturing 10,000 Anti Collision Devices, 1000 Auto Driving Devices for Sky-Bus Metro Mass Transit System and 500 Advanced Railway Signal Systems per annum	200.24
B)	Establishing Intelligent Transportation Technology Centre for simulation & testing of advanced transportation control systems	223.88
C)	Undertaking Special R&D Projects	75.15
D)	Establishing Marketing Headquarters and 4 International marketing offices	124.06
E)	Establishing Field and maintenance offices at various places in India	15.13
F)	To meet working capital requirements	181.65
G)	Contingencies	90.00
H)	To meet Issue expenses	80.00
	TOTAL	990.11



Implementation of all the above projects is independent of each other.

The above expansion and diversification projects are proposed to be funded entirely through equity funds raised through this issue.

Means of Finance

The above fund requirement of Rs. 990.11 Million is proposed to be met as under:

Particulars	Total (Rs. in Million)
Public Issue of 3,960,444 Equity Shares of Rs. 10/- each for cash at a price of Rs. 250/- per Equity Share	990.11

DEPLOYMENT OF FUNDS IN THE PROJECT TILL DATE

As per certificate by M/s. GMK Associates, Our Auditors, dated October 14, 2005, till date we have deployed funds as mentioned hereunder: -

Expenditure	(Rs. in Million)
Expenses under Expansion / Diversification	0.500
Public Issue Expenses incurred till date	14.355
Registration and Filing fee	0.250
Total	15.105
Means of Finance:	
Internal Accruals (as certified by the management)	15.105

The expenditure incurred as above has been verified from our books of accounts of and other relevant documents including the invoices and bills of entry produced before the Auditors for checking and verification.

Monitoring Agency

We have appointed State Bank of Hyderabad - Overseas Branch, Somajiguda, Hyderabad as a Monitoring Agency, for the deployment of funds of the proposed IPO.

Interim use of funds

The management, in accordance with the policies set up by the Board, will have flexibility in deploying the net proceeds received by us from the Issue. Pending utilization for the purposes described above, we intend to temporarily invest the funds in high quality interest / dividend bearing liquid instruments including money market mutual funds, deposit with banks for necessary duration. We also intend to deploy part of the proceeds of the Issue, pending utilization for the purposes described above, to temporarily reduce our working capital borrowings from banks and financial institutions.

Shortfall of funds

The shortfall in funds, if any, shall be met by internally generated cash accruals. As of August 31, 2005 our Company had a cash and bank balance of Rs. 85.03 Million, reserves and surplus of Rs. 234.35 Million.

Monitoring of Utilisation of Funds

Our Board will monitor the utilization of the proceeds of the Issue. We will disclose the utilization of the proceeds of the Issue under a separate head in our Balance Sheet for next financial year specifying the purpose for which such proceeds have been utilized. We will also in our Balance Sheet, provide details, if any, in relation to all such proceeds of the Issue that have not been utilized thereby also indicating investments, if any, of such unutilized proceeds of the Issue.

No part of the issue proceeds will be paid by us as consideration to our Promoters, Promoter Group, our Directors, key managerial personnel except in the usual course of business.



DETAILS OF OBJECTS OF THE ISSUE

A) Setting up Infrastructure for manufacturing ACDs, ADDs and Advanced Railway Signal Systems

In the year 1999, we successfully developed and demonstrated a proto type of ACDs to Konkan Railway Corporation Ltd. (KRCL) and members of the Railway Safety Board. In March 2000 we entered into a Memorandum of Understanding with KRCL for Technical Collaboration for developing full scale networked ACDs.

In February 2003, we entered into an agreement with KRCL for exclusive manufacturing, installation, commissioning and maintenance of net worked ACDs. We also developed and demonstrated ADDs to use them in Metro Sky-bus systems. We are also doing R&D on Advanced Railway Signal Systems with KRCL on cost sharing basis.

To meet the demand of railway safety systems, we plan to expand and build up facilities for manufacturing up to 10000 ACD units p.a. Further, we also plan to manufacture 1,000 ADDs and 500 Advanced Railway Signal Systems p.a. The details of the cost of project, proposed to be funded through this issue, are as under:

	Particulars	Rs. in Million
a)	Land 20 acres	20.00
b)	Equipments	43.04
c)	Buildings & Utilities	75.00
d)	Air Conditioning	15.00
e)	Interiors & furniture	28.00
f)	DG Sets	4.00
g)	Communications & office equipment	8.00
h)	Vehicles	7.20
i)	Sub-total	200.24

(Source: Appraisal Report)

Land

The land requirement indicated above is keeping in view our future expansions. We have made an application to Andhra Pradesh Government for allotment of the requisite land in the hardware technology park, which the government has proposed to develop at Shamshabad in Ranga Reddy District - about 30 KMs from the centre of the city of Hyderabad. The proposed location is near to the planned international airport in Hyderabad.

Equipments

The total cost of equipments is estimated at Rs 43.04 Million including installation and commissioning, details of which are as under:



Name of the equipment	Suppliers name & Address	Date of Quotation	Unit cost Rs.	No of units	Cost (Rs.in Million)
Temperature controlled a) Soldering station	Premium Electromech System	15/07/2005	2050	75	0.15
b) De-soldering Station	Hyderabad		7500	10	0.08
ESD Wrist Bands	Kinetic Polymers 192,Suryanagar, Near Railways Bridge , Mallpur , Hyderabad	27/01/2005	78	300	0.02
ESD Slippers		27/01/2005	130	300	0.04
ESD Mats in Sq. Ft.		27/01/2005	48	10000	0.48
Semi Automatic Printer	EMS Technologies Pvt. Ltd.-Bangalore	29/03/2005	1187064	1	1.19
High Speed Chip Shooter		29/03/2005	6929251	1	6.92
Wave soldering machine		29/03/2005	549000	1	0.55
6 Zone Air Reflow Oven		29/03/2005	2630849	1	2.63
High Speed High Density radial lead component insertion machine	Panasonic industrial Asia Ltd Delhi	31/03/2005	18618316	1	18.61
Vibration Machine	Crescent Controls Ltd. -Roorkee	26.03.2004	757500	2	1.51
Thermal Cycling Chamber	Envirotech Engineers Hyderabad	31/03/2005	750000	2	1.50
Bump Test Machine	Structural Solution - Hyderabad	29/04/2005	1310743	1	1.31
Hot Air Guns	Industrial Aids Hyderabad	16/03/2005	2750	2	0.005
Oscilloscope 500 MHz	Peridot Technologies Hyderabad	02/04/2005	561600	2	1.12
Oscilloscope 100 MHz.		02/04/2005	84588	2	0.17
Incircuit Tester	International Marketing Corporation- Mumbai	31/03/2005	657037	2	1.31
Variable power supplies	BK	28/03/2005	6969	2	0.01
LCR Meters	Instek	28/03/2005	100864	5	0.51
Digital Iciest & identifier	BK	28/03/2005	39181	2	0.08
Function Generators	Physitech Electronics Hyderabad	02/04/2005	7500	2	0.01
Multimeter	Measurement Solutions Hyderabad	11/04/2005	62800	2	0.13
3 ^{3/4} Multimeter	Measurement Solutions Hyderabad	18/07/2005	1800	40	0.07
4 ^{3/4} Multimeter		18/07/2005	10800	2	0.02
	Total Cost				38.43
	Installation & Commissioning Cost @ 12%				4.61
	Total Cost of entire infrastructure including installation				43.04

(Source: Appraisal Report)



Buildings & Utilities

The details of cost of construction of building are as follows:

S.No.	Item of work	Area sq.ft.	Rate/Unit (Rs)	Amount (Rs. In Million)
1.	Ground Floor	26700	550	14.69
2.	First Floor	26700	500	13.35
3.	Second Floor	26700	500	13.35
4.	Internal Electrification	80000	150	12.00
5.	External Electrification	Lump sum		8.00
6.	Sanitary Water Supply	80000	40	3.20
7.	Lifts	2 Nos	13 passengers	2.40
8.	Arboriculture	Lump Sum		1.50
9.	Sanctions & Deposits	Lump Sum		3.00
10.	Site Development	Lump Sum		3.51
	Total			75.00

(Source: Appraisal Report)

The above estimates are based on the quotations dated March 22,2005 received from M/s Katakam and Associate for construction of the buildings at the hardware technology park having a total built up area of 80,000 Sq ft.

Power

The total requirement of power is estimated to be 900 KVA, which will be available from Central Power Distribution Company of A.P. Limited, Hyderabad and we do not foresee any problem in getting the requisite sanctions. In addition, we propose to purchase 4 diesel generators of 250 KVA each for providing standby power back up.

Water

We will require approximately 30,000 liters of water per day for utilities, which will be available from the hardware park water supplies.

Air Conditioning

As per the estimate dated March 22,2005 given by M/s. Katakam & Associates, the total cost of the air conditioning is estimated to be Rs. 15 million for providing centralized air conditioning at the proposed production facility covering 60,000 sq. ft. at a cost of around Rs. 250/- per sq.ft.

Communication & Office Equipment

We propose to install computer peripherals and software with servers and other communication and data equipments at an estimated cost of Rs. 8.0 Million. These will be required for normal working of the facility. We propose to buy these products from Vintage Systems Pvt Ltd who have given their quotation on May 9, 2005, details of which are given as under:

S.No.	Description of Item	Cost/unit (Rs.)	No. of Units	Amount (in Rs. Million)
1.	Servers	3,00,000	2	0.60
2.	Computers	42667	75	3.20
3.	UPS 10 KVA	2,75,000	2	0.55
4.	Networking 6-KMs	Lump Sum		0.28
5.	Hubs / Shunting	Lump Sum		1.57
6.	EPABX	4,00,000	1	0.40
7.	FAX	1,00,000	5	0.50
8.	Xerox/Printer etc.	4,00,000	1	0.40
9.	Other Accessories	Lump Sum		0.50
	TOTAL			8.00

(Source: Appraisal Report)



Vehicles

We propose to buy eight (8) Mini-buses for regular transportation of the work force. As per the quotations dated March 30, 2005 of Krishnaiah Motors, one of the Dealers of Swaraj Mazda, the unit cost of vehicle is Rs. 0.90 million and the total cost is estimated at Rs.7.2 million.

Interiors

As per the estimate dated March 22,2005 given by M/s Katakam & Associates, total cost of interior is estimated to be Rs. 28 Million, based on per sq. ft. cost of interiors at Rs. 350/-.

B) Establishing Intelligent Transportation Technology Centre for simulation & testing of advanced transportation control systems

Intelligent Transportation System (ITS) implies three core features - Information, Communication and Integration. ITS tools are used to make transportation system economical, safe, and efficient and thus improve the quality of life of people. It comprises of a wide range of tools for managing transportation networks and services as well as reduces accidents, relieving traffic congestions, monitoring and protecting environments, improving productivity and operational efficiency. ITS renders various services like Advanced Traffic Management System, Urban Traffic Control, Advanced Traveler Information System, Advanced Vehicle Control System, Advanced Public Transportation System and Commercial Vehicle operations.

We plan to establish an Intelligent Transportation Technology Centre (ITTC) for simulation and testing of advanced transportation control systems, which will have integrated software and hardware systems to receive, process and control on a real time basis. We propose to embark on marketing of safety systems in the international markets. For testing of these systems to suit different functional requirements of different users we will not be able to depend on the railway installations in various prospective user countries and therefore will need our own installations for testing under simulated conditions. We intend to create a real time testing facility by laying 50 KMs of test tracks for simulation and testing of our products such as ACDs, Advanced Signal Systems and other transportation safety and control systems at every stage of modification and improvement for both domestic and international users. This facility can also be outsourced to other clients to simulate and test their products. The Centre is proposed to be set up on a large tract of land with an area of 1035 acres sufficient to install vehicle and rail test tracks and other facilities.

The proposed Intelligent Transportation Technology Centre will have the following facilities.

- a) Simulation and modeling laboratories
- b) Radio data communication testing
- c) Differential GPS Integration Technology
- d) Dead Reckoning Technology for navigation and position determination
- e) Integrated GPS and Accelerators for navigation
- f) Ground rail track simulators and vehicles with full infrastructure
- g) Sky Bus Metro-track and control systems
- h) SPAD system testing facilities
- i) AWS testing facilities
- j) Hot Box & Vibration testing facilities

The total cost is estimated at Rs. 223.88 million, the break-up of which is given hereunder:

	Particulars	Rs. in million
a)	Land 1035 acres	72.18
b)	Land Development cost	28.84
c)	Buildings & Utilities	39.47
g)	Test tracks and installations	63.64
e)	Interiors & furniture	7.95
d)	Air Conditioning	6.00
f)	DG Sets	1.00
h)	Test Vehicles	4.80
	Total	223.88

(Source: Appraisal Report)



Land

We propose to create a test track to carry out testing of transportation safety and control products developed by us. We will carry out the testing under simulated operating conditions. We require a total of about 1035 acres and have identified the land near National Highway-9 (Hyderabad to Vijaywada). As per estimate given by C.H. Venkata Rao, Consulting Engineer on March 22, 2005 details are as follows

S.No	Particulars	Area	Rate (Rs. per acre)	Rs. in million
a)	Land abutting highway	85 Acres	225,000	19.13
b)	Land near to highway	250 Acres	89,000	22.25
c)	Land interior	700 Acres	44,000	30.80
	Total	1035 acres		72.18

(Source: Appraisal Report)

The development cost of the land has been estimated at Rs. 28.84 million:

S.No	Particulars	Area	Rate per Unit	Rs. in million
a)	Compound wall with Gate Complex	800 Meters	Rs.1000/M	0.80
b)	Fencing with Barbed wire	10,800 Meters	Rs.200/M	2.16
c)	Leveling side drainage and arboriculture	1035 Acres	Rs.25000/Acre	25.88
	Total			28.84

(Source: Appraisal Report)

Building & Utilities:

The total cost of construction of building and setting up of utilities is estimated to Rs. 39.47 Million, As per the estimate dated March 22, 2005 given by C.H. Venkata Rao, Consulting Engineer, details are as under:

S.No	Building & Utilities	Area	Rate/unit (Rs)	Rs. in Million
a)	Administrative building	10,000 Sq. ft.	750	7.5
b)	Laboratories-RCC Slab	10,000 Sq. ft.	650	6.5
c)	Laboratories-AC Sheet	4,000 Sq. ft.	350	1.4
d)	Control Rooms	4,000 Sq. ft.	550	2.2
e)	Electrical- Additional for labs	18,000 Sq. ft.	220	3.96
f)	Security & Sentry Rooms	1,200 Sq. ft.	425	0.51
g)	Approach & internal Road	7,500 Meters	1450	10.87
h)	Electrification-External	18 Km.	35000	0.63
i)	Water Supply & drainage including one bore-well	-	2,650,000 consolidated	2.65
j)	Electrical & Sub-Station	-	3,250,000 consolidated	3.25
	Total			39.47

(Source: Appraisal Report)



Power

The power requirement for the new facility has been assessed at 250 KVA, which will be met from Central Power Distribution Company of A.P. Limited and we do not foresee any problem in getting the requisite sanctions. In addition, we propose to purchase 1 diesel generator of 250 KVA for providing standby power back up.

Water

We will require approximately 30,000 litres of water per day for utilities, which will be available from the Government supplies.

Air Conditioning

As per the estimate dated March 22, 2005 given by C.H. Venkata Rao, Consulting Engineer, the total cost of air conditioning is estimated to be Rs. 6 million for providing centralized air conditioning at the proposed facility of 24,000 sq. ft. at a cost of around Rs. 250/- per sq.ft.

Equipments

The total cost of equipments is estimated at Rs 63.64 Million including installation and commissioning, details of which are as under:

Particulars	No	Unit	Rates /Unit in Rs.	Rs. in million
a) Test Tracks	50	Km	301,800	15.09
b) Test Installations	12	No.	20,000	2.40
c) External Electrical Supply	9	Km	4,00,000	3.60
d) Test Equipments				
e) Loco ACDs	3	Nos.	316,667	0.95
f) Station ACDs	2	Nos.	3,00,000	0.60
g) MLC ACDs	2	Nos.	2,25,000	0.45
h) UMLC ACDs	2	Nos.	2,00,000	0.40
i) TID ACDs	2	Nos.	3,50,000	0.70
j) Loco Shed ACD	2	Nos.	3,00,000	0.60
k) Repeaters	2	Nos.	1,75,000	0.35
l) Computers & Networking	-	-	-	37.50
m) Office & Communication Equipment	-	-	-	1.00
Total				63.64

(Source: Appraisal Report)

Interiors

As per the estimate dated March 22, 2005 given by C.H. Venkata Rao Consulting Engineer, total cost of interiors is estimated to be Rs. 7.95 Million on a total area of 30,000 sq.ft. at Rs. 265/- per sq.ft.

Vehicles

We propose to buy four Mini-buses and three cars for modifications and use as testing vehicles to run on the simulated tracks with all the electronic equipment fitted. As per the quotations dated March 30, 2005 of Krishnaiah Motors, one of the Dealers of Swaraj Mazda, the unit cost of vehicle is Rs. 0.90 million for mini buses and Rs.0.4 million per car and the total cost is estimated at Rs.4.8 million.

C) Special R&D Projects

The anti-collision device being manufactured by us is as per the functional requirement specifications of Indian Railways and is being improved on a continuous basis on feedbacks from Konkan Railway Corporation Ltd. We are in the process of adding features for the ACDs for the domestic consumption and also upgrading and customizing the product according to the functional requirement specifications of users in other countries including developed countries where rail systems are of high density i.e. larger number of fast moving trains with greater frequency. These efforts and our plans to develop safety devices such as Signal Passing at Danger, Advanced Signal Systems, Train Actuated Warning Systems etc will require setting up a separate Research & Development Wing dedicated to these activities.



The estimated expenditure for undertaking R&D projects proposed by us are as under:

Sr. No.	Particulars	Rs. in million
a)	Up-gradation of ACDs for international requirement	17.60
b)	Development of Control & Automation Systems for Metro Sky-Bus Project	23.50
c)	Train Actuated Warning Device	14.10
d)	Railway Diagnostic System for Hot bearings	13.50
e)	Implementation of SPAD feature in ACD System in Indian Railways	6.45
	TOTAL	75.15

(Source: Appraisal Report)

All these activities are proposed to be carried on from the existing facilities at Plot No. 7, Software Units Layout, Infocity, Madhapur, Hyderabad.

The detailed estimate for undertaking the above R&D activities are as under:

a) Up-gradation of ACDs for international requirements

We propose to set up R&D facility for up-gradation of ACDs to meet international certification standards for export purposes:

S.No.	Item / Activity	No. of persons involved	Duration in months	Man-months	Rate per man month (Rs. in Lakhs)	Estimated cost (Rs. in Million)
i.	Manpower for H/W design, engineering and testing	8	6	48	0.0625	3.00
ii.	Material cost to manufacture one set of equipment 12 X 3.0 Lac	—	—	—	—	3.60
iii.	Assembly labor	4	1	4	0.050	0.20
iv.	Software design changes	8	6	48	0.075	3.60
v.	Software verification and validation	8	6	48	0.075	3.60
vi.	Field Trials	6	4	24	0.075	1.80
vii.	Documentation	4	6	24	0.075	1.80
	Total					17.60

(Source: Appraisal Report)

b) Development of Control & Automation Systems for Metro Sky-Bus Project

Control and automation devices are used for automatic driving of Sky Bus without human interference. We propose to spend a sum of Rs. 23.50 Million on the development of Control & Automation Systems for metro sky-bus project; details of expenditure, as per our estimates, proposed to be incurred are as under:

S.No.	Item / Activity	No. of persons Involved	Duration in months	Man-months	Rate per man month (Rs. in Lakhs)	Estimated cost (Rs. in Million)
i.	Hardware design and engineering and testing efforts	6	8	48	0.0625	3.00
ii.	Material cost to manufacture one set of equipment 4x0.80 million	—	—	—	—	3.20
iii.	Assembly labor	4	1	4	0.05	0.20
iv.	Software design & development	8	8	64	0.075	4.80
v.	Software verification and validation	8	8	64	0.075	4.80



S.No.	Item / Activity	No. of persons Involved	Duration in months	Man-months	Rate per man month (Rs. in Lakhs)	Estimated cost (Rs. in Million)
vi.	Third Party Validation costs	—	—	—	—	3.00
vii.	Field Trials	6	6	36	0.075	2.70
Viii	Documentation	4	6	24	0.075	1.80
	Total					23.50

(Source: Appraisal Report)

c) Train Actuated Warning Device (TAWD)

In India, over the railway track, there are number of manned and unmanned level crossing level crossings. At these crossings a number of accidents occur due to non-availability of any indication/ warning to the road users such as vehicles and pedestrians crossing the railway tracks. Train Actuated Warning Device, when installed at level crossings will warn such road users of the fast approaching train even when the train is about 2 KMs away, giving them at least 2 to 3 minutes to move away from the rail tracks.

The cost of development of TAWD as estimated by us will be Rs. 14.10 million, details of which are as under:

S.No.	Item / Activity	No. of persons involved	Duration in months	Man-months	Rate per man month (Rs. in Lakhs)	Estimated cost (Rs. in Million)
i.	Hardware design, engineering and testing efforts	4	12	48	0.0625	3.00
ii.	Material cost to manufacture two sets of equipment 2x500000					1.00
iii.	Assembly and QA labor	4	1	4	0.050	0.20
iv.	Software design and development	4	9	36	0.075	2.70
v.	Software verification and validation	4	9	36	0.075	2.70
vi.	Documentation	4	6	24	0.075	1.80
vii.	Field Trials	4	3	12	0.075	0.90
viii.	RDSO Approval	4	6	24	0.075	1.80
	Total					14.10

(Source: Appraisal Report)

d) Railway Diagnostic System for Hot bearings, Vibrations and Wobbling of wheels

This system detects heating up of wheel bearings, vibrations and wobbling of wheels of trains. These problems usually go undetected and are found to cause derailments leading to accidents. The diagnostic system will detect the above kinds of problems and give advance warnings so as to take corrective steps to prevent derailments and resulting accidents. Using Infrared and sound matching algorithms Hot Box and Vibration detecting devices are planned to be developed by KMIL. These boxes are mounted at nodal points of rail lines called "Roll in" and "Roll out" points. This product when installed can improve railways ability to carry out preventive maintenance.



The cost of developmental efforts as estimated by us is as follows:

S. No.	Item / Activity	No. of persons involved	Duration in months	Man-months	Rate per man month (Rs. in Lakhs)	Estimated cost (Rs. in Million)
i.	Material Cost to manufacture two sets of equipment 2x1.5	—	—	—	—	3.00
ii.	Hardware design and engineering	4	6	24	0.0625	1.50
iii.	Software design	4	6	24	0.075	1.80
iv.	Software verification and validation	4	6	24	0.075	1.80
v.	Documentation	4	6	24	0.075	1.80
vi.	Field Trials	4	6	24	0.075	1.80
vii.	Approvals from Railway authorities	4	6	24	0.075	1.80
	Total					13.50

(Source: Appraisal Report)

e) Implementation of SPAD feature in ACD System for Indian Railways

There have been many major rail accidents caused because of accidental bypassing of the stop signal either due to the driver not noticing or realizing the red signal. Signal Passing At Danger (SPAD) is a device, which is used to automatically control the speed of the train before entering station zones or where the red lights are on. We propose to spend a sum of Rs 6.45 million for the development of the system as detailed below:

S.No.	Item / Activity	No. of persons involved	Duration in months	Man-months	Rate per man month (Rs. in Lakhs)	Estimated cost (Rs. in Million)
i.	Hardware design and engineering changes (Including Testing)	4	3	12	0.0625	0.75
ii.	Software design changes	6	4	24	0.075	1.80
iii.	Software verification and validation	6	4	24	0.075	1.80
iv.	Field Trials	8	2	16	0.075	1.20
v.	Documentation	4	3	12	0.075	0.90
	Total					6.45

(Source: Appraisal Report)

D) International Marketing

We propose to tap international markets for marketing the railway safety devices manufactured by us. About 70% of the rail systems in the world consist of medium to low density rail tracks i.e. similar to the railway system in India. Marketing the safety systems manufactured by us to international clients will require close interaction with the user countries including installing our systems on the railway installations of such countries and endeavor to prove the dependability and safety of our systems. We will also be marketing the auto driving devices for Metro Sky-bus Urban Transportation System abroad. Accordingly we intend to set up marketing offices in North America to cover North and South American countries, Italy to cover European countries, Mauritius for covering Africa and Bangkok to take care of South and South-East Asia. International Marketing Headquarters is proposed to be set up at Hyderabad within the existing premises at Infocity Layout, Madhapur to coordinate and control the functions of these marketing offices abroad. Requisite space is available in the existing building, which is proposed to be furnished and equipped with necessary infrastructure including manpower.

As per our estimate, the total cost will be Rs.124.06 million including Rs. 9.61 million for setting up office at Hyderabad and Rs. 114.45 million for setting up offices abroad.



The details of expenditure for setting up office at Hyderabad are as under:

S.No.	Particulars	Qty	Unit	Rate/Unit (Rs)	Amount (Rs. in Million)
1.	Office & Interior	3000	Sq.ft.	200	0.60
2.	PR Brochure & DVD's 12 types of Brochure	12000	Nos	100	1.20
	DVD's	200	Nos	300	0.06
3.	Computers & Software	Lump Sum			0.30
4.	Communication & Office Equipment	Lump Sum			0.40
5.	Stationary Etc.	Lump Sum			0.15
6.	Organization Set up for a year consisting				
	VP Int'l Marketing	1	Nos.	1.50 lac p.m.	1.80
	Managers	2	Nos.	0.75 lac p.m. per person	1.80
	Office Executives	6	Nos.	0.25 lac p.m. per person	1.80
7.	Foreign Tour & Business Promotion	Lump sum			1.50
	Total				9.61

(Source: Appraisal Report)

The details of expenditure for setting up four International marketing offices for initial period of one year are as under:

Total amount for 4 offices

S.No.	Particulars	Rate (US\$)	In US\$	In Rs. Million#
1.	Rent for space p.a. (2000 sq. ft. for each office)	\$2/sq.ft. for 4 offices	192,000	8.40
2.	Rent for furniture p.a.	\$4000 p.m. for 4 offices	192,000	8.40
3.	Office equipment	\$3000 p.m. for 4 offices	12,000	0.53
4.	Organization set up for each office consisting			
	VP International marketing-1	\$1.5 lac p.a.	600,000	26.25
	Manager -1	\$1 lac p.a.	400,000	17.50
	Office Executives-3	\$0.40 lac p.a. per Executive	480,000	21.00
5.	Traveling Expenses	\$0.25 lac p.a. each office	100,000	4.37
6.	Office maintenance & Others	\$ 1500 p.m. each office	72,000	3.15
7.	Prototype equipments - 4 sets each set consisting of 20 ACD's; (LOCO ACDs-2, Station ACDs-7, MLC ACDs-3, UMLC ACDs-3 and Repeaters - 5)	\$11000/ACD (on average)	440,000	19.25
8.	Survey, Design & Prototype project work for 2 sites	\$20000 each Lump sum	40,000	1.75
9.	Erection & installation charges in connection with work mentioned in Point No. 7	20% of point No. 7	8,8000	3.85
	Total		2,616,000	114.45

Conversion rate from USD to INR = Rs. 43.75 per USD

(Source: Appraisal Report)



E) Establishing Field and maintenance offices at various places in India

The ACDs installed by us are covered by a one-year warranty during which period we are liable to replace the system free of cost. After the period of warranty the maintenance of the ACDs is provided under an annual maintenance contract. As per our agreement dated October 29, 2004 with Konkan Railway Corporation Limited, we are required to establish a Base Repair Facility at Hyderabad and Field Maintenance facilities at nodal points which will be managed by skilled, experienced and competent staff for providing prompt and efficient maintenance services. Base Repair Facility has been set up at the existing premises at Infocity Layout, Madhapur, Hyderabad. For providing on-site maintenance of ACDs we propose to establish:

- i. Four Project Centres; and
- ii. Eight nodal points i.e. two under each project centre

The project centres are proposed at Mumbai, Chennai, Delhi and Gawhati where Zonal Headquarters of Indian Railways are located.

We also propose to establish eight nodal points i.e. two under each project centre in the aforesaid four Railway Zones. We will be able to provide decentralized, efficient and timely maintenance and repair services to the Railways within the geographical limits of the respective zones through these nodal points and project centres while repairs will be carried out at the Base Repair Facility at Hyderabad. Functions of project centers will also be controlled from our facility at Hyderabad. The cost of setting up as well as maintenance of the project centres and nodal points for an initial period of one year are proposed to be met from funds raised through this issue.

i) Setting up Four Project Centres

We plan to take on lease office space of 1500 sq ft each in Mumbai, Chennai, Delhi and Gawhati for project centers. The details of estimated cost/ expenditure for setting up and maintaining these project centers for an initial period of one year are as follows:

Particulars	Mumbai	Chennai	Delhi	Gawhati	Total (Rs. in Million)
Rent for 1500 Sq ft					
Rate /sq ft/Mon (Rs)	100	60	60	20	
Rent per annum (Million)	1.80	1.08	1.08	0.36	4.32
Office equipment	0.3	0.3	0.3	0.3	1.20
Computer software	1.25	1.25	1.25	1.25	0.50
Organization Structure					
1 Project Manager@ 50000/Month	0.60	0.60	0.60	0.60	2.40
3 Coordinators @8000/month per man	0.29	0.29	0.29	0.28	1.15
Total					9.57

(Source: Appraisal Report)

(ii) Setting up Maintenance Centers (Nodal Points)

We propose to establish eight maintenance centers i.e. two each under each project centre. These centers will be used for maintaining the ACDS in the respective areas with better efficiency and relatively lower cost. All the maintenance centers identified shall be strategic locations being major junction points of Indian Railways.

We intend to set up eight nodal maintenance centers at locations to be selected from the following 12 places which have been identified: New Jalpaiguri Jn, Katpadi Jn, Hubli, Jalandhar, Erode, Ernakulam, Gawhati, Malda, Tughlakhabad, Ludhiana, Jammu, and Guntakal.



The total cost/expenditure for establishing and maintaining these maintenance centers for an initial period of one year is estimated by us at Rs 5.56 Million as per the following details:

Particulars	Cost per Unit	Unit	Total Annual Cost for 8 centers (Rs in Million)
Rent	Rs 20 / month	1000 sq ft	
Rent per annum			1.92
Office equipment		Lump sum	1.60
Computer software		Lump sum	0.60
Organization Set up	Rs 5000/month	3 persons.	1.44
Total			5.56

(Source: Appraisal Report)

F) Working Capital requirements

We will be required to purchase and store some of the components which are outsourced from abroad so as to be able to execute orders received from KRCL for ACDs and accessories.

We are entitled to advance payment of approx 50% of the total cost of ACDs and accessories on each order received from Konkan Railways Corporation Ltd. In turn we are liable to provide Bank Guarantee to KRCL for an equal amount.

The implementation of the expansion project for setting up separate facility for manufacture of ACDs, ADDs and Railway Signal Systems is expected to be completed by March 2007.

We assume that the manufacturing capacity for ACDs will remain at the same level of 4200 units and utilization is estimated at 62% or 2600 units during the current year i.e. 2005-06 and full capacity utilization in 2006-07.

Assumptions:

The turnover time is 4 months and taking 50% advance receivable working capital is computed assuming the following:

- Inventories are assumed to be equal to 2 months average cost of sales (existing 2 months)
- Receivables will be equal to 3.5 months sales (As against present 4 months sales)
- Utilization of existing capacity is assumed (as estimated by us) to be 62% in the current year and 100% by March 31, 2007 (As against capacity utilization of approx 35% during 2004-05).
- Since production of ACDs is based on advance orders of KRCL, finished goods is taken to be NIL while arriving at the value of inventories.
- Composition of Work-in-Progress and Stock of components is assumed to be in the same ratio as that at the end of fiscal 2005 i.e. 40:60 during the period of implementation of the project.

Details of estimated Net Current Assets

(Rs. in Million)

Particulars	2004-05	2005-06	2006-07
Inventories:			
Work in progress	23.02	34.12	82.72
Closing stock of components	31.09	51.18	124.08
Sundry Debtors	108.86	352.30	789.7
Other current assets	142.12	75.00	80.0
Total Current assets	305.09	512.60	1076.5
Current Liabilities	133.82	181.20	429.2
Add secured working capital loan	21.52	-	-
Net Current Assets	149.75	331.40	647.3

(Source: Appraisal Report)



The working capital requirements are therefore estimated keeping the above in view.

As per the appraisal report of BOB Capital Markets Ltd the working capital requirement is estimated to be Rs.331.40 million in the first year. Total working capital requirement on the completion of implementation of the project is estimated at Rs. 647.3 million.

Working capital available with us presently is Rs. 149.75 million. The balance Rs.181.65 million being the shortfall in the first year is proposed to be met through the proceeds of the issue. The funds shall be utilized for augmenting our long-term working capital resources. Additional requirements of funds for working capital from the year 2006-07 shall be funded through internal accruals

Financing of Working Capital - Total envisaged Working Capital

Total Estimated Working Capital requirement	Rs. 331.40 Million
Less: Funded through Internal Accruals	Rs. 149.75 Million
Working Capital Gap to be funded from the Issue	Rs. 181.65 Million

G) Contingencies

Contingencies have been taken at 15% each for projects relating to Creation of Infrastructure for Manufacturing Facility, Intelligent Transportation Tech. Centre and International Marketing Offices. For creation of infrastructure for manufacturing facility and Intelligent Transportation Tech. Centre, acquisition of land and construction of building and other facilities are involved. In the case of international marketing offices the actual expenses on placement of personnel and other infrastructure may exceed since foreign exchange payments are involved. In the case of special R&D Projects 10% escalation is assumed keeping in view purchase of equipments and salaries of technical personnel. In the case of Project Centers and Nodal Points a 3% cost escalation is provided. The detailed workings are as follows:

S.No.	Particular	Estimated cost (Rs. In millions)	Estimated escalation in cost in Percentage	Rs. in million
a)	Setting up Infrastructure for manufacturing 10,000 Anti Collision Devices, 1000 Auto Driving Devices for Sky-Bus Metro Mass Transit System and 500 Advanced Railway Signal Systems per annum	200.24	15%	30.00
b)	Establishing Intelligent Transportation Technology Centre for simulation, testing and development of advanced transportation control systems	223.88	15%	33.50
c)	Undertaking Special R&D Projects	75.15	10%	7.50
d)	Establishing 4 International marketing offices	124.06	15%	18.50
e)	Field facilities to carry on the maintenance functions of safety devices installed by our company in India	15.13	3%	0.50
	Total	638.46		90.00*

*Figures rounded off



H) Public Issue Expenses

The total public issue expenses are expected to be not more than Rs 80.00 Million.

Rs. In million

Details	Expenses
Advertising	14.34
Printing, Dispatch & Stationery	12.50
Issue Management Fees, Underwriting expenses and Brokerage	41.46
Registrars Expenses & Other Statutory Costs	11.70
Total	80.00

Total Manpower Requirement

We are in the process of recruiting employees for the expansion / diversification project. While certain senior persons from the existing unit will also oversee the operations of the expansion project during the initial days, we are looking for both skilled and unskilled manpower across various functional areas and ensure their technical / professional competence. While the production facility would require additional manpower, the human resource requirement for the marketing and corporate department will not increase on linear basis and we shall start enjoying the benefits of cross selling and economies of scale.

We shall recruit personnel for the expansion / diversification plan closer to the starting of commercial production of each project. The total manpower requirement is anticipated to be around 80 managers, 160 Supervisors, 460 skilled personnel and 100 unskilled personnel. We are looking at recruiting personnel from various parts of the country. Our proposed projects being located at Hyderabad and, which is an established industrial town, we do not foresee any difficulty in the availability of and recruitment of the requisite quality manpower.

Implementation Schedule

S. No.	Project Items	Start month	Completion Month
1	Setting up Infrastructure for manufacturing ACDs, ADDs and Advanced Railway Signal Systems		
	a) Land Acquisition and Development	December, 2005	March, 2006
	b) Buildings (70,000 sq.ft.)	April, 2006	March, 2007
	c) Utilities	May, 2006	March, 2007
	d) Furniture & Fixtures	July, 2006	March, 2007
	e) Machinery	July, 2006	March, 2007
	f) Production Capacity increased	May, 2007	—
2	Establishment of Intelligent Transportation Technology Centre for simulation, testing and development of advanced transportation control systems		
	a) Land Acquisition & Development	December, 2005	May, 2006
	b) Buildings (30,000 sq .ft.)	June' 2006	May, 2007
	c) Installations, utilities & services	July, 2006	May, 2007
	d) Test Tracks 5 Kms and Test Stations	July, 2006	November, 2006
	e) Provision of computers, Networking, establishment of simulation and modeling labs	September, 2006	May, 2007



S. No.	Project Items	Start month	Completion Month
	f) Manpower recruitment and initialization	October, 2006	May, 2007
	g) Starting of full pledged operations of ITTC	May, 2007	—
3	Special R&D Projects:-		
	a) Up-gradation of ACD Technology to International requirements	December, 2005	August, 2006
	b) Developmnet of Control & Automation Systems for Metro Sky Bus	December, 2005	November, 2006
	c) Train Actuated Warning Devices (TAWD)	December, 2005	November, 2006
	d) Railway Diagnostic System for hot bearing vibrations, wobbling of wheels	December, 2005	August, 2006
	e) Implementation of SPADS features in ACD Systems for Indian Railways	December, 2005	May, 2005
4	Establishing 4 International Marketing offices		
	a) Corporate HQ - International marketing cell with the Managerial manpower	December, 2005	February, 2006
	b) Marketing offices - 4 Nos. overseas, in America, Europe, Africa & Middle East and South East Asia	December, 2005	July, 2006
	c) Manufacturing of prototype equipment for client's trials	December, 2005	July, 2006
	d) Installations, surveys and starting of project designs for the clients	December, 2005	November, 2006
5	Setting up field offices including Project Centres & Nodal Centres		
	a) Infrastructure	December, 2005	March, 2006
	b) Manpower	December, 2005	March, 2006
	c) Tools Procurement	December, 2005	May, 2006

Year-wise break up of utilization of funds

(Rs. in million)

S. No.	Project Items	2005-06	2006-07	TOTAL
1	Setting up Infrastructure for manufacturing ACDs, ADDs and Advanced Railway Signal Systems			
	a) Land Acquisition and Development	20.00	-	20.00
	b) Buildings (70,000 sq.ft.)	7.50	67.50	75.00
	c) Utilities	-	26.20	26.20
	d) Furniture & Fixtures	-	28.00	28.00
	e) Machinery	-	51.04	51.04
	f) Production Capacity increased	-	-	-
	SUB-TOTAL	27.50	172.74	200.24



S. No.	Project Items	2005-06	2006-07	TOTAL
2	Establishment of Intelligent Transportation Technology Centre for simulation, testing and development of advanced transportation control systems			
	a) Land Acquisition & Development	101.01	-	101.01
	b) Buildings (30,000 sq .ft.)	3.30	36.18	39.48
	c) Installations, utilities & services	-	19.75	19.75
	d) Test Tracks 5 Kms and Test Stations	-	25.14	25.14
	e) Provision of computers, Networking, establishment of simulation and modeling labs	-	38.50	38.50
	f) Manpower recruitment and initialization	-	-	-
	g) Starting of full pledged operations of ITTC	-	-	-
	SUB-TOTAL	104.31	119.57	223.88
3	Special R&D Projects:-			
	a) Up-gradation of ACD Technology to International requirements	7.00	10.60	17.60
	b) Developmnet of Control & Automation Systems for Metro Sky Bus	8.00	15.50	23.50
	c) Train Actuated Warning Devices (TAWD)	5.00	9.10	14.10
	d) Railway Diagnostic System for hot bearing vibrations, wobbling of wheels	5.50	8.00	13.50
	e) Implementation of SPADS features in ACD Systems for Indian Railways	6.45	-	6.45
	SUB-TOTAL	31.95	43.2	75.15
4	Establishing 4 International Marketing offices			
	a) Corporate HQ - International marketing cell with the Managerial manpower	9.61	-	9.61
	b) Marketing offices - 4 Nos. overseas, in America, Europe, Africa & Middle East and South East Asia	30.00	59.60	89.60
	c) Manufacturing of prototype equipment for client's trials	15.00	4.25	19.25
	d) Installations, surveys and starting of project designs for the clients	2.00	3.6	5.60
	SUB-TOTAL	56.61	67.45	124.06
5	Setting up field offices including Project Centres & Nodal Centres			
	a) Infrastructure	9.04	-	9.04
	b) Manpower	1.60	3.39	4.99
	c) Tools Procurement	1.10	-	1.10
	SUB-TOTAL	11.74	3.39	15.13
	GRAND TOTAL	232.11	406.35	638.46



BASIS FOR ISSUE PRICE

The Issue Price will be determined by us in consultation with BRLMs, on the basis of assessment of market demand for the Equity Shares, by way of Book Building process.

Qualitative Factors:

- The only player in the manufacture of ACDs in India
- Exclusive manufacturing rights for ACDs in India
- Exclusive International Marketing rights for ACDs
- Ability to execute project under adverse conditions
- Exclusive right to manufacture ADDs for Konkan Railway for Metro Sky-Bus Urban Transport system
- Existing profit making company since its inception i.e. FY 1992-93
- Strong technical and management team

Quantitative Factors

1. Earnings per share

Year ended on March 31	Adjusted EPS	Weight
2003	1.07	1
2004	4.75	2
2005	12.55	3
Weighted average	8.04	

2. P/E in relation to Issue Price

Particulars	Details
Based on 2004-05 EPS	19.92
Industry P/E*	
1. Highest	45.4
2. Lowest	4.6
3. Average	23.6

* Source: - Capital Market dated October 24 - November 6, 2005 Industry - Computer Hardware

3. Return on Net worth

Year ended on March 31	RONW %	Weight
2003	5.13	1
2004	20.33	2
2005	36.49	3
Weighted average	25.88%	

4. Minimum RONW to maintain the Pre issue EPS is 11.53%.



5. The Net Asset Value per Equity Share

Particulars	NAV
As on March 31, 2005	33.26
After issue	21.67
Issue Price (per Share)	Rs. 250/-

The Post Issue Net Asset Value would be Rs. 109.98 at the lower end of the Price band and Rs. 114.24 at the upper end of the Price band. The final Post Issue Net Asset Value will be determined on the basis of demand from investors.

6. Peer Group Comparison of Accounting Ratios:

The Issuer Company is in the business of developing, manufacturing, installation and maintenance of electronic safety devices for Railways. There is no comparable listed company in our business segment, however details of a few companies in the Information Technology sector which are into Embedded-Software technologies are given below:

Particulars	P/E	RONW	EPS	Book Value
Kernex (As on 31.3.05)	19.92	36.49	12.51	33.26
Peer comparison*				
CMC (31.03.2005)	45.40	13.70	14.10	115.90
HCL Infosystems (30.06.2005)	36.90	32.10	6.60	25.80
Cranes Software (31.03.2005)	20.80	32.90	43.50	153.20
Blue Star Infotech (31.03.2005)	15.90	19.50	9.40	53.80
KPIT Cummins (31.03.2005)	17.40	29.90	15.20	73.70

@Source: - Capital Market dated October 24 - November 6, 2005

The Issue Price is 22.50 times of the face value at the lower end of the price band and 25 times of the face value at the higher end of the price band. The final price will be determined on the basis of demand from investors.

The BRLMs believe that the Issue Price of Rs. 250/- is justified in view of the above qualitative and quantitative parameters. See the section titled "Risk Factors" on page ix of this RHP and the financials of our Company including profitability and return ratios, as set out in the Auditors Report on page 100 to have a more informed view.



STATEMENT OF TAX BENEFITS

The Board of Directors
Kernex Microsystems (India) Limited,
"Thrushna", Plot NO.7,
Software Units Layout,
Info city, Madhapur,
Hyderabad -500 081
Andhra Pradesh.

Dear Sirs,

We hereby certify that the enclosed annexure states the tax benefits available to Kernex Microsystems (India) Limited (the "Company") and to the Shareholders of the Company under the provisions of the Income Tax Act, 1961 and other Direct and Indirect tax laws presently in force.

The contents of this annexure are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

A Shareholder is advised to consider in his/her/its own case, the tax implications of an investment in equity shares particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

**For GMK ASSOCIATES,
CHARTERED ACCOUNTANTS**

Sd/-
G.SATYANARAYANA MURTY
Partner
Membership No: .29919

Place: Hyderabad
Date: 20.05.05



I. TO THE COMPANY:

1. As Per the Provisions of Section 10(34), dividend income (whether interim or final) referred to in Section 115-O of the IT Act, is exempt from tax in the hands of the Company. However, as per Section 14A of the IT Act, the Company will not be eligible to claim a deduction for any amount expended in connection with earning such exempt income.
2. The Corporate tax rate shall be 30% and surcharge on tax shall be 10%.
3. In addition to income tax, a fringe benefit tax at the rate of 30% (plus surcharge and education cess) would be payable in respect of fringe benefits provided/deemed to be provided to the employees of the Company.
4. In accordance with and subject to the provisions of Section 32 of the IT Act, the Company will be entitled to claim depreciation on tangible and specified intangible assets.
5. In accordance with and subject to the provisions of Section 35D of the IT Act, the Company will be entitled to a deduction of One-fifth of the preliminary expenses incurred for the issue of shares over a period of five successive years beginning with the previous year in which the Company expands its current industrial undertaking.
6. In accordance with the provisions of Section 35 of the Income Tax Act, 1961 the company would be entitled to a deduction on the expenditure lay out or expended on scientific research related to the business.
7. Shares held in a Company will not be treated as an asset with in the meaning of section 2 (ea) of the Wealth Tax Act, 1957; hence no Wealth Tax shall be levied on value of shares of the Company.
8. Gift Tax is not leviable in respect of any gifts made on or after October 1, 1998. Therefore, any gift of shares will not attract gift tax.

II. TO RESIDENT SHAREHOLDERS OF THE COMPANY:

1. By virtue of Section 10(34) of the IT Act, income earned by way of dividend income from domestic Company referred to in Section 115O of the IT Act, are exempt from tax in the hands of the Shareholders.
2. In accordance with the provisions of section 10 (32) of the Act, any income of minor children clubbed with the total income of parent u/s 64 (1A) of the Act will be exempt from tax to the extent of Rs.1500 per minor child per year.
3. In terms of section 10(38) of the Act, any long term capital gains arising to a shareholder from transfer of long term capital asset being an equity shares in a Company would not be liable to tax in the hands of the shareholder if the following conditions are satisfied:
 - i. The transaction of sale of such equity share is entered into on or after 1st October 2004.
 - ii. The transaction is chargeable to such securities transaction tax (STT) as explained below.
4. In terms of Securities Transaction Tax (STT) as enacted by Chapter VII of the Finance (No.2) Act, 2004, transactions for purchase and sale of the securities in the recognized stock exchange by the shareholder, shall be chargeable to STT. As per the said provisions, any delivery based purchase and sale of equity share in a Company through the recognized stock exchange is liable to STT @ 0.075% of the value payable by both buyer and seller. The non-delivery based sale transactions are liable to tax @ 0.015% of the value payable by the seller.
5. The STT will be charged from the assessment year 2006-07 as under: -
 - i. Delivery based purchase and sale of equity shares will be liable to STT @ 0.10%, and
 - ii. Non-delivery based sale transactions will be liable to STT @ 0.02%.
6. Certain transactions have been specifically excluded from the definition of a speculative transaction by Finance Act, 2005. Now an eligible transaction (a transaction which, inter-alia, is carried out electronically on a recognized stock exchange) in derivatives will not be regarded as speculative transaction. Consequently gain/loss thereof will not be regarded as speculation gain/loss.



7. In terms of Section 88E of the Act, the STT paid by the shareholder in respect of the taxable securities transactions entered into in the course of his business would be eligible for rebate from the amount of income-tax on the income chargeable under the head “ Profit and gains of business or profession” arising from taxable securities transactions. As such, no deduction will be allowed in computing the income chargeable to tax as capital gains, such amount paid on account of STT.
8. In terms of section 10(23D) of the Act, all Mutual Funds set up by Public Sector Banks or Public Financial Institutions or Mutual Funds registered under the SEBI or authorized by the RBI, subject to the conditions specified therein are eligible for exemption from income tax on all their income, including dividend from their investments in the shares of the Company.
9. Under Section 48 of the Act, if the Company’s shares are sold after being held for more than twelve months, the gains (in cases not covered under section 10(38) if the Act), if any, will be treated as long term capital gains and the gains shall be calculated by deducting from the gross consideration, the indexed cost of acquisition.
10. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, long term capital gains (In cases not covered u/s 10(38) of the Act) arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gains are invested within a period of 6 months after the date of such transfer for a period of at least 3 years in bonds issued by:
 - i. National Bank for Agriculture and Rural Development established u/s 3 of The National Bank for Agriculture and Rural Development Act, 1981;
 - ii. National Highway Authority of India constituted u/s 3 of the National Highway Authority of India Act, 1988;
 - iii. Rural Electrification Corporation Limited, the company formed and registered under the Companies Act, 1956;
 - iv. National Housing Bank established u/s 3(1) of the National Housing Board Act, 1987; and
 - v. Small Industries Development Bank of India established u/s 3(1) of the Small Industries Development Bank of India Act, 1989
11. Under section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered u/s 10 (38) of the Act) on the transfer of shares of the Company, as and when it is listed, will be exempt from capital gains tax if the capital gains are invested in shares of an Indian Company forming part of an eligible public issue, within a period of 6 months after the date of such transfer and held for a period of at least one year. Eligible public issue means issue of equity shares which satisfies the following conditions, namely -
 - i. The issue is made by a public company formed and registered in India;
 - ii. The shares forming part of the issue are offered for subscription to the public.
12. Under Section 54F of the Act, long term capital gains (in cases not covered under section 10 (38) of the Act) arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the Company will be exempt from capital gain tax subject to other conditions, if the net consideration from such shares are used for purchase of residential house property within a period of one year before and two years after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.
13. Under section 112 of the Act and other relevant provisions of the Act, long term capital gains (i.e., if shares are held for a period exceeding 12 months) (in cases not covered u/s 10 (38) of the Act), arising on transfer of shares in the Company, shall be taxed @ 20% (plus applicable surcharge) after indexation as provided in the second proviso to section 48. The amount of such tax should however, be limited to 10% (plus applicable surcharge) without indexation, at the option of the shareholder, if the transfer is made after listing of shares.
14. Under section 111A of the Act and other relevant provisions of the Act, short-term capital gains (i.e., if shares are held for a period not exceeding 12 months), arising on transfer of shares in the Company on a recognized stock exchange, shall be taxed @ 10% (plus applicable surcharge)



III. TO NON-RESIDENT INDIAN SHAREHOLDERS OF THE COMPANY:

1. Under Section 10 (34) of the Act, dividend (whether interim or final) declared, distributed or paid by the Company on or after April 1, 2003 is completely exempt from tax in the hands of shareholders of the Company.
2. In accordance with the provisions of section 10 (32) of the Act, any income of minor children clubbed with the total income of parent u/s 64 (1A) of the Act will be exempt from tax to the extent of Rs.1500 per minor child per year.
3. In the case of shareholder being a non-resident Indian and subscribing to shares in convertible foreign exchange, in accordance with and subject to the conditions and to the extent specified in section 115D read with section 115E of the Act, long term capital gains arising from the transfer of an Indian company's shares (not covered by sections 10 (36) and 10 (38)), will be subject to tax at the rate of 10% as increased by a surcharge and education cess at an appropriate rate on the tax so computed, without any indexation benefit but with protection against foreign exchange fluctuation.
4. In case of a shareholder being a non-resident in India, and subscribing to the share in convertible foreign exchange in accordance with and subject to the conditions and to the extent specified in section 115F of the Act, the non-resident Indian shareholder would be entitled to exemption from long term capital gains (not covered by sections 10 (36) and 10 (38)) on the transfer of shares in the company upon investment of net consideration in modes as specified in sub-section (1) of section 115F.
5. In accordance with the provisions of section 115G of the Act, Non Resident Indians are not obliged to file a return of income u/s 139 (1) of the Act, if their only source of income is from investments or long term capital gains earned on transfer of such investments or both, provided tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the Act.
6. In accordance with the provisions of section 115H of the Act, when a Non Resident Indian become assessable as a resident in India, he may furnish a declaration in writing to the Assessing Officer along with his return of income for that year u/s 139 of the Act to the effect that the provisions of Chapter XII-A shall continue to apply to him/her in relation to such investment income derived from the specified assets for that year and subsequent assessment years until such assets are converted into money.
7. As per the provisions of Section 115 I of the Act, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any assessment year by furnishing his/her return of income for that year u/s 139 of the Act, declaring therein that the provisions of Chapter XII-A shall not apply to him/her for that assessment year and accordingly his/her total income for that assessment year will be computed in accordance with the other provisions of the Act.
8. In accordance with and subject to the conditions and to the extent specified in section 112 (1) (c) of the Act, tax on long term capital gains arising on sale on listed securities or units not covered by sections 10 (36) and 10 (38) will be, at the option of the concerned shareholder, 10% of capital gains (computed without indexation benefits) or 20% of capital gains (computed with indexation benefits) as increased by a surcharge and Education cess at an appropriate rate on the tax so computed in either case.
9. As per the provisions of section 10 (38), long term capital gain arising from the sale of Equity shares in any company through a recognized stock exchange or from the sale of units of an equity oriented mutual fund shall be exempt from Income tax if such sale takes place after 1st of October 2004 and such sale is subject to Securities Transaction Tax.
10. As per the provisions of section 111A, Short Term capital gains arising from the transfer of Equity Shares in any company through a recognized stock exchange or from the sale of units of equity-oriented mutual fund shall be subject to tax @ 10% provided such a transaction is entered into after the 1st day of October, 2004 and the transaction is subject to Securities Transaction Tax.
11. As per the provisions of Section 88E, where the business income of assessee includes profits and gains from sale of taxable securities, a rebate shall be allowed from the amount of income tax equal



to the Securities transaction tax paid on such transactions. However the amount of rebate shall be limited to the amount arrived at by applying the average rate of income tax on such business income.

12. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the shareholders would be entitled to exemption from tax on long term capital gains (not covered by section 10(36) and 10(38) arising on transfer of their shares in the company if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long-term specified asset is transferred or converted into money at any time within a period of 3 years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the specified asset is transferred or converted into money.
13. In accordance with and subject to conditions and to the extent specified in section 54ED of the Act, the shareholder would be entitled to exemption from tax on long term capital gains (not covered by sections 10 (36) and 10 (38)) arising on transfer of their assets being listed securities or units to the extent such capital gain is invested in acquiring Equity Shares forming part of an “eligible issue of share capital” in the manner prescribed in the said section.
14. In case of a shareholder being an individual or a Hindu Undivided Family, in accordance with and subject to the conditions and to the extent specified in section 54F of the Act, the shareholder would be entitled to exemption from long term capital gains (not covered by sections 10 (36) and 10 (38)) on the sale of shares in the Company upon investment of net consideration in purchase / construction of a residential house. If part of net consideration is invested within the prescribed period in a residential house in which the investment has been made is transferred within a period of 3 years from the date of its purchase or construction, the amount of capital gains tax exempted earlier would become chargeable to tax as long as long term capital gains in the year in which such residential house is transferred.
15. As per the provisions of section 90 (2) of the Act, the provisions of the Act would prevail over the provisions of the tax treaty to the extent they are more beneficial to the Non-Resident.

IV. TO FOREIGN INSTITUTIONAL INVESTORS (FII'S):

1. The income by way of short term capital gains or long term capital gains realized by FIIs on sale of shares in the Company would be taxed at the following rates as per section 115AD of the Income Tax Act, 1961.

Short term Capital gains- 30% (plus applicable surcharge and additional surcharge)

Long term Capital gains- 10% (without cost indexation plus applicable surcharge and additional surcharge)

2. In case of sale of listed securities in a recognized stock exchange long term capital gains will be exempt u/s. 10 (38) and short term capital gains will be taxed at 10% (subject to surcharge and additional surcharge as applicable)

3. Exemptions of capital gains from income tax:

As per the provisions of section 54EC of the Act, and subject to the conditions specified therein, an assessee is eligible to claim exemption (full or proportionate) from tax arising on long-term capital gains on investment of capital gains in certain specified bonds within 6 months from the date or transfer. However, if the assessee sells or transfers the notified bonds within a period of 3 years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable as capital gains in the year in which the bonds are transferred or sold.

As per the provisions of section 54ED of the Act and subject to the conditions specified therein, capital gains arising from transfer of long-term assets being listed securities, shall be exempt from capital gains tax if the said capital gains are invested within 6 months from the date of transfer in equity shares forming part of an “eligible issue of share capital “. Eligible issue of share capital has been defined as an issue of equity shares which satisfies the following conditions -



- * The issue is made by a public Company formed and registered in India: and
- * The shares forming part of the issue are offered for subscription to the public.

V. TO VENTURE CAPITAL COMPANIES / FUNDS:

In terms of section 10 (23FB) of the Income Tax Act, 1961 all Venture capital companies / funds registered with SEBI, subject to the conditions specified, are eligible for exemption from income tax on all their income, including income from sale of shares of the company.

Notes:

1. In view of the Individual nature of tax consequences, each investor is advised to consult his/her/its own tax advisor with respect to specific tax consequences of his/her/its participation in the scheme.
2. The stated benefits will be available only to the sole/first named holders in case of joint holders hold the shares.
3. In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non-resident has fiscal domicile.
4. The contents of this annexure are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.



INDUSTRY OVERVIEW

In most parts of the world, rail transportation is the most economical means of moving people and goods. With increasing population and economic activities, efficient mobility is becoming more and more challenging. An effective rail transportation system calls for adequacy of track length, capacity, safety, efficiency of operation etc.

One of the important aspects of rail transportation system is the classification of the tracks and trains into various categories. There are high-speed intercity trains and main corridor trains moving at more than 150 KM/hour. There are also medium density trains moving at less than 150 KMs per hour speed covering national and regional routes. The third category is the low-density regional network. The requirement of safety system essentially would depend upon the category of the railway installation. For instance, high-speed trains do require a sophisticated auto train control system, which manages protection, operation and supervisory functions. Medium density trains require equipments like train protection and warning systems or some auxiliary warning systems. Medium and low-density trains running on national, regional and local routes require simple anti-collision devices with distributed control system.

In the world market, there are a few railway protection and safety systems which are deployed or under trial or development stages. Important ones are Positive Train Separation System (PTS), Incremental Train Control System (ITCS), Advanced Train Control System and Advanced Railroad Electronics System (ARES), which are being implemented in USA and Canada. TGV Train control system is being used in France for high speed trains moving at greater than 220 KMs/hour wherein traffic safety is not relied on correct interpretation of track side signals but on Cab Signaling System and on-board equipment with reliable advanced information (of status of route) to the operator. German Inter-City Express System (ICE) uses high redundancy components to keep the ICE trains moving in spite of failures. The control and supervision is devised into the train operation level, train control level, vehicle control level and systemic control level. ETCS - a consortium effort in Europe have built-in capability to function in combination with all existing tracks and wayside equipment for train protection and control. It is designed to meet a wide range of operational requirements; at level-1 providing the basic automatic train protection, level-2 In cab signaling, Level-3 train location and train integrity detection and provision for moving block system, level-4 is yet to be developed fully and all equipments are being used in short stretches on experimental basis. The British System consists of automatic warning system, which warns the driver of the status of the signal. Train Protection and Warning System (TPWS) was being experimented on British railways, with feature SPADs (Signal Passing at Danger).

Anti-Collision Devices in Global Markets:

The potential world market for anti-collision devices are in railways run by Private Agencies in developed countries and to a great extent, in government owned railways in the third world countries. Today, on global basis, there are about 1.2 million KMs of rail tracks on which trains move every day. Out of this 70% of tracks are used by national, regional and local railways having medium to low-density traffic, for passengers and freight trains. Nearly 840,000 KMs tracks are to be equipped with ACD like equipment in the next 15 years or so. (Source: Locoprol Ref no. IST 2001 - 28103 April 2002, website: www.locoprol.org)

Demand for anti-collision devices in domestic market:

In India, collisions constitute 7% of accidents but account for 38% of total fatalities. (Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in). Such collisions are to be eliminated by the extensive use of equipments like anti-collision devices. These devices will help prevent head on collisions, train partings, side collisions; and provide audio and visual warnings to the traffic at the level crossings. These systems can also be integrated with sensor based devices to give warnings to trains on land slides and falling boulders on tracks, overflowing bridges, tunnel status etc.

Konkan Railway Corporation is the sole marketing agency for the ACD system in India. According to the Corporate Safety Plan submitted to Parliament, Indian Railways have to cover over 62500 KMs of tracks with ACDs in the next 7 years. The total requirement of ACDs is therefore estimated to be in the range of 30,000 to 35000 units or 7500 to 9000 ACDs per year. The total cost of installing ACDs is estimated at Rs. 16000 million - less than 6 % of the total corpus of Rs. 318,350 Million of Special Railway Safety Fund.



(Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in)

We have an exclusive technology partnership agreement with KRCL for developing, manufacturing, installation, commissioning and maintenance of ACD systems in domestic market and during the last two years, we have successfully completed installation of ACD systems about 1800 numbers covering 2466 KMs.

SKY BUS METRO URBAN TRANSPORTATION SYSTEM

In many of the developing and under-developed countries, the transportation systems in urban centers are grossly inadequate.

In urban centers, increasing population, increasing number of vehicles, narrow and congested roads etc. are contributing to abnormal delays in commuting and inconveniences for the urban citizen. In addition these factors also are adding to air and noise pollution leading to environmental disasters.

Metro Sky Bus Urban Transportation System is based on the concept of Sky Wheels presented in 1989 at World Congress for Railway Research. Metro Sky-bus Urban Transportation System is a mass urban transport system consisting of sky bus coaches hung from an elevated platform at about 40 feet above ground level and supported by a series of pillars positioned at 20 meters distance at the road dividers. At the bottom of the platform, rails are laid for up and down tracks and boggy wheel suspension system is placed on the rails. A 22 KV power line runs above the rails, which runs the boggy wheels, with the help of series motors. Coaches are suspended from the boggy wheels chassis. One Sky-bus system consists of two coaches, which can carry approximately 150 to 175 people in an air-conditioned environment. The movement of the coach is controlled either by the coach driver or through automatic control systems. This alternative urban mass transportation solution completely eliminates any probability of vandalism, accident and is virtually maintenance-free. The Sky Bus coaches move at a speed of 40 KMs to 70 KMs per hour with headway of 1 to 1.5 minutes and can handle 20,000 to 80,000 passengers with 100 to 120 coaches.

KRCL has patented this technology in the year 2004 and has completed trials on model test track at Goa covering over 1.5 KMs. We provided Auto Driving Devices and Automation Control Software for the same. Many cities in India are in dire need to improve the transportation system and could be considering the Sky Bus technology as one of the contenders among mass transportation systems like mono rail, light rails, metro rails, etc.

According to the news reports, Government of Andhra Pradesh has given green signal for installation and commissioning of 20 KMs track from Uppal to Medhipatnam in Hyderabad city as a pilot project the cost of which is estimated to be Rs.550 million per KM. (Source: Eenadu Newspaper District Edition Hyderabad dated 8th July 2005).

We will be providing Auto Driving Devices, Control Automation Software and also Anti-Collision System for Sky-Bus Metro Urban Transport System according to the technology partnership agreement with KRCL dated June 03, 2005.

ADVANCED RAILWAY SIGNAL SYSTEM

This is an improved train control system at stations that eliminates fixed optical signals and also associated human errors. Existing technology in Indian Railways depends on physical monitoring, where in track circuits and relays are used. These are further linked and net worked with complex logical paths and routes on which a train is to be received or path on which a train has to be dispatched. Physical wiring and very large number of relays with on / off status are combined. Designs with layout plans for wiring are prepared laboriously to ensure interlocking of signals.

This Advanced Signal Systems for Railways at stations is a new system based on knowledge and reasoning with real time decision-making capabilities. This technological break through is expected to re-define train operations and lay foundation for evolvement of intelligent self-operating transport systems.

This signaling system when fully developed will be able to provide moving block system, based on networked computers. This system is likely to be completed by the next 2 to 3 years and will be replacing all other type of signal and control systems for moving trains.



Kernex Microsystems and Konkan Railway Corporation Limited with partnerships of 50:50 expenditure sharing, has taken up R&D of an Advanced Railway Signal System called Satdham Safety System consisting of computer based track control systems and onboard Auto Driving Device in each loco. The system design has been completed and is ready for trials. This system will be suitable for introduction in Indian Railways being economical and easy to operate.

SIGNAL PASSING AT DANGER (SPAD)

SPAD system will control the speed of the train not only in the block sections, but also while approaching station zones and while departing from stations. This is a very essential feature for high-speed trains. According to press reports High Speed Trains, which will be running up to 150 KMs /hr of speed, are likely to be introduced in India. When trains move at speed of around 150 KMs / hour, they need additional Safety features, with fail-safe Integrity certification. This equipment is also called Train Protection and Warning System (TPWS)

The demand for such systems is estimated to be of the order of Rs. 620 million to cover 280 KMs of tracks in the next 1-2 years, when high-speed trains are introduced. (Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in)

With integration of this feature with our anti-collision systems, we also expect the demand for ACDs both in the domestic and international markets to go up further.

TRAIN ACTUATED WARNING DEVICES (TAWD)

In India, over the railway tracks, there are a large number of manned and unmanned level crossings. A number of accidents occur at these crossings mostly due to non-availability of any indication/ warning to the vehicles and commuters crossing over. Train Actuated Warning Device, when installed at level crossings, will warn the vehicles and commuters, of the fast approaching trains by communicating through data radios with the trains, even when the train is about 2 KMs away, giving them at least 2 to 3 minutes of headway. These devices will be useful to avoid accidents at the level crossings. We expect TAWDs to be installed at 90 level crossings costing Rs. 80 million in the next one year. (Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in)

HOT BOX AND VIBRATION DETECTING DEVICES

At present, Railways need automated instruments to detect overheating of bearings and broken bearings that cause wheel wobbling which in turn result in derailments. Also, when the geometry of track is not maintained adequately, derailments occur. An effective system is required to warn the railway maintenance staff about these abnormalities to take timely corrective action. We propose to develop the necessary equipment, which is designed to check such abnormalities in the train wheels and rail tracks. This equipment will be mounted on the trains on selected routes.

Using Infrared and sound matching algorithms Hot Box and Vibration detecting devices are planned to be developed. These boxes are mounted at nodal points of rail lines, where we have "Roll in" and "Roll out" points.

As mentioned in the Corporate Safety Plan of Indian Railways provision of Hot Box detectors on existing fleet of wagons is expected to be taken up on 37338 Four Wheeler wagons and 168421 Eight-Wheeler wagons during the current year at an estimated cost of Rs. 750 million. (Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in)

OUR COMPETITORS

At present we are the exclusive manufacturers of anti collision devices in India and there are no competing products available in the domestic market. In the international market there are no manufacturers of ACDs or similar kind of train protection systems, which are technologically suitable and economically priced for the large network of medium to low density railway installations prevailing in India or the railway installations in other developing countries.

There are no competitors in India for the auto driving devices, which we have developed for the Metro Sky-bus Urban Transportation System.

The SAT-DHAM Railway Signal System is based on our ACD technology and there are no competitors in India or internationally.



OUR BUSINESS

We are a Software and Hardware development, Systems Integration and Project Consultancy company, established in 1991 and registered as 100% Export Oriented Unit with Software Technology Parks of India, Department of Electronics, Govt. of India, New Delhi.

We are presently engaged in the business of manufacturing, installing and maintaining of anti-collision systems as well as conceptualizing, designing, and developing certain railway safety and signal systems for Konkan Railways Corporation Ltd. These safety and signal systems are suitable for medium to low speed & density railway tracks like in India and other developing countries.

We entered into technology partnership with Konkan Railway Corporation Ltd, Navi Mumbai for design, engineering and development of anti-collision systems for providing safety to trains in Railways. We hold exclusive license for manufacturing, installation, commissioning and maintenance of anti-collision systems in India. We are also an outsourced facility for the Konkan Railways Corporation Ltd. for manufacture and supply of ACDs and related accessories. We are also a technology partner for the development and implementation of ADDs for Metro Sky-Bus Urban Transportation System, Advanced Railway Signal Systems (Sat-Dham) and other safety systems. We hold the exclusive marketing rights of ACD systems all over the world except India.

The Anti Collision System consists of a network of ACDs for preventing Rail accidents by collisions, which may be due to system faults or human errors. The devices, which are presently being installed on the Railways, are ideally suited for medium to low-density rail routes such as those in India and in many developing countries.

Our Competitive Strengths

- ***The only manufacturer of ACDs in India***

We have developed this product after about five years of R&D, testing, field trials and hold the unique distinction of being the only technology company in India manufacturing and supplying net-worked ACDs to KRCL, who are the agency deploying the same for the Indian Railways. We are continuing with our R&D efforts for improving the existing product both in features and standards. Non-availability of domain knowledge, long lead-time for development and non-availability of real time testing platforms are entry barriers for others to enter this market.

Anti Collision System is the result of synergy of ideas and technological skills of KRCL and Kernex with their dedicated and untiring efforts. The ACD systems developed correspond to the functional and operational requirements of Indian Railways.

- ***Exclusive manufacturing rights***

Our agreement with KRCL entered in February, 2003 defines the scope of the Agreement, which inter-alia provides Kernex as the Sole Licensee of KRCL for manufacturing, installation, commissioning and providing maintenance support, etc. of all types of ACDs, excluding the auto braking unit. It also includes the framework for us to work as technology partners for value addition by developing and proving Moving Block System, Satdham Safety System, which are also based on ACD technology.

- ***Exclusive International Marketing rights***

We also have the exclusive International marketing rights of ACDs as per our above-referred agreement with a royalty payment to KRCL to be mutually agreed upon. The anti-collision devices manufactured by us are suitable and cost-effective on medium to low density routes, both for passenger and freight trains, in the developing countries. The systems will be customized according to the functional requirement specifications of overseas clients. We plan to enter into international markets with marketing offices in New Mexico in USA for North and South America, Mauritius for Africa, Italy for Europe and Bangkok for South-East Asia with an international marketing headquarters at Hyderabad.

- ***Ability to execute project under adverse conditions***

We have undertaken track surveys, erection of towers and accessories for installing anti-collision devices along the railway tracks in some of the most inhospitable geographical locations of India i.e. in Assam and on the Konkan route and hence we have proven ability to undertake and execute turn key projects in a time bound manner under adverse conditions.



- ***Exclusive rights to manufacture ADDs for Metro Sky-Bus Urban Transport system***

We are entitled to hold intellectual property rights for the Auto Driving Devices for Metro Sky Bus Urban Transport System and we are the sole supplier of the ADDs to KRCL or their licensees according to the Memorandum of Understanding entered into between KRCL and us on June 6, 2005.

- ***Existing profit making Company since inception***

We have been operating profitably since inception and paying dividends during all the financial years since 1997-98 except in the year 2002-03. For financial year 2004-05 we earned PAT of Rs. 89.55 million in comparison to Rs. 30.86 million during the Financial Year 2003-04.

- ***Strong management & technical team***

We have a very strong management and technical team who have developed products and executed projects in very adverse geographical locations strictly within the time frames stipulated by the users. Our team planned, designed and executed projects, both on the Konkan route and North Frontier Railways in the record time of 5 to 7 months each. Our Company is managed by a ' of experienced and professional managers exclusively focused on different aspects of railway safety and signal systems including research & development, marketing, quality control and finance. Our management has substantial experience in this industry and its ancillary activities. We believe that our professionals have been able to anticipate the developments in railway safety and signal systems and deliver newer products to our clients and have contributed to our growth and success. Our Company's human resources policy revolves around a commitment to create an organisation that nurtures talents and motivate its work force. We have a very low attrition ratio, which has provided continuity and stability to our business.

- ***Research & Development capabilities***

We have developed ACDs and have chalked out plans for developing and innovating a number of products viz. additional features for anti-collision devices, auto driving devices, SATDHAM Advanced Signal Systems, Signal Passing at Danger (SPAD), Train Actuated Warning Devices (TAWD), and technologies for determining the position of the trains at a given time, Hot-box and vibration detector for Wagons/Coaches etc. We have technical capabilities to undertake development of any electronic proto-type equipment. We believe that continuous emphasis on Research and Development activities will enable us to develop new products, processes and novel applications for the transportation field and possibly help us enter new lines of business.

- ***Quality Control***

We follow thorough quality standards, protocols and have received ISO 1900-2001 certifications revalidated up to 30th June 2008. The finished products are not only inspected internally by our technical personnel to comply with the Quality Assurance Plan but also by M/s. Lloyds Registry Asia (LRA), on behalf of KRCL, which is an internationally recognized quality testing agency for electronic systems, before delivering the products to the users.

- ***Superior operational performance***

We have the capability to develop high quality products and execute projects within short notices and within the strict time frames allowed by the users and in adverse conditions etc, which vouch for the superior operational performance of our company. We have executed projects on the Konkan route which is interspersed with inhospitable terrains, rivers and tunnels in the Western Ghats of Maharashtra, Karnataka and Goa spanning over 736 KMs from Roha in Maharashtra to Mangalore in Karnataka and also in one of the under developed, hostile and forest areas of North East Frontier Railways starting from Kathihar in Bihar to Dibrugarh in Assam spanning over 1730 KMs. The area is subject to frequent floods, heavy rains and insurgency threats. We have successfully executed the projects by supplementing with Solar Power where electricity was not available and where accessibility towards the railway track was difficult. We have also integrated the landslide warning devices with the train ACDs to protect the trains from accidents arising out of landslides and boulders especially along the routes in Western Ghats on the Konkan Railways.



- **Products for Distinctive applications**

- We also provided intelligent data acquisition system to 53 stations on the Konkan route for automatically monitoring the arrival and departure timings of trains for each stations and inputting the data into their existing systems.
- We have designed, engineered and manufactured ADDs for Metro Sky Bus in a period of four months, which was used in the Sky Bus Metro trials on a live track of 1.5 KMs, and the Sky Bus was operated successfully up to a speed of 70 KMs per hour. This device replaces the driver and facilitates auto driving of Sky Bus coaches, stopping at the required stations and opening and closing of doors.
- We have the technological capabilities/know-how for the following:
 - ❖ to design and manufacture devices that can protect trains against avalanches, land slides, overflowing bridges and tracks or displacement of tracks due to natural calamities;
 - ❖ developing at a short notice SPADs (Signal Passing at Danger) which is to be essentially installed at the entry and exit of each station area for high speed trains running at 150 KMs or more per hour;
 - ❖ detect defective and hot wheel bearings in railway passenger coaches and goods wagons by using infrared thermal imaging technology;
 - ❖ vehicle tracking and security systems that can be deployed for fleet management, VIP security and Material Management and Security. Our expertise in GPS and Data Communication Technology can also be used for fishing trawlers management system;
 - ❖ RFID technology which can be used for tracking of materials, tracking of railway wagons and moving assets on the roads and also to sense the tracks on which trains move;
 - ❖ embedded systems to design and develop products; and carry out verification and validation conforming to international standards;
 - ❖ telemetry systems for monitoring the flood levels in the rivers and reservoirs, land slide and avalanche warning system in the border areas and foot hills and mine management systems for open cast mines to improve the productivity of the heavy earth moving machinery, and avoiding collisions and accidents.

- **Cost effective**

Railways are one of the largest and cheapest transportation systems in the world and providing safety systems for the entire network will require substantially large amount of funds. We believe in providing products of appropriate technology following strict quality standards and at economical price so that the systems can be deployed both in developed and under developed countries. The systems are cost effective due to R&D, manufacturing, project and maintenance service costs being low and also due to adoption of Distributed Control System which uses GPS Technology available free of cost.

- **Continuous stream of Maintenance Revenues**

We are solely responsible for providing continuous maintenance support during the life of the equipment and the charges per annum work out to approximately 15% of the cost of the equipment, which is an additional revenue comfort for us. Further, if the user decides to upgrade the equipment or to add additional features to the existing hardware and software, it will enable us to earn additional revenues.

Our Business Strategy

Our Corporate vision is “to emerge as a global player by being a multi product and system developing Company with hardware and software capabilities”. The following are our strategies to achieve this vision.

- **Expand our facility for manufacturing ACDs and create manufacturing facility for other products.**

Our present facility for manufacturing ACDs are limited and cannot cater to the growing demand in the domestic as well as international markets. We also plan to create facilities for manufacturing auto



driving devices and advanced railway signal systems. We intend to establish facilities for manufacturing 10000 ACDs, 1000 ADDs and 500 Advanced Railway Signal Systems. For this purpose we plan to build up new facilities with over 80000 sq.ft of built up space for Raw Material Storage, Inward Quality testing, assembling and manufacturing including testing and quality certification. Facilities for R&D, training and field-testing shall be added/created, which is also a part of the present expansion plan. Indian Railways according to their Corporate Safety Plan has to provide ACD coverage on approximately 56000 KMs of rail routes in the next 5-7 years (Source: Corporate Safety Plan (2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in). Similarly in the international market over 0.8 million KMs of track of medium to low density traffic require ACD type of equipment (Source: Locoprol Ref no. IST 2001 - 28103 April 2002 website: www.locoprol.org). According to the Agreement with KRCL of 29 October 2004, we have to increase our production to 9000 units per annum.

■ ***Increase our Research & Development focus***

We have been moving forward in developing safety application systems that have social relevance with the latest technologies. We have also integrated the Inclinator switches with the ACD network to warn against landslides in hilly terrains. We have identified up-gradation of ACDs to international standards, up-gradation of ADDs for Metro Sky-bus for obtaining safety certifications, Train Actuated Warning Devices for manned level crossings, Signal Passing at Danger (SPAD), Hot Box and Vibration Detectors for wagons and coaches as thrust areas. Indian Railways are planning to introduce faster trains (source: News Paper reports), and the safety systems will also need to be upgraded in which we plan to participate, actively and seize the opportunity.

■ ***Expand our International operations***

Presently we have a wholly owned subsidiary in the US engaged in software development activities and for supporting our products in US markets. We are planning to expand the operations by setting up marketing offices at strategic locations of the world to cater to the needs for transportation safety systems in the developing and developed countries. Immediately for marketing of ACDs, we plan to open marketing offices in New Mexico in USA for North and South America, Mauritius for Africa, Italy for Europe and Bangkok for South-East Asia. Senior Marketing will head these offices and Sales Managers of the Level of Vice President supported by Marketing Managers. We also plan to manufacture and make available trial equipment for covering about 50 KMs of track in foreign countries to demonstrate the efficacy of the equipment to the prospective clients. We are also expanding marketing of software application packages for Hospital Management & Health care Services; and Medical Records Tracking System Software package in the US and other overseas markets.

■ ***Be cost-competitive by increasing our capacity to benefit from economies of scale***

The products manufactured by us are already cost effective. We expect to save on costs further by scaling up the operations and through bulk purchasing of some of the components, which are outsourced and further by economies of scale by automation processes.

■ ***Backward integration***

We are planning to create in house capabilities to manufacture components, which are presently outsourced, by manufacturing some of the key components, like Radio Modems, DC/DC Converters, and ADD Motors for Sky-bus. We would be able to reduce our dependency and also achieve economies of scale and reduce Lead-time for imported components.

EXISTING OPERATIONS

Our existing operations involve the following:

- 1 Manufacture, installation, and maintenance of networked Anti-Collision System-
- 2 Development of Auto Driving Devices for Metro Sky-Bus System;
- 3 Development of Advanced Railway Signal Systems; and
- 4 Vehicle Auto Tracking & Security Systems - ATS



1. Networked Anti-Collision System:

One of the most widely used and comfortable modes of transportation system is the train, but occasionally, accidents occur due to collisions as well as other reasons. It is very difficult to stop such collisions because of speed of moving trains, which need a lead distance to stop. Collisions happen due to human errors and/or faulty equipment. We jointly with KRCL took up an Intensive analysis of major accidents that have occurred in India. The functional requirements of the clients and operational safety procedures have been fully considered for designing the logics. Based on the concept and domain knowledge provided by Konkan Railway Corporation Ltd, we developed the networked Anti-Collision Device, using Global Positioning System, Radio Communication, and Application Logics and inter-facing these with an auto breaking system in the train, conforming to the functional requirement specifications laid down by Konkan Railway Corporation Ltd.

We took up the development work of hardware and application software for the Networked Anti-Collision System, except the auto-braking unit. The product has been successfully developed for deployment after initial and extended field trials on the Amritsar-Jalandhar Section of Northern Railway using 125 ACDs of different types. On 20th January'2004, the then Honorable Railway Minister launched the project at Kishangunj, Bihar on a 1730 KMs rail route on the Northeast Frontier Railway route.

The system consists of Loco ACD with a console (message display) for the driver (in each Loco Engine), Guard ACD with remote (fitted in Guard Van), Station ACD with console (fitted in Station Masters' Cabin), Manned and Unmanned Gates ACD with hooters and flashers (in each location) and Repeater ACDs (fitted at locations having obstructions in radio communication such as hilly areas) which work in concert to prevent the following kinds of collisions and accidents.

- i) Head on Collisions
- ii) Rear end collisions
- iii) Collisions due to derailment
- iv) Collisions at the level crossing gates
- v) Collisions due to inactive crew
- vi) Collisions due to train parting
- vii) Collisions in non- Interlocked Stations
- viii) Accident due to Landslides and Falling Boulders

We plan to add the following additional features for ACDs by integrating with special sensors:

1. Detecting Overflowing rivers and bridges
2. Detecting Displaced tracks
3. Detecting Accidents in Tunnels

Since, anti collision devices are cost effective solutions to prevent train collisions, these anti-collision devices can be exported to other developing and advanced countries with suitable modifications.

We have successfully completed ACD deployment over 736 KMs on the Konkan route and another 1730 KMs on the Northeast Frontier Railway routes is nearing completion. The above routes consist of some of the most inhospitable rail sections of the country. The work involved surveys of the tracks, erection of towers, manufacturing and supply and commissioning of networked ACD system and customizing the same.

Basic Technological features of Networked ACD System

■ **Auto Acting Devices**

The Networked Anti-collision system consists of a Network of Auto Acting Micro processor based communication devices that will trigger off automatic brakes of trains whenever a collision like situation would arise.

■ **Designed for preventing collisions**

The system is specially designed to prevent collisions at the stations, mid sections, level crossings, and parallel sections.



■ **Provide distance scan**

The system provides a distance scan over a range of nearly 3 KMs, thereby detecting collision like situations, if any, take appropriate action to prevent collision, by constant data communication- interchange in the area.

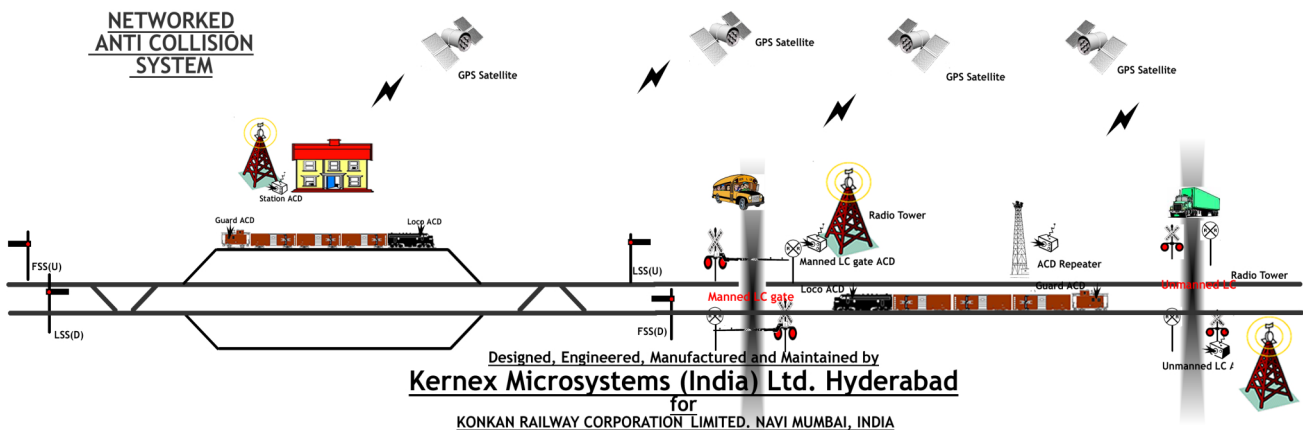
■ **Communication based Control System**

Through data communication, Loco ACD in the Locomotive, Station ACD in the station, Level crossing Gate ACDs (manned as well as unmanned level crossings), are networked and are constantly in communication with each other within a range of 3 KMs. If the communication range is reduced due to obstructions, it is extended by providing Repeaters along the track.

■ **Does not interfere with Normal Traffic**

Here in all cases, even though movement of train is controlled through data communications, where in standard rules are implemented to avoid collision on railroads, the ACDs do not interfere with normal operational procedures and traffic. In normal conditions, the driver is still solely responsible for the safety and control of the train, along with the guard.

ACD Networked Diagram



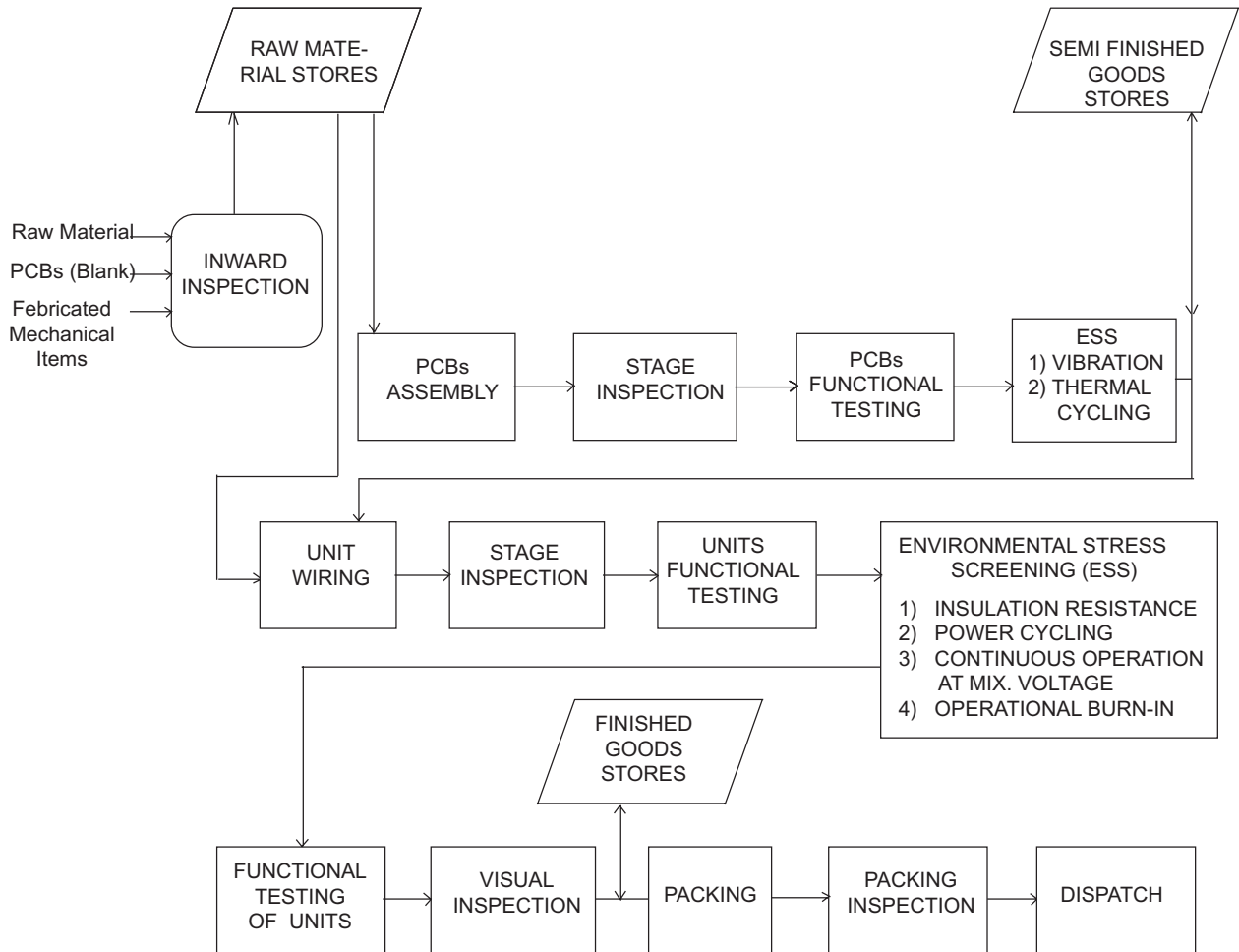
Raw Material

We require various imported components for production of ACDs viz. Radio Modems, GPS Receivers, GPS Antennae, Disk on chip, RS 232 Module, CPU Boards, VF Displays, Noise Filters, LCDs, DC/DC Converters, Radio Remotes, and Cable Modems. We procure Radio Modems from Teledesign Inc., USA for the last 3 years and have not faced any problem in procuring them. CPUs, Disk on Chip and RS 232 Module are imported from I-Cops Limited, Taiwan. GPS is imported from Trimble in U.S.A. The other imported raw materials are procured from Taiwan, Japan, Singapore and Germany. The raw materials are available from other suppliers also in different countries and we are not relying on any single supplier in sourcing any particular raw material.



Process flow chart for manufacturing of ACDs

**KERNEX MICROSYSTEMS (INDIA) LTD
MANUFACTURING OF ACDs
PROCESS FLOW CHART (ABRIDGED)**



Manufacturing Process of ACDs comprises the following stages

1. Raw material procurement and storage by Purchase and Stores Division

Various components and subsystems required for ACDs are procured from approved vendors through a purchase process. The vendors are approved based on their reputation and past history of performance. The purchase process includes sending enquiries for the required items and obtaining quotations, carrying out negotiations of prices and terms and placement of Purchase Orders, after obtaining requisite approvals.



The items received are inspected 100% by the **Inward Inspection Cell** of the Quality Assurance Section (QAS). The passed items are handed over to **Raw material stores** for storage and subsequent usage. The rejected items are returned to the Supplier for replacement.

2. PCB assembly / modules assembly

The PCBs / Modules are assembled in the Assembly Section based on the component assembly details furnished by Production Engineering Section. After assembly, correctness of component assembly, mounting and the workmanship quality are checked by QA personnel as part of Stage Inspection. In case of any mistakes identified by QA, they are corrected and rechecked by QA until no mistakes are found.

3. PCB Testing

The assembled PCBs are tested for functional and parametric aspects by the Testing Section.

4. Environmental Stress Screening (ESS) - Stage 1

The tested PCBs are subjected to vibration from 5 Hz to 150 Hz and back to 5 Hz at an acceleration of 2g on a vibration testing machines. Subsequently, they are passed through a thermal cycling chamber in which the temperature is changed from 0 Deg. C to 70 Deg. C and back to 0 Deg. and this process is repeated in 10 cycles as per thermal cycling profile. After passing through the environmental stress screening, the PCBs are checked once again for their physical integrity, functional and parametric performance. The passed PCBs / Modules are stored in semi-finished goods storage for future usage.

5. Unit Assembly and Wiring

The ACD units are assembled and wired as per the Bill Of Material (BOM) and assembly and wiring by Assembly Section. The completed units are checked by QA personnel as part of stage inspection for correctness of mounting of components, assembly and wiring and workmanship quality. If there are any mistakes, they are corrected and rechecked by QA until no mistakes are observed.

6. Unit Testing

The Assembled units are checked for functional and parametric performance by the Testing Section.

7. Environmental Stress Screening - Stage - 2

The tested units are subjected to the following ESS:

- a) **Power Cycling:** Each unit is switched ON and OFF, 100 times, each cycle taking one minute.
- b) **Continuous operation at maximum voltage:** Each unit is operated continuously for a period of 36 hours at the maximum operating temperature specified in burn-in chamber for a period of 36 hours.

8. Post ESS Functional tests

After passing through ESS, the performance of the units is tested. In case, any unit is found to be defective; it is corrected and subjected to the ESS and testing process again.

9. Customer Inspection

The Customer's representative will test the completed units as per the approved procedure and issue an 'inspection release note' for the passed units. The passed units are kept in the finished goods stores until they are dispatched to the sites.

10. Packing and dispatch

The units inspected on pass by Customer's representative will be packed and dispatched to the required sites for installation, commissioning and further usage. The packing quality and whether packed items are as per the packing list are checked by QA person.

We emphasize on strict quality control and follows stringent norms of ISO Certification, as well as stipulations of Lloyds Registry Asia as per the Quality Assurance Plan.

The Railways Systems & Designs Organization and Lloyd's Registry Asia inspect the systems at our premises before acceptance by Railways.



KEY AGREEMENTS / MEMORANUM OF UNDERSTANDINGS UNDER ACDs

1. Memorandum of Understanding between Konkan Railway Corporation Ltd and Kernex Microsystems (India) Ltd for Developing Anti Collision Devices:

Date of MOU	March 4, 2000
Scope of MOU	Details the terms and condition relating to the technical collaboration for development and field trials of Anti-Collision Devices (ACD) prototypes, excluding the automatic braking unit and cover the responsibilities and obligations of two parties, intellectual property rights and financial arrangements.
KRCL's Obligations	<ul style="list-style-type: none"> • Provide domain knowledge and lay down the functional and technical specifications • Obtain all necessary clearances and approvals from Ministry of Railways, its subordinate organizations and other Government agencies as may be required • Provide necessary facilities for field trials • Arrange for radio survey of the terrain as per requirement • Arrange for inspection and certification • Market the product in India and abroad
Kernex's Obligations	<ul style="list-style-type: none"> • Assist in developing functional and technical specifications • Product engineering including software & hardware design and development, integration, testing and quality assurance. • Arrange for testing and certification of software and hardware from accredited testing lab approved by KRCL • Carry out field trials • Set up facilities for, and undertake, manufacture of ACD after KRCL confirms the order after receiving approvals for pilot project on Indian Railways • Develop and provide technical documentation comprising operation and maintenance manuals • Maintain detailed and transparent record of actual expenditure incurred by Kernex on the project
Financial Arrangements	<p>KRCL will pay for the services of Kernex rendered up to, but before the beginning of production of ACD. The amount will be decided mutually, on the basis of details of expenditure submitted by Kernex to the satisfaction of KRCL.</p> <p>Whenever KRCL gives a production order to Kernex, the unit cost of the product payable to Kernex will not include any element of development costs incurred by Kernex up to the end of the technical collaboration. However, cost of additional features, if added, will be paid by KRCL to Kernex separately, including the new development cost.</p>
Intellectual Property Rights	The IPRs in the ACD and all the hardware and software developed as a result of the MOU shall belong exclusively to KRCL.
Exclusivity	Kernex will be the sole licensee of KRCL for the manufacture of this product (except the automatic braking unit), and sell only to KRCL at a very reasonable price and they are not permitted to sell this product or its revised versions, to any other person, institution or organization/s. Kernex is not permitted to sell / merge the division / sections / facilities / installation that



	will be involved in development and manufacture of the ACDs to some other parties during the period of currency of this MOU and the consequent agreements, as exclusive license is granted to KRCL to Kernex to develop and manufacture these ACDs.
Validity and Termination	MOU will remain valid and in force till a separate agreement for manufacture and supply of ACDs is executed between KRCL and Kernex and it shall be treated as part and parcel of that agreement, or till this MOU is terminated either by KRCL or Kernex by giving a notice of not less than 6 months to the other after the reimbursement of the costs incurred by the other party. In any case, the obligations created under the agreement will continue to be valid and in force for a period of 5 years from the date of such termination.

2. Agreement of Collaboration for Manufacturing, Installation, Commissioning and maintaining of Networked Anti-Collision Devices (ACDs) for use on Railways:

Date of Agreement	February 18, 2003
Scope of the Agreement	Details the terms and conditions relating to the appointment of Kernex as the sole licensee of KRCL for manufacturing, installation, commissioning and providing maintenance support, etc. of all types of Anti-Collision Devices (ACD), excluding the auto braking unit and also defines the responsibilities of parties. It also includes the framework for Kernex working as technology partner for value addition by developing and providing Moving Block System, Satdham Safety System, which are based on ACD technology.
KRCL's Obligations:	<ul style="list-style-type: none"> ● Provide forecast of the requirements of various types of ACDs and timely indicate the requirement to Kernex from time to time ● Lay down the quality standards required ● Lay down the operational designs for the ACDs and Accessories ● Lay down schedules for radio and GPS survey and also installation and commissioning schedules of operational equipment ● Supervise and monitor the manufacturing operation by establishing KRCL inspection office at Kernex manufacturing facility with a view to monitoring the production schedule, quality and shipment schedules to the project sites. ● Invest in the inventories, when required ● Periodical review designs and order improvements ● Jointly work for development of Moving Block System and Satdham Safety System.
KERNEX's Obligations	<ul style="list-style-type: none"> ● Provide manufacturing and integrating facility as required for manufacturing about 500 units of various types of ACDs per month ● Provide such guarantee and make such provisions through legal documents as to ensure that all documents, information and knowledge in whatever form and on whatever media, software, hardware, inventories and manufacturing facilities are separately identified and assigned to KRCL to be handed over to KRCL for mutually agreed consideration in the event of any change in the ownership, composition of management, or line of business of Kernex which may affect KRCL's interest adversely or in the event of any hostile merger or acquisition of Kernex or extinction of its separate existence as a unit or Kernex is unable to execute the supply order for any reason whatsoever.



	<ul style="list-style-type: none"> ● Establish quality assure centre to test the product at bench marked levels ● Provide skilled professionals ● Installation and commissioning of ACDs at the project sites and train the railway staff as required ● Carry out radio survey and GPS surveys as ordered by KRCL ● Establish base repair and maintenance facility as convenient and necessary to maintain the prescribed level of service ● Continuously strive for product improvement on the basis of field experience and feed backs together with KRCL on mutually agreed terms, as ordered by KRCL
Financial Arrangements	KRCL will pay for the works of Kernex on cost basis during the development process for version 1 of ACD system, till the end of completing the modifications to be incorporated as a result of extended field trials of networked ACD system in Jalandhar-Amritsar section of Northern Railways. Further, development cost will be borne on 50:50 basis by both KRCL and Kernex, for development of Moving Block System, Satdham Safety System and operation of Sky-bus System, which are based on ACD technologies.
Investments & Risks	Kernex is responsible for keeping adequate levels of inventories and provide for adequate space / workshop facilities to meet the demands and quality of service in maintenance. KRCL will pay on the basis of ex-factory cost per unit to be mutually agreed per work order, and reimburse actual of taxes and duties. These facilities are exclusive to KRCL and deemed to be outsourced manufacturing facility for KRCL to produce ACD equipments. All the sub-systems of ACD equipment like data radio modems, GPS receivers, microprocessor boards, relay etc. will be held in trust by Kernex for KRCL and shall not be sold / disposed off without the written prior consent of KRCL.
Intellectual Property Rights	Intellectual property rights in case of hardware and software design and technology will solely belong to KRCL. In case of KRCL and Kernex sharing the development cost on 50:50 basis, apart from technical contributions, Kernex will have exclusive license rights for manufacturing. In the International markets, Kernex will have exclusive marketing rights and can sell the product as KRCL product, with a royalty payment to be agreed upon mutually.
Exclusivity of Manufacturing Rights	Kernex will be the sole licensee of KRCL for the manufacture of this product (except the automatic braking unit), for KRCL at a very reasonable price and they are not permitted to sell this product or its revised versions, to any other person, institution or organization/s in domestic market. Kernex is not permitted to sell / merge the division / sections / facilities / installation that will be involved in development and manufacture of ACDs to some other parties during the period of currency of this agreement and the subsequent agreements, as exclusive license is granted by KRCL to Kernex to develop and manufacture these ACDs.
Validity	The Agreement is valid until it is modified, extended or terminated with mutual consent of both the parties, in writing. For cancellation of this Agreement at least one-year prior notice is to be served from both sides listing the reasons thereof. Before any modification, extensions or terminations, all financial claims under this agreement will be settled. If either party violates any of the terms of this agreement, are liable to pay consequential damages to the other.



3. Agreement for Outsourcing of Manufacturing Facilities for Net-Worked Anti-Collision Device System by Konkan Railway Corporation Ltd to Kernex Microsystems (India) Ltd:

Date of Agreement	October 29, 2004
Scope of Agreement	Defines the terms and conditions for using the manufacturing facilities of Kernex by KRCL for manufacturing of “Networked ACD Systems” (called Raksha Kavach) of required Quality and to lay down the responsibilities of each party for implementation of this “OUTSOURCING” process.
Responsibilities of KRCL	<ul style="list-style-type: none"> ● Lay down the Functional Requirement Specification (FRS) and System Requirements Specification (SRS) of their product “Networked ACD System” (called Raksha Kavach), jointly with KERNEX. ● Lay down the Quality Standards required, in QAP (Quality Assurance Plan), in consultation with Kernex and approved by M/s Lloyd’s Registry Asia (LRA). ● Provide forecast to Kernex of their requirements of various types of ACD systems to be manufactured. ● Establish office in the premises of their “OUTSOURCED” “Networked ACD System” manufacturing facility for monitoring the production and timely dispatch of ACD Systems by Kernex as per the targets set by KRCL. ● Invest in inventories whenever deemed necessary, on receipt of ‘specific’ written requests from Kernex, by way of giving need based advances to Kernex for procurement of raw materials including sub - systems from abroad and inside the country. ● Periodically, review the QAP and FRS / SRS of “Networked ACD System” with Kernex for carrying out further improvements in existing QMS and / or in design. ● Issue clearance to Kernex for movement of ACD systems from the “OUTSOURCED” “Networked ACD System” manufacturing facility, as per the provisions laid down in QAP. ● Facilitate field test.
Responsibilities of Kernex	<ul style="list-style-type: none"> ● Provide required infrastructure (having a total covered area of about 3,300 to 3,500 square meters) to manufacture initially 500 ACD Units / Month (with a provision to increase the capacity later to 750 ACD Units / Month). For this, Kernex will carryout following activities, namely: <ul style="list-style-type: none"> ■ Sourcing vendors and procure raw materials (from vendors abroad and available locally within India), such that the requirements, as spelt out in FRS / SRS, are fully met with. ■ Raw Material testing, acceptance and storage facility. ■ Assembly and Integration facility with machines and tools ■ Testing facility with testing instruments, tools, jigs and fixtures. ■ Quality Control, Verification & Validation Facility ■ Storage of raw materials, semi finished and finished products ■ Hardware and Software R&D facility for feature enhancements ■ Maintenance facility ■ Security System ■ Adequate and uninterrupted power supply, etc.



	<ul style="list-style-type: none"> ● Provide skilled and experienced managers, supervisors, technicians ● Establish a Quality Assurance Centre that implements the Quality Assurance Plan approved by KRCL and LRA, with adequate testing machinery, instruments and tools with arrangements for their periodic calibrations. ● Establish and efficiently run a base repair and maintenance facility with adequate testing instruments, tools and qualified experienced manpower. ● Provide all licenses required under the Factories Act, and any other state or central government agencies, Pollution Control Board, labor registration, Minimum Wages Act, EPF, ESI, Professional Tax, Shops and Establishments Act, Insurance etc. ● Pay all Excise, Sales or other related taxes ● Transport goods from storage facility to project sites ● Deploy round-the-clock security staff and provide a full proof system such the “Outsourced” manufacturing facility of KRCL remains protected from any loss of intellectual property, technology, designs, drawings, documentation, materials and any other information (in any form or in any type of media) that is considered as ‘sensitive’; to safeguard the business interests of KRCL and / or Kernex or both.
Financial Arrangements	<p>Kernex is entitled to receive the payment from KRCL, in the form of individual cost of each ACD unit, duly produced and delivered according to Quality Assurance Plan. The costs will include, the cost of the raw materials procured from imported and indigenous sources, production wastages, materials handling charges, taxes, labor costs for Assembling, Integrating and Testing at all levels including Quality Control and warranty cost for the warranty period. The cost will also include the overhead that covers the Managerial, Administrative, power, rents, welfare, Infrastructure maintenance, security and other incidental charges. Further, Kernex will also be allowed, a percentage as margin on the factory manufacture costs that covers interest on capital, taxes, ROI and basic margin to plough back in to the system for sustenance, the pricing modalities of which will be mutually agreed and spelt out clearly while placing the manufacturing orders by KRCL on Kernex.</p>
Intellectual Property Rights	<p>The IPRs in case of ACD hardware and software design and ACD technology as a whole, shall solely belong to KRCL</p>
Exclusivity	<p>ACD units manufactured shall not be sold or transferred by any means by Kernex to any other party or modified and sold or transferred to any other party, without prior written permission or instructions from KRCL. ACD units manufactured and delivered against the purchase orders at site by Kernex to KRCL representative will become the property of KRCL.</p>
Validity	<p>The Agreement shall be valid until all the orders for manufacturing of Networked ACD System placed by KRCL are executed fully by Kernex to the satisfaction of KRCL or for a minimum period of five years from the date of execution of the Agreement unless modified, extended or terminated otherwise with the mutual consent of both the parties, in writing. However, for unilateral cancellation of this Agreement either party has to give at least six months prior notice listing the reason(s) thereof. KRCL and Kernex however agree to settle pending financial and other claims arising out of this Agreement, before any modification, extension or termination of this Agreement takes place.</p>



2. Sky Bus Metro System:

Sky Bus Metro System is a mass urban transport system consisting of sky bus coaches hung from an elevated platform at about 40 feet above ground level and supported by a series of pillars positioned at 20 meters distance at the road dividers. At the bottom of the platform, rails are laid for up and down tracks and boggy wheel suspension system is placed on the rails. A 22 KV power line runs above the rails, which runs the boggy wheels with the help of series motors. Coaches are suspended from the boggy wheels chassis. One bus system consists of two coaches, which can carry approximately 150 to 175 people in an air-conditioned environment. The movement of the coach is controlled either by the coach driver or through automatic control systems. This alternative urban mass transportation solution completely eliminates any probability of vandalism, accident and is virtually maintenance-free.

A trial track of 1.5 KMs was built by Konkan Railway at Madgaon, Goa for the first time in India. We provided ADDs and the Driver Control Console and successfully carried out the trials by running up to 70 KMs speed in an Auto Driving Mode during September - November, 2004.

The Technology

- Rail guided bogie system commonly used for normal railway system.
- Linear Induction Motor Technology or 3 phase asynchronous electrical motive
- units Light weight coaches called 'Sky buses' which are suspended from bogies and travel below rail guides.
- Pre-fabricated latest construction technologies, which save time and money resulting in easy execution of the project in busy urban areas without disturbing the existing traffic pattern. These structural engineering methods, which do not have any project execution, risk attached.
- Information technology tools for economic communications and control.

Advantages of Sky Bus Metro System

- Fast Transportation
- No requirement of Land
- Air & Noise Pollution free
- Easy accessibility
- No scope of capsizing of the coaches in case of derailment
- Deep Penetration as it can reach the most crowded and busy roads as there is no interference with normal road traffic
- Low Operational Cost due to the absence of track circuits or signals, points or crossings
- All urban transportation needs covering people and goods.

We have entered into a technology partnership agreement with the Konkan Railway Corporation Ltd on June 06, 2005 for, design and development of ADD system i.e. an electronic software and hardware system required for operation, control and automation of the Metro Sky-bus Urban Transportation System.

Memorandum of Understanding Agreement with Konkan Railways Corporation Limited for Metro Sky-bus System:

Date of MoU	June 6, 2005
Scope of MoU	This partnership agreement is for research, design and development of ADD system i.e. the electronic hardware and software, required for operation, control and automation of the Metro Sky Bus System, by Kernex for KRCL's Metro Sky Bus project, based on mutual discussions between KRCL, Kernex and other technology partners of KRCL. Kernex will participate in the live field trials as a pilot project and ensure that the ADD system developed by Kernex meets the safety standards laid down and acceptable to the accredited agency nominated by KRCL for certification.



<p>KRCL's responsibility</p>	<p>KRCL will be responsible for:</p> <ul style="list-style-type: none"> ■ Specifying user requirements of ADD ■ After mutual discussions and discussions with all concerned parties, lay down the Quality and Safety Standards ■ To nominate the accredited agency to approve and certify the product being developed under the scope of this agreement
<p>Kernex's responsibility</p>	<ul style="list-style-type: none"> ● Defining detailed nomenclature, technology and design specifications for the solution ● Generating Functional Requirement Specifications(FRS) in consultation with KRCL ● Verification, validation and certification of the technology, as required for Sky-bus, by an accredited agency nominated by KRCL ● Design and development of the product according to FRS approved by KRCL ● Manufacture and supply of ADD system for driving of one Sky-bus on the Sky-bus Test Track at Madgaon, Goa as a pilot project. ● Installation and Commissioning ● Participation in field trials ● Maintain a transparent record of expenditure
<p>Intellectual Property Rights</p>	<p>The IPRs for the equipment mentioned in the MoU for the pilot project of Sky-bus Test Track at Madgaon, Goa would be solely that of Kernex.</p> <p>Ownership of the Intellectual Properties associated with the solutions or applications developed for Sky-bus project can be any one of the following three ways:</p> <ul style="list-style-type: none"> ● If KRCL defines the detailed architecture, technology, functional and design specifications for an application or solution, and contracts such work to Kernex as - "work made to order" then the total intellectual property for that application or solution shall remain with KRCL. ● If Kernex defines the detailed architecture, technology, functional and design specifications for an application or solution, and KRCL bears the development cost, then the total intellectual property for that application or solution shall be shared equally between Kernex and KRCL. ● If Kernex defines detailed architecture, technology, functional and design specifications for an application or solution, and Kernex bears the development cost, then the total intellectual property for that application or solution shall remain with Kernex. <p><i>Both parties agree that for each project, one of the three above-mentioned ways of IPR ownership will be selected. The selected method of IPR ownership shall be listed in the Development Agreement of that Project.</i></p> <p>Each party may use the other party's trademarks subject to prior written consent being obtained.</p>
<p>Exclusivity</p>	<p>In case, KRCL is transferring the Intellectual rights or patent rights of Metro Sky-bus system to a third party, the right of Kernex under the Agreement will continue.</p>



<p>Transfer of Technology by Kernex</p>	<p>In case Kernex, intends to sell / transfer their technology to a third party, in such an eventuality, KRCL's consent in writing to transfer to such third party will be obtained, if asked for Sky-bus technology. Such approved parties will be entitled for the same rights as Kernex under this Agreement. However, KRCL holds the first right of refusal for Transfer of Technology being offered to third party by Kernex.</p>
<p>Validity</p>	<p>Parties to mutually agree on a time frame.</p> <p>KRCL has the right to terminate the Agreement by giving 6 months notice</p> <p>In the event that the Parties conclude that no further headway can be achieved within a period of 6 months from the date of execution of the Agreement due to any reason(s) each party has the right to terminate the Agreement by giving 3 months notice. However all obligations created shall remain in force for a period of 3 years thereafter</p>

Raw Material

We require various imported components for production of ADDs viz. Radio Modems, RFIDs, RFID Tags and Readers, Disk on chip, RS 232 Module, CPU Boards, VF Displays, Noise Filters, LCDs, DC/DC Converters, Radio Remotes, Cable Modems. We procure Radio Modems from Teledesign Inc., USA for the last 3 years and have not faced any problem in procuring them. RFID Tags & Readers are sourced from Tagmaster, Sweden. CPUs, Disk on Chip and RS 232 Module are imported from I-Cops Limited, Taiwan. The other imported raw materials are procured from Taiwan, Japan, Singapore and Germany. The raw materials are available from other suppliers also in different countries and we are not relying on any single supplier in sourcing any particular raw material.

3. Advanced Railway Signal System:

The present signal systems involve fixed optical signals and physical monitoring wherein track circuits and relays are used. These are further linked and net worked with complex logical paths and routes on which a train is to be received or dispatched. Physical wiring and very large number of relays with on / off status are combined and designs with layout plans for wiring are prepared laboriously to ensure interlocking of signals. Until recently, these systems were considered safe, proven, and relatively effective techniques for train control. However, these systems offer only limited functions and they require train operations on fixed blocks (fixed segmentation of track) rather than flexible or moving block. In the fixed block method, the track is divided into predetermined distances between wayside signals and, for safety reasons, the block lengths are established based on the required maximum stopping distance of worst case operations; that is, for long and heavy loaded trains operating at maximum authorized speeds, the operations are restricted both in the block which the train occupies and in the adjacent block or blocks. This also means that, in the fixed block method, trains are given access to each block only after the train ahead has left this block and, when additional margin is needed, after the following block is clear. From the standpoint of safety, the effectiveness of conventional track circuits methods in providing full train control is not high enough because its effectiveness depends on the resolution of the track circuits; feedback to the train (in the form of cab signal or wayside signal aspects); and human interpretation and actions taken by the locomotive engineers (train operators) in responding to signal indications. Conventional systems are also costly to install and maintain.

SAT-DHAM Advanced Signal System being developed by us is an improved train control system for stations. This is a new system based on knowledge and reasoning with real time decision making capabilities and would provide a revolutionary paradigm shift in the concept of signaling and interlocking technologies.

With the conventional railway signal systems, the trains can only operate in "fixed blocks", while with the new system, a train will be capable of operating in flexible blocks or "moving blocks", which is a more efficient method as the installations such as tracks and moving equipment are utilized to the maximum possible capacity.

This communications-based signal system will depend on the use of data communication over a variety of paths (including radio) to gather required information for train location and system integration. The system will be capable of defining and safely implementing the principle of the flexible or variable "moving block" systems based on actual (real-time) train speed, track geometry, direction of movement, required safe braking distances, and stopping characteristics. In the variable moving block method, the distance between trains no longer depends on the length of blocks and can be reduced to the braking distance with a safety margin.



Advantages of Advanced Signal Systems

- The existing expensive systems of fixed signals, panels and station masters operating panels, will be replaced by low cost more advanced systems.
- Enhanced safety capabilities as they act on a real time basis.
- Installations such as tracks and moving equipment are utilized to the maximum possible capacity.
- Shorter trains can proceed more frequently and the waiting time can be reduced significantly.

Agreements for Advance Signal System

Vide our letter Ref. KER:KRCL:1268:2002-2003 dated 26th March' 2003 and KRCL letter Ref. No.KR/CO/SG/ACD/Kernex both Kernex and KRCL have mutually agreed to work on Satdham Safety Systems Project for the Railways on 50%:50% cost sharing basis.

Raw Materials

We require various imported components for production of ADDs viz. Radio Modems, RFIDs, RFID Tags and Readers, Disk on chip, RS 232 Module, CPU Boards, VF Displays, Noise Filters, LCDs, DC/DC Converters, Radio Remotes, Cable Modems. We procure Radio Modems from Teledesign Inc., USA for the last 3 years and have not faced any problem in procuring them. RFID Tags & Readers are sourced from Tagmaster, Sweden. CPUs, Disk on Chip and RS 232 Module are imported from I-Cops Limited, Taiwan. The other imported raw materials are procured from Taiwan, Japan, Singapore and Germany. The raw materials are available from other suppliers also in different countries and we are not relying on any single supplier in sourcing any particular raw material.

4. Vehicle Auto Tracking & Security Systems - ATS:

We have already developed and exported this developed package. ATS are used for tracking vehicles, trailers and mobile assets. ATS helps to get information regarding the location and status of vehicles continuously at a central place. This system also can be used for tracking and locating the police mobile task forces. Whenever there is a need, the central office can direct the nearest vehicle to the place of requirement (i.e., accident site, crimes site). The components used for ATS system are:

- Vehicle Mounted Data Terminals (VMDTs)
- Personal Data Terminals (PDTs) and
- Static Data Terminals (SDTs)

The following are the major application areas:

- Traffic police for better service and security to the people
- Police Departments for handling critical situations in a better way
- Transportation and logistics organizations to improve productivity and service levels
- VIP Security
- Traffic Diversion
- Accident Relief Work

LOCATION AND UTILIZATION OF EXISTING FACILITIES

We purchased approx. 2430 sq. yards of land bearing Plot No. 7 situated at Software Unit Layout at Madhapur, Serlingapally Mandal, Ranga Reddy District, Hyderabad, Andhra Pradesh from the Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC), a Government Company registered under the Companies Act, 1956, on outright sale basis for setting up of Software Development Centre vide Deed of Sale, dated January 19, 2003. We constructed the existing building of 44000 sq.ft. floor area on the said land, where we are currently manufacturing ACDs and carrying out R&D activities on Railway Safety Systems. Land is free from all encumbrances except for equitable mortgage created in favor of Banks who have extended working capital facility in the normal course of business.

We also have another premises on lease from an Individual namely Mr. Arun Bajaj admeasuring area of 9828 sq. ft. at No. H, Avanthi Colony, Survey No. 59/1/2, Karkhana, Secunderabad, Andhra Pradesh where project division for field implementation of ACDs is located. We are paying Rs. 1.35 Million per annum for use of the said premises.



On completion of the proposed projects the facility at Infocity Layout Madhapur, Hyderabad is proposed to be utilized for the following:

- Undertake Special R&D Projects
- Base Repair Facility for ACDs/ADDs/Satdham Safety System
- International Marketing Headquarters

MANPOWER

We have employed highly experienced manpower with technical managers, Project Leaders, Senior Programmers and Programmer Analysts in the field of System Analysis, Design, Planning and Development, totaling to 348.

Category		Total
At Registered office		
Managers		20
Administration		13
Software Engineers		33
Hardware Engineers + Mech Draftsman +R&D Engineers		26
Technical Assistant		30
Technicians + Production Support		68
Sub total (A)		190
Project Division		
Managers/offices		7
Administration		10
System Administrator		7
Hardware Engineers		37
Technical Assistant		38
Technicians		45
Consultants and others		14
Sub total (B)		158
Total (A+B)		348

EXISTING INFRASTRUCTURE

Power

The total power requirement at the existing facility in Infocity Madhapur, Hyderabad is 936.75 KW whereas we have a sanctioned capacity of 250 KVA with a contracted load of 430 KW. from Central Power Distribution Company of A.P. Limited, Hyderabad. In addition, we have 1 DG Set of 250 KVA as a standby during power failure.

The total power requirement at the existing facility in Karkhana, Secundrabad is 45 KVA for which 45 KVA has been sanctioned and installed power capacity by Central Power Distribution Company of A.P. Limited, Hyderabad. In addition, we have 1 DG Set of 5 KVA as a standby during power failure.

Water

Our water requirement at Infocity, Madhapur, Hyderabad is 15,000 litres per day, which we derive from A.P. Industrial Infrastructure Corporation Ltd., Hyderabad, whereas the water requirement of project division at



Karkhana, Secunderabad is being met by Cantonment Board, Secunderabad. We have bore well capacity of 10,000 litres each at both the places.

Capacity - ACDs, ADDs and Advanced Signal Systems

Facilities for manufacturing ACDs (Including Accessories) per annum

	Available *	Utilized
2002-03	Nil	120 ACDs 60 GPS Survey 24 Radio Survey Units
2003-04	Nil	241 ACDS 27 GPS Survey 24 Radio Survey Units
2004-05	4200	1445- ACDs 21 GPS Survey

Note: This is a temporarily reappropriated facility at the exiting software development center.

Future Capacity and capacity utilization:

Year	Product	Capacity	Capacity Utilization
2005-06	ACD	4200	2600
	ADD	—	—
	Advanced Signal System	—	—
2006-07	ACD	4200	4200
	ADD	—	—
	Advanced Signal System	—	—
2007-08	ACD	10000	6000
	ADD	1000	500
	Advanced Signal System	500	250

Break-up of Turnover for existing operations

(Rs. In Millions)

	For the Year ended 31st March			For the Period ended
	2003	2004	2005	31-08-2005
Software Services	29.04	11.94	26.33	44.16
Sale of ACD's	37.83	78.17	373.00	49.00
Other Service Income	2.11	40.34	63.62	94.35
Trading goods	-	22.83	61.87	10.80
Total Turnover	68.98	153.29	524.82	198.30



QUALITY SYSTEM & CERTIFICATION

We are an ISO 9001-2000 certified by Lloyd's Registrar Quality Assurance since June 12, 2003 and renewed for the next 3 years w.e.f. June 2005.

PROPERTIES

Our manufacturing operations of ACDs are carried out on properties owned by us at Plot No. 7 situated at Software Unit Layout at Madhapur, Serlingapally Mandal, Ranga Reddy District, Hyderabad. We also occupy 9828 sq. ft. office space at No. H, Avanthi Colony, Survey No. 59/1/2, Karkhana, Secunderabad, Andhra Pradesh for office purposes. This property has been taken on Lease from April 1, 2005 to March 31, 2007 vide a registered Lease Agreement from an Individual namely Mr. Arun Bajaj. Mr. Arun Bajaj is not related to the Promoters / Promoter Group / Directors of our Company.

Purchase of Property

Except as stated in section titled "Objects of the Issue" in this Prospectus, on page 28 there is no property which we have purchased or acquired or propose to purchase or acquire which is to be paid for wholly, or in part, from the net proceeds of the Issue or the purchase or acquisition of which has not been completed on the date of this Prospectus, other than property in respect of which: -

- The contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Issue nor is the Issue contemplated in consequence of the contracts; or
- The amount of the purchase money is not material; or
- Disclosure has been made in this Prospectus on page 28.

Except as stated in the section titled "Related Party Transactions" on page 97 of this Prospectus, we have not purchased any property in which any Directors, have any direct or indirect interest in any payment made thereof.

INDEBTEDNESS

We are currently enjoying working capital facilities from State Bank of Hyderabad, Industrial Finance branch, Hyderabad, the details of which are as under:

(Rs. in Million)

Limit	Existing Limit (On the date of RHP)	Amount Outstanding (On the date of RHP)	Security
Cash Credit	75.00	68.14	First Charge over stocks of raw material, work-in-progress, finished goods, consumable stores, spares, packing material, book debts, receivable present & future. In addition, First Charge on fixed assets of our company.
Bank Guarantee	100.00	58.60	Same as above
Letter of Credit	50.00	Nil	Same as above
Short term Corporate loan	75.00	34.71	Same as above
TOTAL	300.00	161.45	

INSURANCE

We have taken different insurance policies covering the following:

- Electronic Equipments Insurance
- Building, Stocks, Plant and Machinery etc.
- Raw Materials, Work in Progress, Finished Goods
- Employees Group Personal Accident Insurance
- Vehicle Insurance



The details of insurance policies are as follows:

I. Electronic Equipments:

We have 166 policies in force covering various kinds of electronic equipment.

Insurer	The New India Assurance Co. Ltd.
Property Insured	Electronic equipment and electronic items of various kinds including lap top computers.
Name of the Policies	Special Contingencies, Marine cum Erection, Storage cum Erection, Burglary Floater, Floater, Standard Fire and Special Perils.
Period of Insurance	Range from July 03, 2004 to December 02, 2006
Total Sum Insured	Rs. 844.49 Million
Total Premium	Rs. 2.80 Million

II. Building, Stocks, Plant and Machinery etc.:

Insurer	The New India Assurance Co. Ltd.
Property Insured	Building, Stocks, Plant and Machinery etc.
Name of the Policy	Standard Fire and Special Perils
Period of Insurance	September 06, 2005 to midnight September 05, 2006
Sum Insured	Rs. 151.86 Million
Premium	Rs. 0.42 Million

III. Raw Materials, Work in Progress, Finished Goods:

Insurer	The New India Assurance Co. Ltd.
Property Insured	Raw Materials, Work in Progress, Finished Goods
Name of the Policy	Burglary I.R.
Period of Insurance	September 06, 2005 to midnight September 05, 2006
Sum Insured	Rs. 77.50 Million
Premium	Rs. 0.013 Million

IV. Employees Group Personal Accident Insurance:

Insurer	The New India Assurance Co. Ltd.
Number of employees presently insured	365
Name of the Policy	Group Personal Accident Insurance
Period of Insurance	February 24, 2005 to February 23, 2006
Sum Insured	Rs. 125.44 Million
Premium	Rs. 0.14 Million

V. Vehicle Insurance:

Insurer	The New India Assurance Co. Ltd.
Property Insured	Maruti Esteem and Pal Peugeot
Name of the Policy	Vehicle Insurance
Period of Insurance	1. July 19, 2005 to July 18, 2006 2. October 19, 2005 to October 17, 2006
Sum Insured	1. Rs. 0.22 Million for Maruti Esteem 2. Rs. 0.30 Million for Pal Peugeot
Premium	1. Rs. 0.005 million for Maruti Esteem 2. Rs. 0.007 million for Pal Peugeot



Restrictive Covenants under our Loan Agreement

We have entered into agreement with State Bank of Hyderabad for short-term loans. These agreements contain certain restrictive covenants, some of which require prior permission of the Bank, inter alia pertain to the alteration of capital structure, implementing any scheme of expansion or acquiring fixed assets, formulation of any scheme of amalgamation or reconstruction, investment by way of share capital in or lending or advancing funds to or place deposits with any other concerns except in normal course of business or as advance to employees, undertaking guarantee obligations on behalf of others, declaring dividends for any year except out of profits relating to that year's profit after making all due and necessary provisions and any drastic changes in the management set up.



REGULATIONS AND POLICIES

Ours is a Software Development, Project Consultancy and Systems Integration company and is registered as a 100% Export Unit with Software Technology Parks of India (STPI).

Relevant Government Policy

- The Government of Andhra Pradesh has provided various incentives to the Information Technology (IT) Industry vide Government Order G.O.M No. 114 dated 25 May, 1999. The incentives provided under the said Order are as follows:
 - i. The IT Software Industry is exempted from the purview of the Andhra Pradesh Pollution Control Act;
 - ii. The IT Industry is exempted from statutory power cuts;
 - iii. Industry power tariff and all other admissible incentives and concessions applicable to the industries in respect of power is applicable to the IT Industry;
 - iv. A 25% Concessional Power Tariff to the new IT industrial units for a period of 3 years;
 - v. There will be no sales tax on computer software;
 - vi. The IT Software Industry is exempted from zoning regulations for the purpose of location;
 - vii. The Government agreed in principle under the said Order to self-certification/exemption as far as possible for the IT Software Industry from the provisions of the following Acts/Regulations (subject to issue of specific orders by the departments concerned in consultation with the A.P. Information Technology & Communications Department):
 - a. Factories Act;
 - b. Water and Air Pollution Act;
 - c. Employment Exchange (Notification and Vacancies) Act;
 - d. Payment of Wages Act;
 - e. Minimum Wages Act;
 - f. Contract Labor (Regulation and Abolition) Act;
 - g. Workmen's Compensation Act;
 - h. Andhra Pradesh (Shops and Establishments) Act;
 - i. Employee's State Insurance Act.
 - viii. A general permission has been accorded to run a three-shift operation to the IT Industry (subject to issue of specific detailed order, separately by the department concerned);
 - ix. There will be a rebate in cost of land allocated to an IT Industry at Rs. 20,000/- per job created subject to certain conditions;
 - x. For IT infrastructure companies establishing facilities on private/APIIC/Government Lands, concessions will be in the form of rebate on registration and transfer of property charges and exemption from stamp duty on a reducing scale for sale/lease of built up space to the IT Industry;
 - xi. An Investment subsidy for new IT hardware and software industries at 20% of fixed capital investment but not exceeding Rs. 20 Lac;
 - xii. Special incentives for Mega Projects/ Pioneering Projects;
 - xiii. For mega projects, with investment exceeding Rs. 100 Crore, Government of Andhra Pradesh may consider special package of incentives, on a case-to-case basis.



OUR HISTORY AND CERTAIN CORPORATE MATTERS

Our History

Our company was incorporated on September 16, 1991 as a private limited company with the object of designing, developing, installing and maintaining software packages for domestic and international markets. We are registered as 100% Export Oriented Unit (EOU) with Software Technology Parks of India, Department of Electronics, Govt. of India, New Delhi.

We developed and exported software packages from 1993 to 2003 namely "Mimex" for GUI application, LearnX a self learning tool, ELX, Flicker, MathX, EzEc Builder, Netcare, E-DOCS, etc. With E-DOCS, we provided powerful, extensible and affordable document management and imaging solutions to companies and organizations looking to reduce their dependence on paper distributed information more efficiently and assist collaboration among users. MathX was an interactive mathematical wizard on MS-Windows, NT and 95 for evaluating complete expressions and solving intricate equations. It provided an easy to use interface to combine equations, graphics and text in single/multiple documents. EzEc Builder package was an integrated Electronic Commerce Tool to create and maintain supermarkets on Internet. It provided a BackOffice administration and an extensive set of canned reports. A virtual ERP, with all facets of electronics commerce, inventory control, financial accounting and customer management. Our turnover increased from Rs. 4.5 Million to Rs. 78 Million during fiscal year 1993 to 2003. In the domestic market, we also developed Intelligent Data Acquisition System and installed on Konkan Railways in 53 stations from 1997 to 1999.

We started developing Railway Safety systems from 1999 and successfully developed and demonstrated a prototype of ACDs to Konkan Railway Corporation Limited and Members of the Railway Safety Board. In March 2000 we entered into a Memorandum of Understanding with KRCL for Technical Collaboration for developing full scale networked Anti-Collision Systems (ACDs). We, jointly with KRCL, took up an intensive analysis of the major accidents that occurred in India, The functional requirements of the clients and operational safety procedures have been fully considered, for designing the logics of Anti Collision Systems. Based on the concept and domain knowledge provided by Konkan Railway Corporation Ltd, we developed the networked Anti-Collision Devices, using Global Positioning System, Radio Data Communication, Application Logics and Inter facing these with an Auto Breaking System developed by KRCL.

The product has been successfully developed for deployment after initial and extended field trials on the Amritsar-Jalandhar Section of Northern Railway using 125 ACDs of different types during July 2002 to January 2003. The product underwent improvements and series of successful trials over a period of 3 years. Consequent to an agreement in the year 2003 with KRCL, we became the exclusive manufactures and suppliers of these systems to KRCL including installation and maintenance. On January 20, 2004, the then Honorable Railway Minister launched the project at Kishangunj, Bihar on a 1730 KMs rail route on the Northeast Frontier Railway route.

We also developed ADDs for Metro Sky-Bus System during 2003 - 04 under technology partnership with KRCL. We have also been carrying out research and development work on Advanced Railway Signal Systems on cost sharing basis with KRCL.

Major events

DATE	EVENT
September 1991	Incorporated on September 16, 1991.
March 1992	Software "Mimex" for GUI application developed
March 1993	Exported "Mimex" and developed product like learnX, Flicker, MathX
March 1995	Exported software MathX
September 1996	Business Relationship with KRCL began by supplying Intelligent Data Acquisition Systems for centrally monitoring arrival and departure timings of trains at each stations
October 1996	Started Oracle Financial Training Center at Hyderabad
May 1997	Started Oracle Financial Training Center at Bangalore



DATE	EVENT
June 1998	Successful completion of commissioning the Intelligent Data Acquisition Systems at 49 stations of Konkan Railway Projects
October 1999	Prototype ACDs developed and demonstrated to KRCL
December 1999	Prototype ACD demonstrated to Minister of Railways, GoI
March 2000	Successful completion of first phase trials of ACDs and supply of ten units to KRCL.
March 2000	MoU with Konkan Railways Corporation Ltd as technology partner for ACDs design and development signed.
September 2000	Set up a 100% subsidiary in US on September 25, 2000.
April 2002	Second Phase of ACDs trials with KRCL and receipt of purchase order for manufacturing, supply and installation of 120 ACDs undertaken.
June 2002 to January 2003	Participated in the Networked ACD field trials in Northern Railway on Jalandhar-Amritsar section
June 2002	IS/ISO 9001:2000 Certification from Lloyd's Registry Quality Assurance obtained.
February 2003	Agreement with KRCL for manufacturing, installation, commissioning and maintenance of ACDs signed.
April 2003	Started working on SATDHAM safety system in partnership with KRCL
November 2003	Development of ADDs, related software's and station consoles for metro sky bus system for KRCL taken up.
January 2004	Commenced work on ACD deployment in North Frontier Railway
February 2004	We moved in to our own building of 44,000 sq.ft floor area at Hi - Tech City, Madhapur, Hyderabad - 500 081
March 2004	Manufacturing facility for ACDs with an annual capacity of 4200 was established at our new premises
March 2004	Commenced work on ACD deployment in Konkan Railways and deployment completed in July 2004.
October 2004	Entered into agreement with KRCL for providing "Outsourced Manufacturing Facility" for manufacturing ACDs
November 2004	Live trials on Metro Sky-bus System with ADDs completed
June 2005	MOU signed with KRCL as a technology partner of Metro Sky Bus System to provide ADDs, Station Controllers and Related Application Software.

Main Objects

Our main objects as per its Memorandum & Articles of Association are to carry on the following activities:

- To design, develop, manufacture, assemble computers, components parts and accessories thereof and also to obtain technical know-how by entering foreign collaboration for the development of computer systems in India and abroad
- To design, develop, manufacture, purchase, sale, import, export, maintain, repair and otherwise deal in all kinds of microprocessor modules, systems and mini and micro computer based systems and electronic instrumentation systems, data processing equipments, software's for types of computers required in industrial control applications, electronic circuits, entertainment equipments, space research and applications, electronic industries of every kind and to establish data centers and provide services as programmers system analysts and to provide consultancy with use of any type of computers and electronic equipments software technology and devices of all kinds and test install software packages including electronic instrumentation systems data processing equipments for domestic and overseas market.



- To provide technical and customers marketing services for all kinds of computer systems and instrumentation thereof.

The main objects clause and the objects incidental or ancillary to the main objects of our Memorandum of Association enable us to undertake our existing activities and the activities for which the funds are being raised through this issue.

Changes in Memorandum of Association

Date	Changes
March 15, 1993	Increase in Authorized Capital from Rs. 1 million to Rs. 2.50 Million
December 28, 1998	Increase in Authorized Capital from Rs. 2.50 million to Rs. 5.00 Million
January 28, 1999	Increase in Authorized Capital from Rs. 5 million to Rs. 20 Million
July 26, 1999	Increase in Authorized Capital from Rs. 20 million to Rs. 35 Million
February 5, 2000	Increase in Authorized Capital from Rs. 35 million to Rs. 55 Million
June 30, 2000	Conversion from Private Limited to Public Limited Company
December 2, 2000	Increase in Authorized Capital from Rs. 55 million to Rs. 100 Million
May 2, 2005	Increase in Authorized Capital from Rs. 100 million to Rs. 150 Million

Subsidiary

We have one wholly owned subsidiary Avant Garde Infosystems Inc. USA, the activities and other details of which are given on page 96 of this Prospectus.



OUR MANAGEMENT

The following table sets forth details regarding our Board of Directors as on date of filing the Prospectus.

Board of Directors

Name, Designation, Fathers Name, Address and Occupation	Age	Other Directorship
Mr. S.V. Subba Raju Chairman Independent Director S/o late S. Rama Raju Plot No.52, Srinivasa Nagar (West), Hyderabad 500 038 Business	72	<ul style="list-style-type: none"> ● Value Momentum (P) Limited
Col. L.V. Raju (Retd.) Managing Director S/o late L.V.Subba Raju 19/B, Gautam Enclave, AWHO Colony, Sikh Road, Secunderabad - 500 009 Business	61	<ul style="list-style-type: none"> ● Avant-Garde Infosystems Inc, USA (100% Subsidiary of Kernex)
Mr. B. Murali Mohan Whole Time Director (Technical) S/o late B. Satyanarayana Murthy Plot No.F-6, Officers Colony, Near Dr.A.S.Rao Nagar, Hyderabad - 062 Service	57	-
Mr. R. Sankaran Independent Director S/o late M.K.Rajagopalan Flat No.GB Sivedaa Apartments, New No.27 III Avenue, Besant Nagar, Chennai - 600 090 Chartered Accountant	72	<ul style="list-style-type: none"> ● FAL Industries Ltd ● Amrita Lakshmi Realtors (P) Ltd
Dr. Manthena Anji Raju Director S/o Shri M. Rama Raju 1906, Ray Shell CT, Seabrook, TX 77586 USA Doctor	60	-
Col. S.S. Rajan Independent Director S/o Major M.D.Sambasivan 77, Shankar Mutt, Parallel Road, Shankara Park, Bassannagudi, Bangalore - 560 004 Consultant	61	-
Mr. Sankaran Nandakumar Independent Director S/o Shri K.G.Sankaran G-C, Sapphire Building, 6-3-713, Amrutha Hills, Punjagutta, Hyderabad - 82 Business	53	<ul style="list-style-type: none"> ● Ameya Agro Power Pvt. Ltd



Name, Designation, Fathers Name, Address and Occupation	Age	Other Directorship
Ms. Jyoti Raju Director D/o Col L.V.Raju 5953, Killarney Circle, Sanjose, CA 95138 USA Service	31	-

Board of Directors

Mr. S.V. Subba Raju -Chairman

Mr. Subba Raju is a commerce graduate having over 40 years of experience in Finance, Planning & Budgeting. He has been a Director on the Board of Kernex since 1991. Earlier, he was Financial Advisor to AP State Government for World Bank Projects of approximately Rs.11, 000 Crore and was an Additional Secretary to Government of Andhra Pradesh for their Finance Department, primarily responsible for preparing Annual Budget for the State Ways & Means Position of State Government. Mr. Subba Raju is honored with UTTAM SEVA (Best Service) award by the Chief Minister of Andhra Pradesh in 1987.

Colonel L.V. Raju- Managing Director

Col. L.V. Raju, (Retd) 61, holds a Post Graduate Diploma in Industrial Engineering & Information Technologies from NITIE, Bombay, PG Diploma from College of Military Engineering, Pune, PG Diploma in Military Science from Defence Service Staff College, Ooty, Tamil Nadu and BE in Mechanical Engineering from Sri Venkateswara University, Tirupati. He served in a number of important executive and staff appointments in Nagaland, Assam, Goa, West Bengal, Mizoram, Punjab, and Jammu and Kashmir during 1968 to 1983. He was an instructor at College of Military Engineering and held staff appointments at formation Headquarters. He has also worked as Commander Works Engineer, Wellington. For his outstanding work, Col. Raju was awarded Chief Of Army Staff Commendation Card in 1993. He was Vice-President of Hyderabad Software Exporters Association (HYSEA) from 1995 to 1997 and President during 1997-1998. He joined as Managing Director in Kernex on August 25, 1994. During his tenure, we have diversified into Research & Development of new technologies and products and was instrumental in company's development of anti-collision devices for use in Railways. His main area of interest is railway safety and signal systems.

Mr. B. Murali Mohan-Director

Mr. Murali Mohan Bandaru (Director-Technical) has over 33 Years of experience in managing, designing, developing several hardware and software products. He has a BE degree in Electronics and Communications and he is FIRST Rank holder in BE Electronics from Andhra University. At Kernex, he is responsible to oversee the development of Anti Collision Device (ACD), Auto Driving Devices & Control Systems (ADD) for Sky Bus Metro Mass Transit Systems. Before joining Kernex in 1999, he worked at Electronics Corporation of India Ltd (ECIL) for about 28 Years at different levels.

Mr. R Sankaran (FCA) - Director

Mr. Sankaran is a commerce graduate and is a Fellow Member of the Institute of Chartered Accountants of India and Member of the Institute of Internal Auditors, USA and has over 40 years experience in Financial Management and substantial contributions made by him in various capacities to the operations and financial performance of Steel & Engineering Industries. He was employed in various capacities with Rourkela Steel Plant, Tata Iron & Steel Company Limited, Hindustan Steel Works Construction Ltd., ACC Babcock Ltd., etc.

Dr. Anji Raju Manthena, MS, M.D.-Director

The details of Dr. Anji Raju Manthena are appearing under "Our Promoters" on page 94.

Colonel S.S. Rajan-Director

Col SS Rajan (Retd) is a graduate from Indian Military Academy and holds Engineering Degree from College of Military Engineering, Pune. He also holds a Post Graduate Diploma in Defence Management from College of Defence Management, Secunderabad, Andhra Pradesh. He has over thirty-two years of experience in managing Defence services in Corps of Engineers, Border roads and work management.



Mr. S.Nandakumar-Director

Mr. Nandakumar holds B.Tech degree (from IIT Madras) and a PGDBM (from XLRI Jamshedpur) and DBF (from ICFAI) and is a Management consultant. He has worked as a Group Vice President Nagarjuna Fertilizers and Chemical group in area of Corporate Planning and Business Development and also has experience as a head of Management Consulting services, TCS, Chennai till 1989. He is Honorary Secretary of Hyderabad, Institute of Management Consultants of India. He is also a member of all India Management Association.

Mrs. Jyoti Raju, Ph. D - Director

The details of Mrs. Jyoti Raju are appearing under "Our Promoters" on page 94.

Borrowing Powers of our Board

Vide Resolution passed by our Shareholders in their meeting held on February 23, 2004; our Board is authorized to borrow up to an aggregate amount not exceeding Rs.1000 million.

Terms of Directors

All Directors, except Managing Director, are liable to retire by rotation.

There has not been any contract of employment with any whole time Director. However the terms of appointment as approved by our shareholders are given below:

Mr. B. Murali Mohan, Whole Time Director (Technical): Terms approved by the shareholders in the annual general meeting held on 23rd July 2001 are as follows :

Tenure of appointment	5 years from 22.01.2001
Salary	Rs.37350-3750-52500 (Subsequently has been increased to 1,10,000/- per month with effect from May 1, 2003 to March 31, 2004 and further to Rs. 1,30,000/- with effect from 1st April' 2004 as approved by the shareholders in their Extraordinary General Meeting held on March 31, 2004.)
Perquisites	
HRA	40% of salary per month
Special Allowance	Rs.22,500 per month
Medical Reimbursement	One month's salary per year for self and family Subject to a maximum of 3 months salary in a Block of 3 years
Leave travel concessions	As per rules of the company
Provident Fund Contribution	As allowed under Income Tax Rules
Gratuity	Equal to half month's salary for every completed Year of service
Conveyance	Free use of company's car with driver for company's business
Telephone/Cell phone	Free except for personal long distance calls
Entertainment expenses	Actual for business purposes
Earned/Privilege leave	As per rules of the company

Col.L.V.Raju (Retd) Managing Director: Terms approved by the shareholders in the 13th annual general meeting held on June 17, 2005 are as follows :

Tenure of appointment	5 years from July 01, 2005
Salary	Rs.1,50,000/- per month
Perquisites	Shall be entitled to perquisites and allowances like medical reimbursement, club fees up to a maximum of 2 clubs, leave travel concession for himself and family, personal accident



Tenure of appointment	5 years from July 01, 2005
	<p>Insurance and such other perquisites and allowances in accordance with the rules of the company or as may be agreed to by the Board of Directors and/or Committee of the Board and Col.L.V.Raju (Retd). Such perquisites and allowances will be restricted to 50% of his salary.</p> <p>For the purpose of calculating the above ceiling, perquisites shall be evaluated as per the Income tax rules, wherever applicable. In the absence of any such rules, perquisites shall be evaluated at actual cost.</p> <p>Company's contribution to Provident fund and superannuation fund or annuity fund, to the extent these either singly or together are not taxable under the Income tax Act, Gratuity payable as per rules of the company and encashment of leave as per rules of the company shall not be included in the computation of limits for the remuneration or perquisites aforesaid.</p> <p>Provision for use of the company's car for official duties and telephone at residence (including payment for local calls and long distance official calls shall not be included in the computation of perquisites for the purpose of calculating the said ceiling.</p> <p>Reimbursement of entertainment expenditure actually and properly incurred for the business of the company.</p> <p>Such remuneration by way of commission in addition to the salary and perquisites and allowances payable as may be determined by the Board of Directors of the company at the end of each financial year, subject to the overall ceilings stipulated in section 198 and 309 of the Companies Act 1956 and subject to amendments, therein if any. The specific amount of commission payable to the Managing Director would be between half and twice his salary, will be based on certain performance criteria to be laid down by the Board of Directors and/or a Committee of the Board and will be payable annually after the annual accounts have been approved by the Board of Directors and adopted by the shareholders.</p>
Minimum remuneration	As per provisions of Schedule XIII of the Companies Act 1956.

Compensation of Managing Director and other whole time Directors paid during Financial Year 2004-05

Name	Designation	Total remuneration (Rs. million per annum)
Col. L.V.Raju	Managing Director	3.00
Mr. B. Murali Mohan	Whole time Director	1.56

Shareholding of Directors in our Company

Our Articles of Association do not require directors to hold any qualification shares. The present shareholding of Directors is detailed below:

S.No.	Name of director	Director type	Shareholding	% of Pre Issue Capital
1.	Mr. S.V. Subbaraju	Chairman	1,053	0.014
2.	Col. L.V. Raju	Managing Director	2,05,330	2.77
3.	Mr. B. Murali Mohan	Director (Technical)	25,000	0.34
4.	Mrs. Jyoti Raju	Director	1,57,573	2.13
5.	Dr. Anji Raju. M	Director	3,92,344	5.30



Interest of our Directors

All the directors of our company may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of Board or any Committee thereof as well as to the extent of remuneration, reimbursement of expenses, if any, payable to them under our Articles of Association. All our Directors may also be deemed to be interested to the extent of Equity Shares, if any, already held by them or their relatives in our company or that may be subscribed for and allotted to them, out of present issue in terms of the Prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

Changes in the Directors in the last three years

S.No.	Name	Date of Appointment	Date of Cessation	Reasons
1.	Mr. Sambasivan Amarnath	30.06.2000	02.02.2005	Resignation due to pre-occupation
2.	Dr. Anji Raju	20.05.2005	-	Appointment
3.	Mr. S. Nandakumar	02.02.2005	-	Appointment
4.	Mr. R Sankaran	02.02.2005	-	Appointment
5.	Mr. S.S. Rajan	16.01.2004	-	Appointment
6.	Mrs. Jyoti Raju	16.01.2004	-	Appointment

Corporate Governance

We have four independent directors, including our chairman, out of eight Directors on the Board. The provisions of the listing agreement to be entered in to, with the stock exchanges with respect to corporate governance will be applicable to our company immediately upon listing of our company's equity shares on the stock exchanges. Our company complied with SEBI Guidelines in respect of Corporate Governance specifically with reference to broad basing the board, constituting of committees such as Audit Committee, Remuneration Committee and Share Holders' / Investors' Grievances Committee. The primary responsibility to adopt high standards of corporate governance in all areas including providing necessary disclosures within the framework of legal provisions with commitment to enhance shareholders' value vests with the Board of Directors.

Audit Committee

Our audit committee consists of the following members: -

Name	Designation
Mr. R. Sankaran	Chairman
Mr. Col. L.V. Raju	Member
Mr. S.S. Rajan	Member

The general objective of the audit committee is to establish a transparent and effective system of monitoring and control, to review annual plan of our company, and any special examination by internal audit and implementation of internal audit recommendations, to review quarterly, half yearly and annual financial statement before submission to the board and to conduct limited review, together with coverage of scope of activity prescribed under 292A of companies Act 1956. The audit committee also considers and reviews ethical adherence and corporate governance principles.

Remuneration Committee

Our Remuneration committees consists of following member

Name	Designation
Mr. R. Sankaran	Chairman
Col. S.S. Rajan	Member
Mr. S. Nandakumar	Member



The general objective of the remuneration committee is to broadly review and approve remuneration packages for senior management personnel including the Managing and whole time directors.

Share Holders / Investor Grievances Committee

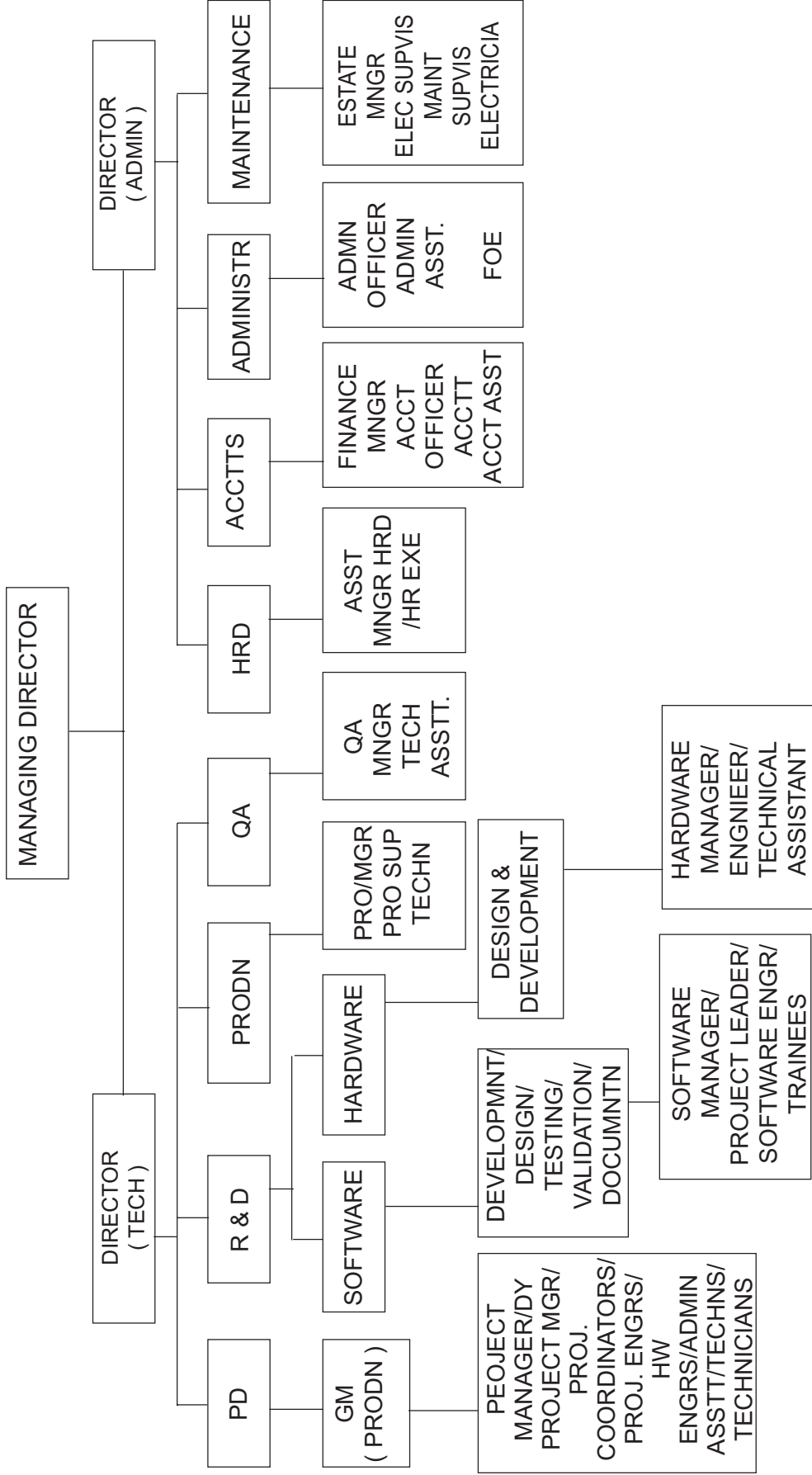
The committee consists of the following members: -

Name	Designation
Mr. S.V.Subba Raju	Chairman
Mr. S.S. Rajan	Member
Mr. S. Nandakumar	Member

The scope and function of this committee is to consider and review shareholders'/ investors' grievances and complaints and to ensure that all shareholders' / investors' grievances and correspondence are attended to expeditiously and satisfactorily unless constrained by incomplete documentation and/ or legal impediments.



ORGANIZATION STRUCTURE OF THE COMPANY





KEY MANAGERIAL PERSONNEL

The following key managerial personnel are permanent employees of our Company:

S.No	Name	Age	Date of Joining	Designation	Qualification	Exp in (yrs.)
1	Murali Lakamraju	36	10.12.2001	Vice-President: Marketing & Validation of Systems	MS in Engineering	9
2	Joseph Chakravarthy	33	28.08.2002	Manager: Software	MS in Computer Science	9
3	Kotewswara Rao Kamineni	51	12.11.2003	Manager: Software Development	M.Sc in Physics and PG Diploma in Computer Applications.	28
4	Y. Krishna Murthy	51	30.09.2002	Manager - Software Design Services	M.Sc in Mathematics and M.Phil in Computer Science.	23
5	Mastan Rao Inagamti	50	11.08.2004	Manager: Testing & Validation	B.Tech in Electronics and Communication Engineering	25
6	Susheel Kumar Valluri	38	03.04.2003	Manager: Production	BE in Electronics & Communications	15
7	Kopisetty L Sankara Rao	58	01.06.2001	Manager: ISO 9001	Diploma in Electronics	30
8	Anjaneyulu Doguparthu	57	01.04.2004	Manager: Material	MBA , PG Diploma in Material Management	33
9	Haranath Prasad B	50	05.10.2004	Manager: Accounts	M.Com	26
10	I. Srinivas	30	04.04.2005	Company Secretary	ACS	6
11	Col. S.N.Kumaria	56	11.07.2005	DGM - Technical Co-ordinator and Training	MCME & PGDBM	34
12	Lt.Col. Goswami	51	15.09.2005	Senior Residential Manager (Maintenance)	B.Tech - Elec.	27

Mr. Murali Lakamraju (Vice-President: Marketing & Validation of Systems) has a MS degree in Engineering from USA and is responsible for marketing and validating products manufactured by Kernex to suit Indian and International requirements. Last year, he was paid gross consolidated salary of Rs.594,390/-. He has about 5 years experience in USA and another 4 years experience in India in marketing various software products and services.

Mr. Joseph Chakravarthy (Manager: Software) has a Masters degree in Computer Science and has more than nine years of experience in managing, designing and developing software products. At Kernex, he is responsible for Development of ACD Software and design and development of Satdham Software and ADD Software. His responsibilities include: requirement finalization, design, development, Unit testing and handover to validation. Last year, he was paid gross consolidated salary of Rs 864,333/-. Earlier, he worked at 'Cisco Systems', USA, and 'Open Management Software, Inc, USA in different positions.

Mr. Kotewswara Rao Kamineni (Manager: Software Development) has M.Sc. in Physics and PG Diploma in Computer Applications. At Kernex, he is responsible for Analysis, testing and validation of ADD and related applications for the metro SKY-BUS project and Satdham safety systems. Last year he was paid gross consolidated salary of Rs 389,917/-. He has over 25 years of experience (3 years in USA) in managing, designing, developing software products involving real time, embedded technologies. He has also implemented real-time software for power plant simulators and industrial automation.



Mr.Y. Krishna Murthy (Manager: Software Design Services) is an M.Sc in Mathematics and M.Phil in Computer Science. He has been at Kernex for over 2 years and working on Advanced Railway Signal Systems and also on Software, Design, Testing and Validation. Last year he was paid gross consolidated salary of Rs 385,500/- He worked for over 18 years in Electronics Corporation of India Ltd in Data Acquisition, Simulation and Control System and executed over 12 projects successfully. He had a stint of two years in the US as Consultant in ERP and Web based technologies.

Mr.Mastan Rao Inagamti (Manager: Testing & Validation) has B.Tech degree in Electronics and Communication Engineering. He joined Kernex during the last year. At Kernex, he is responsible for all Hardware related training activities for the employees both for production and project divisions. Last year, he was paid gross consolidated salary of Rs 180,000/-. He has over 25 years experience and got exposure in Testing, design and development of Electronic Systems. He was lead assessor for ISO 9000 quality systems and Quality Co-coordinator of Electronics and Instrumentation Department of Tata steel.

Mr.Susheel Kumar Valluri (Manager: Production) has a Bachelor's degree in Electronics & Communications. He has been at Kernex for over 2 years and is responsible for production planning, shop floor assembly, and coordination with dispatches of products. Last year, he was paid gross consolidated salary of Rs 3,46,175/-. Before joining he worked at WEP Peripherals Ltd., Godrej & Boyce Manufacturing Co Ltd., and Suchitra Electronics and has over 15 years of experience in Production, Planning, and Control in various Managerial and Engineering positions.

Mr.Kopisetty L Sankara Rao (Manager: ISO 9001) has a Diploma in Electronics and has over 30 years of experience in standardization of components and materials. At Kernex he is responsible for managing all quality related issues like incoming inspections, manufacturing process, outgoing products inspection, packaging and ISO 9001 related issues. Mr. Sankara Rao was paid gross consolidated salary of Rs 304,925/-. Earlier he has worked in ECIL, Hyderabad as Scientific Officer for about 12 years and S.W.C.C., Saudi Arabia as Instrument Supervisor for about 13 years.

Mr.Mr. Anjaneyulu Doguparthi (Manager: Material) has MBA degree in Production and Materials Management and PG Diploma in Material Management and in Computer Applications and has over 32 years experience in Materials Management. At Kernex, he is responsible for vendor qualification, material planning, purchasing, inventory control, meeting ISO requirement for material management function. Mr. Anjaneyulu was paid gross consolidated salary of Rs. 261,466/-. His experience includes areas such as material planning, inventory control, purchasing and complete computerization of material management at Electronics Corporation of India Ltd., (ECIL).

Mr. Haranath Prasad B. (Manager: Accounts) has M.Com degree with over 26 years experience in accounting - both financial and costing, Sales tax matters, Budgetary controls and MIS related areas. His responsibilities at Kernex include maintenance of accounts, auditing, project finance, working capital and funds management, and taxation related matters. He is paid a consolidated monthly salary of Rs. 23,500/-.

Mr. I. Srinivas (Company Secretary) is an Associate Member of The Institute of Company Secretaries of India. He joined us on 4th April' 2005. At Kernex he is responsible for all Company Secretarial matters, He has 6 years of experience in listed companies in the manufacturing sector and gained extensive knowledge of statutory regulations governing public and private companies. He is being paid a gross monthly salary of Rs. 20,000/-.

Col. S.N.Kumaria (DGM - Technical Co-ordinator and Training) has done his PG from Military College of Electronics and Mechanical Engineering and PGDBM. He has joined us on July 11, 2005. He has worked in various capacities in Indian Army right from 1971 and retired as General Manager (Works) for 508 Army base workshop, Allahabad. After retirement, he has also worked as General Manager (Works) with Rockwell Industries, Hyderabad. He has a total experience of 34 extensive years in the fields of planning, industrial relations and personnel management, material management, quality assurance and administration. At Kernex, he is responsible for monitoring and co-ordinating all project and field activities with R&D, Software and Maintenance sections at Head Quarters, Establishing control cell for this purpose and co-ordinating for all local training activities and certifications with the help of HRD at Head Quarters and Project Sites.

Lt. Col. Goswami (Senior Residential Manager - Maintenance) has done his B-Tech in Electronics from Banaras Hindu University (BHUH), Varanasi. He has joined us on September 15, 2005. He has been with Indian Army from 1978 to 2000 and worked as commissioned officer. Thereafter, he has worked in various



capacities with Saudi Aramco KSA and worked as Area Head for GSN - BSNL Project with the STCL, Kolkata an ISO 9001 Telecom Company. He has an extensive experience of 27 years in the fields of project management, technical support, quality assurance, training, security and general administration. At Kernex, he is responsible for carrying on project work, operational support and maintenance etc. in the field level.

Share holding of Key Managerial Personnel

S. No	Name	Designation	Number of Shares
1.	Somasekhara Rao Koganti	General Manager - Projects	2,500
2.	Mr. Murali Lakamraju	VP Marketing & Validation of Systems	78,066
3.	Mr. Joseph Chakravarthy	Manager: Software	11,506
4.	Y. Krishna Murthy	Manager: Software Design Services	2,000
5.	Susheel Kumar Valluri	Manager: Production	2,000
6.	Kopisetty L Sankara Rao	Manager: ISO 9001	2,000

Bonus and Profit sharing plan

Bonus is paid in accordance with the provisions of Payment of Bonus Act. We do not have any Profit Sharing Plan or Employees' Stock Option Plan presently.

Changes in Key Managerial Personnel during last three years

Name	Date of Appointment	Date of Cessation	Reason
Mr. Somasekhara Rao	19.03.2003	16.08.2005	Resigned
Col. S.N.Kumaria	11.07.2005	NA	Appointed
Lt. Col. Goswami	15.09.2005	NA	Appointed
Kotewswara Rao Kamineni	12.11.2003	NA	Appointed
Mastan Rao Inagamti	11.08.2004	NA	Appointed
Sushil Kumar Valluri	03.04.2003	NA	Appointed
Anjaneyulu Doguparthi	01.04.2004	NA	Appointed
Haranath Prasad B	05.10.2004	NA	Appointed
I. Srinivas	04.04.2005	NA	Appointed

Benefits to employees non-salary related: Details of Issue of Sweat Equity

Pursuant to the special resolution passed at the Extraordinary General Meeting held on September 18, 2004, we have issued on 8th November 2004, 1,65,000 equity shares of Rs. 10/- each at an exercisable discount price of Rs. 5 each (aggregating to 2.23% of the paid up capital) to our Directors and certain employees in recognition of their invaluable services. The value of the sweat equity shares is within the ceiling limits approved by the shareholders in the said Meeting. We have complied with Section 79A of the Companies Act, 1956 read with the provisions of Unlisted Companies (Issue of Sweat Equity Shares) Rules, 2003. We have also filed Form No. 2 and Form No. 23 as required by section 75 and 79A of the Companies Act, 1956. The details of the sweat equity shares allotted and the Directors/ employees to whom they are allotted are stated below.

Name	Status Director/Employee	No. of Shares allotted	Relationship with the company
Col L V Raju (Retd)	Managing Director	1,00,000	Promoter/ Managing Director
Mr. B. Murali Mohan	Director - Technical	25,000	Whole Time Director
Mr. K. Somasekhara Rao	General Manager (Projects)	2,500	Nil
Mr. Joseph Chakravarthy	Manager - Software Services	7,500	Nil



Name	Status Director/Employee	No. of Shares allotted	Relationship with the company
Mr. L. Muralidhara Raju	Vice-President -Marketing & Head - Validation team	7,500	Nil
Mr. M.B. Narayana Raju	Administrative Officer	3,000	Nil
Mr. Gopala Reddy	Accounts Officer	2,500	Nil
Mr. Sampath Kumar	Assistant Company Secretary	2,500	Nil
Mr. Krishna Murthy	Software Consultant	2,000	Nil
Mr. K.L.Sankara Rao	Manager-Quality Control	2,000	Nil
Mr. Susheel Kumar	Manager - Production	2,000	Nil
Mr. Shankar Prasad	Deputy Project Manager	1,500	Nil
Mr. H. Ramesh Rao	Research & Development Section	1,000	Nil
Mr. Srinivasa Rao	Research & Development Section	1,000	Nil
Mr. Jaihind Kumar	Production Supervisor	1,000	Nil
Mrs. Madhuri	Quality Control Section	1,000	Nil
Mr. Surendra Reddy	Quality Control Section	1,000	Nil
Mr. Ravindra Kumar	Production Department	1,000	Nil
Mr. Veeranjanyulu	Store Keeper	1,000	Nil
	TOTAL	1,65,000	

The above shares are locked in for a period of 3 years from November 08, 2004 i.e. the date of allotment.


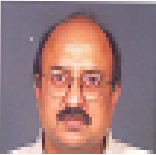




OUR PROMOTERS




We were originally promoted in the year 1991 by Mr. Lakamraju Venkata Rama Murthy Raju, Mr. Lakamraju Venkata Subba Raju and Mr. Samanthapudi Subba Raju as Kernex Microsystems (India) Private Limited.

In the year 1994, Col. L.V. Raju (Retd.) joined us as Managing Director and Mr. L.V. Subba Raju resigned from the Board of Directors on January 1, 1995. Mr. L.V. Ramamurthy Raju also resigned from our Board on December 1, 1999.

Our Present Promoters

 <p>Colonel L.V.Raju</p>	<p>Col. L.V. Raju, (Retd) 61, holds a Post Graduate Diploma in Industrial Engineering & Information Technologies from NITIE, Bombay, PG Diploma from College of Military Engineering, Pune, PG Diploma in Military Science from Defence Service Staff College, Ooty, Tamil Nadu and BE in Mechanical Engineering from Sri Venkateswara University, Tirupati. He served in a number of important executive and staff appointments in Nagaland, Assam, Goa, West Bengal, Mizoram, Punjab, and Jammu and Kashmir during 1968 to 1983. He was an instructor at College of Military Engineering and held staff appointments at formation Headquarters. He has also worked as Commander Works Engineer, Wellington. For his outstanding work, Col. Raju was awarded Chief Of Army Staff's Commendation Card in 1993. He was Vice-President of Hyderabad Software Exporters Association (HYSEA) from 1995 to 1997 and President during 1997-1998. He joined as Managing Director in Kernex on August 25, 1994. During his tenure, we have diversified into & Development of new technologies and products and was instrumental in company's development of anti-collision devices for use in Railways. His main area of interest is railway safety and signal systems. His passport number is A5549584 is presently valid.</p>
 <p>Kishore B Gottimukkala</p>	<p>Mr. Kishore Gottimukkala, aged 49 years is engineer by profession. He has more than 24 years of experience in managing, designing, developing Networking & Graphics VLSI chips. He is MSEE from State University Stony Brook. He is currently employed with Giquila Corporation, a semiconductor Company located in Santa Clara, California as Senior Program Manager. His passport number is E1449124 and is presently valid.</p>
 <p>Dr. Anji Raju Manthana</p>	<p>Dr. Anji Raju Manthana aged 58 years is a Physician and has about 25 years experience in Anesthesia in USA. He has completed M.S. (General Surgery) from Andhra University in 1974 and then shifted to U.S.A. He also holds MD (USA) degree. He has been practicing for the last 30 years in the Space Centre / NASA region of Houston, Texas. He has also served as Chief of Anesthesia as well as a member of various committees in Clear Lake Regional Medical Centre over the years. Other positions include managing partner of Anesthesia Associates and serving as President of Professional Corporation. He has been actively involved in software related activities in Corporate hospitals.</p> <p>His passport number is P131977213 and is presently valid.</p>
 <p>Dr. Raju Narasa Manthana</p>	<p>Dr. Raju Narasa Manthana aged 60 Years is a Physician and has about 25 years experience in Anesthesiology in USA. He is MBBS from Andhra University and MD from USA. He received fellowship from Washington University, USA. He worked as Assistant Professor of Anesthesiology in Washington University from 1978 to 1980 and worked as consultant Anesthesiologist at St. Lukes Hospital USA from 1980- 2002. He is working as Secretary and Correspondent of NRI Academy of Sciences since 2003. He is a Non Resident Indian holding US Passport Number no P15455168 and is presently valid.</p>



 Jyotsna Lakamraju	<p>Ms. Jyotsna Lakamraju, aged 25, has BS degree in Computer Engineering from University of California, Irvine, CA, USA. Ms. Jyotsna Lakamraju has about four years of experience in Product Management, designing, developing, validating ERP packages involving Human Resources, Material Management, Project Management, Project Accounting, Production Planning, Quality Control, Finance and Costing, Business Warehouse, Advanced Planning and Optimization and Customer Relation Management. She is a Non Resident Indian holding US Passport no. P205144301 and is presently valid.</p>
 Jyoti Raju	<p>Mrs. Jyoti Raju, aged 31 years, is a Bachelor of Engineering in Computer Science from Birla Institute of Technologies & Sciences, Pilani. She is M.S. in Computer Science with PhD in Computer Science from University of California, USA. Mrs. Jyoti has over seven years of experience in defining, designing, and developing Wireless Networking products. She is now working for CISCO Systems; located at San Jose, CA, US. She is a Non-Resident Indian in USA. Her passport no. is E3403019 and is presently valid.</p>
 Swati Raju	<p>Swati Raju, aged 29 years, has a Masters Degree in Design Knowledge and Computation from Arizona State University, USA and Bachelor in Architecture from School of Planning and Architecture, New Delhi. She is currently working in the Search Technology Division at Yahoo! Inc. at Sunnyvale, California. She is involved in developing the next generation of search interfaces. She is a Non Resident Indian in USA. Her Passport no is A5549190 and is presently valid.</p>

We confirm that the permanent account number, bank account number and passport number wherever available of all the above Core Promoters were submitted to the Stock Exchanges at the time of filing the Prospectus with the Stock Exchanges.

Interest of the promoters

Except as stated in the Related Party Transactions on page 97 of this Prospectus and to the extent of shareholding in our company, the promoters do not have any other interest in our business. Our promoters as shareholders have significant shareholding in our company. For the rights of our shareholders please see page 172 detailing the main provisions of the Articles of Association.



OUR SUBSIDIARY

AVANT GARDE INFOSYSTEMS INC, USA

Avant Grade Infosystems Inc., USA was incorporated on September 25, 2000 as a wholly owned subsidiary. The principal activity is Software Development & Consultancy and the Paid up Share Capital is Rs. 10,971,477 (US\$ 0.25 million). The Board of Directors comprises of Col. L.V. Raju (Retd.)

Avant-Garde designed and developed Patient Information Tracking System (“Data Warehouse System”), which maintains patient information, patient accounting system with respect to insurance details and medical records.

The financial highlights of Avant-Garde Infosystems Inc., USA as per the latest available financial statements is as under:

(in US \$)

Particulars	2002-03	2003-04	2004-05	August 31, 2005
Sales and Other Income	27,670.00	5620.00	17,000.00	18,000
Profit After Tax	(22,532.00)	(37,836.00)	2,710.00	5,250
Equity Capital 35,80,000 shares of US\$ 0.02 each* and 17,99,240 shares of US\$ 0.10 each*	251,524.00	251,524.00	251,524.00	251,524
Debit balance in P&L Account	(25,739.00)	(63,577.00)	(60,867)	(55,615)
Earning Per Share (Us \$.)*	(0.009)	(0.015)	0.001	0.002
Net Asset Value Per Share (Us \$.)*	0.90	0.075	0.076	0.078

*The Capital of the Company consists of shares of nominal value of 2 cents and 10 cents. The EPS is calculated by converting the 2 cents shares into those of 10 cents.



RELATED PARTY TRANSACTIONS

The following are the Related Party Transactions as per Accounting Standard - 18 of ICAI

A. Names of related parties:

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

1. **Krisn Information Technologies Ltd** Enterprise managed by relative of Managing Director

Hardware Consultancy to Kernex for Different Projects

(Rupees in Million)

Transactions Type	As At March,31			Period ended August 31
	2003	2004	2005	2005
Software consultancy	-	0.42	1.16	-
Balance Outstanding	-	-	-	-

2. **Cova Technologies Inc, USA** Enterprise owned by relative of Managing Director

Sales & services to (2003) and Consultancy services from (2003-2005) on procurement & Inspection of goods in USA

(Rupees in Million)

Transactions Type	As At March,31			Period ended August 31
	2003	2004	2005	2005
Sales & services	4.47	-	-	-
Balance Outstanding	21.23	11.13	4.47	4.47
Consultancy	0.38	3.21	3.00	0.79
Balance Outstanding	0.10	2.34	1.01	0.22

1.12.2 . Transactions with 100% wholly owned subsidiary (Avant-Garde Infosystems Inc, USA):

(Rupees in Million)

Particulars	As At March,31			Period ended August 31
	2003	2004	2005	2005
Working Capital Loan (Including Interest Receivable)				
Opening Balance	8.42	10.74	12.52	13.18
Transaction during the year/period	2.32	1.78	0.66	0.66
Balance Outstanding	10.74	12.52	13.18	13.84

1.12.3 Directors / Key Management Personnel :

(Rupees in Million)

Particulars	As At March,31			Period ended August 31
	2003	2004	2005	2005
Remuneration / Fees				
Col.L.V.Raju (Retd) - Managing Director	1.50	1.63	3.00	1.17
B.Murali Mohan - Whole time Director	1.035	1.26	1.56	0.65



CURRENCY OF PRESENTATION

All references to “India” contained in this Prospectus are to the Republic of India and all references to “Rupees” or “Rs” are to Indian Rupees, the official currency of the Republic of India. All references to the “US” or the “U.S.” or the “USA”, or the “United States” are to the United States of America and all references to “US\$”, “U.S. Dollar” or US Dollars are to the United States Dollar, the official currency of the United States of America. All references to “UK” are to the United Kingdom.

In this Prospectus all references to one gender also refers to another gender and the word “Lakh” or “Lac” means “one hundred thousand” and the word “million” means “ten lacs” and the word “Crore” means “ten Million”.

Any percentage amounts, as set forth in “Risk Factors”, “Business Overview”, “Management Discussion and Analysis of Financial Condition and Results of Operation” and elsewhere in this Prospectus, unless otherwise indicated, have been calculated on the basis of the Rupee amounts derived from our financial statements prepared in accordance with the Indian GAAP and not on the basis of any translated Rupee amount, presented solely pursuant to SEBI requirements. Calculation of percentage amounts on the basis of Rupee amounts may lead to results that are different, in a material way, from those calculated as per Foreign Currency amounts.

**DIVIDEND POLICY**

The declaration and payment of dividends will be recommended by our Board of Directors and approved by our shareholders at their discretion, and will depend on a number of factors, including but not limited to our profits, capital requirements and overall financial condition.

The summary of dividends declared by our Company is as follows:

	2000-01	2001-02	2002-03	2003-04	2004-05
Face Value of Equity Share (Rs. per share)	10.00	10.00	10.00	10.00	10.00
Dividend (Rs. in Million)	4.86	3.00	-	6.84	7.40
Dividend Tax (in Rs Million)	0.50	-	-	0.89	0.97
Dividend per equity share (Rs.)	1.00	0.50	-	1.00	1.00
Dividend (%)	10%	5%	-	10%	10%



FINANCIAL STATEMENTS

RESTATED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, (INCLUDING SUBSIDIARY) FOR THE YEARS ENDED MARCH, 31, 2001, 2002, 2003, 2004, 2005 AND FOR THE PERIOD ENDED 31ST AUGUST' 2005.

AUDITOR'S REPORT

To,
The Board of Directors,
Kernex Microsystems (India) Limited,
"Thrushna ", Plot No.7,
Software Units Layout,
Madhapur, Hyderabad - 500 081, A.P.

Dear Sirs,

We have examined the Restated Consolidated Financial Information of M/s Kernex Microsystems (India) Limited and its wholly owned subsidiary Avant-Garde Info systems Inc, USA, as attached to this report and initialed by us for identification.

The said restated consolidated financial information has been prepared in accordance with the requirements of Part II of Schedule II of the Companies Act, 1956 (the "Act"), the Securities and Exchange Board of India (SEBI) - Disclosure and Investor Protection Guidelines, 2000 (as amended from time to time) (the "guidelines") issued by the Securities and Exchange Board of India Act, 1992, and related clarifications; and in accordance with instructions dated May 06, 2005 & September 28, 2005, received from the company requesting us to carry out work in connection with the offer document being issued by the company in connection with its Initial Public Offering of Equity Shares (referred to as "the issue"). The financial information has been prepared by the Company and approved by the Board of Directors of the Company in the meeting held on May 20, 2005 and October 14, 2005.

A. Financial Information as per the audited financial statements :

We have examined the attached Restated Consolidated Summary Statements of Assets and Liabilities of the Company as at March 31, 2001, 2002, 2003, 2004, 2005 and as at August 31, 2005 (Annexure II) and the Restated Consolidated Summary Statements of Profits & Losses for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the period ended August 31, 2005 (Annexure I), together referred to as "Summary Statements".

We did not audit the financial statements of the wholly owned subsidiary Avant-Garde Infosystems Inc, USA, for any of the aforesaid years. The financial statements and other financial information of the Subsidiary have been compiled by other auditors whose compilation report has been furnished to us, and our opinion is based solely on the compilation report of other auditors.

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

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

Based on our examination of these restated summary statements, we state that:

- a) The restated profits have been arrived at after charging all expenses including depreciation and after making adjustments and regroupings as in our opinion are appropriate in the years to which they relate, as stated.
- b) There are no qualifications in the auditors' report that require any adjustment to the restated summary statements.
- c) There are no extra ordinary items that need to be disclosed separately in the restated summary statements.



B. Other Financial Information :

We have examined the following restated financial information relating to the company proposed to be included in the Prospectus, as approved by the Board of Directors and annex to this report:

- Summary of accounting ratios as stated vide Annexure IV to this report.
- Capitalization statement of the Company as at August 31, 2005 as stated vide Annexure V to this report
- Tax Shelter statements vide Annexure VI to this report.
- Statement of Secured and Unsecured Loans vide Annexure VII to this report.

We confirm that Kernex Microsystems (India) Limited has paid Equity dividend as follows:

At the rate of 10 % for the years: 2004-05, 2003-04 and 2000-01

At the rate of 5% for the year : 2001-02.

In our opinion the restated financial information of the Company, attached to this report as mentioned in Paragraphs A and B above, read with respective significant accounting policies and significant notes as stated in Annexure III to this report, and after re-grouping as considered appropriate; has been prepared in accordance with Part II of Schedule II of the Act and the Guidelines issued by SEBI.

This report is intended solely for your information and for inclusion in the Offer document in connection with the specific Public Offer of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For GMK Associates
Chartered Accountants

Sd/-

G.Satyanarayana Murty
Partner
Membership No: 29919

Place: Hyderabad
Date: 14.10.05



The profits of the Company for the years ended 31st March, 2001, 2002, 2003, 2004, 2005 and for the period ended August 31, 2005 after making such adjustments as are in our opinion, appropriate and subject to the notes hereunder are as follows : -

Consolidated Statement of Profit and Loss Account:

(Rupees in Million)

PARTICULARS	For the Year Ended March 31,					Period ended 31 st August
	2001	2002	2003	2004	2005	2005
INCOME :						
Sales & Services						
a. Manufacture / services	48.34	38.18	70.31	130.71	463.69	188.28
b. Trading goods	-	-	-	22.83	61.87	10.80
Other Income	5.01	9.53	4.17	10.69	5.81	2.31
Increase/decrease in WIP	(1.87)	12.05	(7.78)	16.38	1.47	(7.17)
Total Income	51.48	59.77	66.69	180.62	532.84	194.22
EXPENDITURE :						
Cost of Sales & services	2.46	9.80	17.41	66.87	264.74	61.65
Personnel Expenses	13.29	16.09	16.78	25.75	38.07	16.75
Operating, Admn & Selling Exp.	13.26	16.91	15.06	26.19	62.74	24.27
Finance Charges	1.27	1.45	3.26	7.98	8.81	2.08
Depreciation and Amortization	4.44	5.68	3.92	5.25	12.81	4.48
Preliminary exp w/o	-	-	-	-	-	-
Total Expenditure	34.73	49.93	56.43	132.04	387.16	109.23
Net Profit Before Tax	16.76	9.84	10.26	48.58	145.68	84.99
A. Income Tax	1.96	1.32	4.50	17.85	58.40	23.10
B. Deferred Tax	-	-	(0.12)	(0.13)	(2.27)	(0.75)
C. Fringe Benefit Tax	-	-	-	-	-	0.20
Net Profit before Extra Ordinary items / Prior period Adjustments	14.79	8.52	5.88	30.86	89.55	62.44
Prior Period (Exp)/income	-	(0.24)	-	-	-	-
Net Profit After Extra Ordinary items / Prior period Adjustments	14.79	8.28	5.88	30.86	89.55	62.44
Dividend	4.86	3.00	-	6.84	7.40	-
Dividend tax	0.50	-	-	0.89	0.97	-
Transfer to General Reserve	5.00	3.00	1.00	5.00	5.00	-
Profit B/f less bonus shares	3.56	3.14	2.41	4.03	18.74	94.92
Balance carried to Balance sheet	7.99	5.41	7.29	22.16	94.92	157.35



STATEMENT OF OTHER INCOME

(Rupees in Million)

PARTICULARS	For the Year Ended March 31,					ended 31 st August
	2001	2002	2003	2004	2005	2005
RECURRING :						
Interest Received	4.08	3.25	2.91	4.74	4.60	2.05
Exchange Fluctuation	0.22	1.02	1.24	1.28	-	0.05
NON RECURRING :						
Salary in lieu of Notice	0.70	0.10	0.02	0.65	1.04	0.21
Profit on Sale of Assets	0.02	0.01	-	-	-	-
Dividend Received	-	5.15	-	-	-	-
Service Income	-	-	-	-	-	-
Long-Term Capital Gain	-	-	-	4.00	-	-
Rental Income	-	-	-	-	0.17	-
	5.01	9.53	4.17	10.69	5.81	2.31

ANNEXURE-II

The Assets and Liabilities of the Company as on 31st March, 2001, 2002, 2003, 2004, 2005 and August 31, 2005 after making such adjustments as are in our opinion, appropriate and subject to the notes hereunder are as follows :-

(Rupees in Million)

Particulars	As at March 31,					Period ended 31 st August
	2001	2002	2003	2004	2005	2005
SOURCES OF FUNDS						
Shareholders fund						
Share Capital						
- Equity Share Capital	57.26	62.11	65.12	68.38	74.03	74.03
Reserves and Surplus						
Share Premium	48.57	48.57	48.71	48.71	58.94	58.94
Reserves and Surplus	12.80	12.59	13.00	31.98	109.83	172.21
Deferred Tax Liability	-	-	1.07	0.94	-	-
Loan Fund						
Secured Loans	5.53	12.71	50.57	71.02	21.53	41.26
Total Liabilities	124.16	135.99	178.48	221.04	264.33	346.44
APPLICATION OF FUNDS						
Fixed Assets						
At cost less Depreciation	16.60	12.33	21.68	90.74	83.47	79.77



Particulars	As at March 31,					Period ended 31 st August
	2001	2002	2003	2004	2005	2005
Capital Work in Progress	8.14	13.15	30.78	-	-	-
Investments	-	28.72	28.72	-	-	-
Current assets, loans & advances						
Jobs in process / W.I.P.	0.90	12.95	7.12	32.99	54.11	30.72
Sundry debtors	22.13	19.87	36.32	67.49	108.86	203.17
Cash and Bank Balance	79.71	46.24	39.93	71.24	91.65	85.03
Deposit, Loans and Advances	6.94	7.15	8.41	37.51	37.80	85.01
Sub total	109.68	86.22	91.78	209.23	292.42	403.94
Less : Current Liabilities & Provisions	10.68	26.30	18.64	103.87	133.83	160.28
Net Current Assets	99.00	59.92	73.14	105.35	158.59	243.66
Misc. Expenditure (not written off)	0.42	0.31	0.20	0.10	0.10	0.10
Preliminary Expenses	0.00	0.00	-	-	-	-
R & D Expenses	-	21.55	23.95	24.83	20.84	20.84
Deferred Tax Asset	-	-	-	-	1.33	2.07
Total Assets	124.16	135.99	178.48	221.04	264.33	346.44

ANNEXURE-III

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS:

A. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

1.1 Overview of the Company

Kernex Microsystems (India) Limited is engaged in the Manufacture and sale of Safety Systems like Anti-Collision Devices for Railways and Software Services and its wholly owned subsidiary Avant-Garde Infosystems Inc, USA is engaged in Development of Software Products and consultancy services.

1.2 Basis of Preparation of Summarized Consolidated Financial Statements

Restatement of the Financial Statements has not been done as there were no Changes in Accounting Policies followed by the Company. There were no extra ordinary and prior period items, which are material.

The Consolidated financial statements have been prepared and presented under historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India ('GAAP') and in compliance with the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India (the "ICAI"), to the extent applicable.

1.3 Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with Indian Generally Accepted Accounting Principals (GAAP) under historical cost convention on the accrual basis. GAAP comprises mandatory accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), and the provisions of the Companies Act, 1956.

These accounting policies have been consistently followed, except where a newly issued accounting standard is initially adopted by the Company.



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

The Consolidated Financial statements have been prepared on the following basis:

A. The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standards on consolidated financial statements issued by the ICAI. The financial statements of the Parent Company Kernex Microsystems (India) Limited, have been combined with wholly owned subsidiary Avant-Garde Infosystems Inc, USA on a line -by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting un-realized gain / loss.

B. The excess/deficit of cost to the parent company of its investment in the subsidiary over its portion of equity in the subsidiary at the respective dates on which investment in such subsidiary was made is recognized in the financial statements as goodwill/capital reserve.

C. The Parent Company's portion of equity in such subsidiary is determined on the basis of the Investment made as on the date of transaction as per the financial statements of the subsidiary.

D. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.

E. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

1.4 Fixed Assets, Depreciation and Amortization

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

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

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

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

Depreciation for the period ended 31st August 2005 is provided on the Assets of KMIL, Depreciation and Amortization for the period ended 31st August 2005 in the case of 100% subsidiary is not provided on the proportionate basis.

1.5 Investments:

Investments in subsidiary are accounted under the equity method of accounting, which were initially recorded at cost.

1.6 Inventories

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

1.7 Research & Development Expenditure:

Research & Development expenditure incurred for Software products by Avant-Garde Infosystems Inc, USA is treated as Deferred Revenue Expenditure, to be amortized over a period, till the product is viable in the market.

1.8 Retirement Benefits to Employees:

Gratuity:

In accordance with the payment of Gratuity Act, 1972 KMIL provides for gratuity, covering all the Employees based on the Service of Years rendered to the Company, in excess of 6 Months on a consistent calculation as per The Gratuity Act, 1972.



All the eligible employees of the company are covered under PF and Misc. provisions Act, both Employee and the Company make monthly contributions to the PF plan equal to specified percentage of the Covered Employees salary.

1.9 Revenue Recognition:

Income from software development and services is accounted for on the basis of software development and billed to client on acceptance and / or on the basis of man-days/man-hours as per the terms of contract.

Revenue from product sales is stated exclusive of returns and applicable trade discounts but inclusive of Duties and Taxes collected on the same. Service Income is recognized as per the terms of Contracts with the Customer, when the related services are performed.

1.10 Foreign Currency Transactions:

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

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

Revenue items, except opening and closing inventories and depreciation are translated at the respective monthly average rates. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated.

Monetary items are translated using the closing rate.

Non-monetary items, other than inventories and fixed assets, are translated using the exchange rate at the date of transaction i.e., the date when they were acquired. Fixed assets are translated using the exchange rate at the date of their acquisition. The net exchange difference resulting from the translation of items in the financial statements of foreign subsidiary is recognized as income or as expense for the year.

1.11 Income Tax:

1.11.1 Current Tax:

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

1.11.2 Deferred Tax:

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

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

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

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

1.11.3 Fringe Benefit Tax (FBT):

Provision for FBT is made in the accounts on the basis of estimated tax liability as per the applicable provisions of the Income Tax Act, 1961 on proportionate basis.

1.12 Warranty Expenses

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

1.13 Segment Reporting:

Since the Company has only one Business and Geographic segment namely Sales, Service and Software for Anti-Collision Devices, “Segment Reporting” under “Accounting Standard 17” issued by the “ICAI” is not applicable.



1.14 Impairment of Assets:

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

1.15 Description of the Group:

Kernex Microsystems (India) limited, is having a wholly owned Subsidiary in Fremont, USA engaged in Software development and consultancy.

1.16 DIVIDEND

Dividend has been paid in Kernex Microsystems (India) Limited as follows:

@10% for the years 2004-05, 2003-04 and 2000-01 and @ 5% for the year 2001-02.

1.17 Amounts Outstanding in excess of Rs.1,00,000/- to Small Scale Industries as at 31st August, 2005 includes an amount of Rs.3,13,778/- to M/s Geetha Industries, Hyderabad.

B. NOTES TO SUMMARIZE FINANCIAL STATEMENTS:

2.1 Capital Commitments and contingent liabilities:

(Rupees in Million)

Particulars	As At March,31					As at 31 st August 2005
	2001	2002	2003	2004	2005	
Capital Commitments						
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	0.00	0.00	9.60	2.00	0.50	0.50
Contingent Liabilities						
Outstanding guarantees given by banks in favor of various government authorities and others	0.28	12.06	12.06	50.00	16.10	61.10
Estimated amount of claims against the Company not acknowledged as debts	2.47	0.00	0.00	0.80	1.04	1.14

2.2 Deferred tax liability:

(Rupees in Million)

Particulars	As At March,31				As at 31 st August 2005
	2002	2003	2004	2005	
Deferred Tax Asset :					
Unabsorbed losses / depreciation	-	-	-	-	-
Expenses allowable on payment and others	0.20	0.22	1.78	4.48	4.79
TOTAL	0.20	0.22	1.78	4.48	4.79
<i>Deferred Tax Liability :</i>					
Fixed Assets (depreciation)	1.41	1.29	2.72	3.16	2.72
TOTAL	1.41	1.29	2.72	3.16	2.72
Net Deferred Tax (Liability) / Asset	(1.21)	(1.07)	(0.94)	1.33	2.07

**Note:**

As per the Accounting Standard 22- " Accounting for Taxes on Income " issued by the ICAI, the group has not recognized the Net Deferred Tax Asset due to uncertainty in the future profits in 100% wholly owned subsidiary.

2.3 Earnings per Share:

As At March,31	2001	2002	2003	2004	2005	As at August 31 2005
Consolidated Profit (Amount in Rest.) attributable to Equity Shareholders (Rupees in Million)	14.79	8.28	5.88	30.86	89.55	62.44
Number of Equity Shares Outstanding as at the end of the year. (in Million)	5.73	6.21	6.51	6.84	7.40	7.40
Diluted weighted average number of Equity Shares outstanding during the Year. (in Million)	3.95	4.51	6.21	6.51	7.16	7.40
Nominal value of Equity Shares (Rs.)	10.00	10.00	10.00	10.00	10.00	10.00
Basic Earnings Per Share (Rs.)	2.58	1.33	0.90	4.51	12.10	8.43
Diluted Earnings Per Share (Rs.)	3.75	1.83	0.95	4.74	12.51	8.43

2.4 Details of amount of net exchange difference debited / (credited) to P&L Account on consolidation are given below :

(Rupees in Million)

	March,31 2001	March,31 2002	March,31 2003	March,31 2004	March,31 2005	August 31 2005
For the year ended on March,31.	(0.22)	(1.03)	(1.24)	(1.29)	0.09	(0.05)

ANNEXURE-IV**Accounting Ratios based on Consolidated Statement of Profits and Losses, and Assets and Liabilities**

Ratios Particulars	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Period ended August 31, 2005
Earning Per Share (EPS)						
Basic (Rs.)	2.58	1.33	0.90	4.51	12.10	8.43
Diluted (Rs.)	3.75	1.83	0.95	4.74	12.51	8.43
Return on Net Worth (For Equity Shareholders) (%)	12.47%	6.72%	4.64%	20.70%	36.88%	20.46%
Net Asset Value per Share (Rs.)	20.72	19.85	19.48	21.80	32.80	41.22
Return on Capital Employed (%)	11.95%	7.26%	3.81%	15.73%	36.99%	19.31%
number of equity shares outstanding as at the end of the year used for computing Basic EPS	5,725,541	6,211,290	6,512,221	6,837,832	7,402,879	7,402,879
Weighted average number of equity shares outstanding during the year used for computing Diluted EPS	3,947,136	4,514,337	6,211,351	6,512,221	7,159,742	7,402,879
Total number of shares outstanding at the end of year	5,725,541	6,211,290	6,512,221	6,837,832	7,402,879	7,402,879



The ratios have been computed as below:

- I) Earnings per share (Rs.): Net profit attributable to equity shareholders/number of equity shares outstanding as at the end of the year.
- II) Return on net worth (For Equity Share holders) (%): Net profit after tax/Net worth as at the end of the year
- III) Net asset value (Rs.): Net worth at the end of the year/Number of equity Shares outstanding at the end of the year
- IV) Return on Capital Employed: Net Profit after Tax/Total of Net Fixed Assets, Investments and net current assets.
- V) Net Profit, as appearing in the statement of profits and losses, has been considered for the purpose of computing the above ratios.
- VI) Earnings per share calculations are done in accordance with Accounting Standard 20 "Earnings per Share" issued by the Institute of Chartered Accountants of India.

Note: Accounting ratios are calculated on uniform basis for all the years and for the 5 month period ended 31st August, 2005.

Annexure V

Capitalization statement

(Rupees in Million)

Particulars	Pre-issue as at 31.08.2005	As Adjusted for issue*
Short-Term Debt #	41.26	41.26
Long Term Debt	-	-
TOTAL DEBT	41.26	41.26
Shareholders Funds		
Equity Share Capital	74.03	-
Reserves	231.15	-
Total Shareholders Funds	305.17	-
TOTAL CAPITALISATION	346.44	-
Long Term Debt / Equity	13.52%	-

*Refer Note Below

Note :

*Share Capital and reserves and Total Shareholders' Funds would be calculated on conclusion of the Book Building

Short Term Debt relates to Working Capital facility from State Bank of Hyderabad and Temporary Loans against Fixed Deposit Receipt (FDR) from State Bank of Hyderabad.

Annexure VI

Tax Shelter statement

(Rupees in Million)

Particulars	Year ended March 31 st				2005
	2001	2002	2003	2004	
Profit / (loss) before Tax	16.76	9.84	10.26	48.58	145.68
Tax Rate	39.55%	35.70%	36.75%	35.88%	35.89%



Particulars	Year ended March 31st				2005
	2001	2002	2003	2004	
Tax at Notional Rate	6.62	3.51	3.77	17.42	52.28
Adjustments : Export Profits	10.29	2.52	0.24	-	-
Difference between Tax Depreciation and Book Depreciation	2.03	(0.67)	(1.05)	3.70	(18.38)
Other Adjustments	0.28	4.31	0.18	(0.41)	8.63
Net Adjustments	12.6	6.16	(0.63)	3.29	(9.75)
Tax Saving thereon:	4.98	2.20	(0.23)	1.18	(3.50)
Total Taxation	1.65	1.31	4.00	16.25	55.78
Taxation on Extra-ordinary items	-	-	-	-	-
Tax on profits before extra-ordinary items	1.65	1.31	4.00	16.25	55.78

Annexure VII

STATEMENT OF SECURED / UNSECURED LOANS AND RELATED TERMS OF LOANS AND ASSETS CHARGED FOR CONSOLIDATED STATEMENTS

(Rupees in Million)

LOANS	Amount Outstanding as on 31.03.2005	Amount outstanding as on 31.08.2005	Security Offered
SECURED LOANS:			
State Bank of Hyderabad	21.53	10.87	Hypothecation of Stocks and Receivables First Charge on Fixed Assets of the Co. Personal Guarantees of M.D and Chairman.
State Bank of Hyderabad	-	30.38	Against FDR's
UNSECURED LOANS :			
Un Secured Loans	NIL	NIL	NA



RESTATED UNCONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, (INCLUDING SUBSIDIARY) FOR THE YEARS ENDED MARCH, 31, 2001, 2002, 2003, 2004, AND 2005 AND FOR THE PERIOD ENDED 31ST AUGUST' 2005.

AUDITOR'S REPORT

To,
The Board of Directors,
Kernex Microsystems (India) Limited,
"Thrushna ", Plot No.7,
Software Units Layout,
Madhapur, Hyderabad - 500 081, A.P.

Dear Sirs,

We have examined the restated financial information of M/s Kernex Microsystems (India) Limited annexed to this report and initialed by us for identification. The said restated financial information has been prepared in accordance with the requirements of paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ("the Act"), the Securities and Exchange Board of India ('SEBI'), - Disclosure and Investor Protection Guidelines, 2000 (as amended from time to time) (the "guidelines") issued by the Securities and Exchange Board of India Act, 1992, and related clarifications; and in accordance with instructions dated May, 06, 2005 and September 28 2005 received from the company requesting us to carry out work in connection with the offer document being issued by the company in connection with its Initial Public Offering of Equity Shares (referred to as "the issue"). The restated financial information has been prepared by the Company and approved by the Board of Directors of the Company, in the meeting held on May 20 2005 and October 14 2005.

1. We have examined the attached restated summary statement of Profit and Loss of the Company for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the period ended August 31, 2005 (Annexure I) and the restated summary statement of Assets and Liabilities as at March 31, 2001, 2002, 2003, 2004, 2005 and as at August 31, 2005 (Annexure II). These restated summary statements have been extracted from the financial statements of the Company for these years audited by us and have been approved by the Board of Directors, and adopted by members for those respective years.
2. We have examined the following financial information relating to the company proposed to be included in the Prospectus, as approved by the Board of Directors and annex to this report:
 - Summary of accounting ratios as stated vide Annexure IV to this report.
 - Age-wise Statement of Sundry Debtors as at March 31, 2005 and August 31, 2005 as stated vide Annexure V to this report
 - Analysis of Loans and Advances as at August 31, 2005 as stated vide Annexure VI to this report
 - Dividend paid for the last Five years as stated vide Annexure VII to this report.
 - Capitalization statement of the Company as at August 31, 2005 as stated vide Annexure VIII to this report.
 - Tax Shelter Statement as stated vide Annexure IX to this report.
 - Statement of Secured and Unsecured Loans vide Annexure X to this report.

Based on Our examination of these summary statements, we state that

- The restated profits have been arrived at after charging all expenses including depreciation and after making adjustments and regroupings as in our opinion are appropriate in the years to which they related, as stated.
- There are no qualifications in the auditors' report that require any adjustment to the summary statements.
- There are no extra Ordinary items that need to be disclosed separately in the summary statements.



3. The summarized financial statements together with significant accounting policies of the wholly owned subsidiary of the company for the aforesaid years are set out in Appendix A to this report. We have not audited the said summarized financial statements and have accepted these statements in respect of the subsidiary as set out in Appendix A to this report as reclassified and adopted by the company. The financial statements of the subsidiary have not been consolidated into the attached summary statements of the company. In the case of the subsidiary, as at March 31, 2005 and August 31 2005 the entire beneficial ownership vests with the company and accordingly the assets and liabilities and Profit/Loss as the case may be in the aforesaid financial statements entirely concern the members of the company.
4. In our opinion the financial information of the Company attached to this report read with respective significant accounting policies and significant notes as annexed to this report vide Annexure III and after making adjustments and regrouping as considered appropriate, has been prepared in accordance with Part II of Schedule II of the Act and the Guidelines issued by SEBI.
5. This report is intended solely for your information and for inclusion in the Prospectus in connection with the specific Initial Public Offer of the Company and is not to be used, referred to, or distributed for any other purpose without our prior written consent.

For GMK Associates
Chartered Accountants

Place: Hyderabad
Date: 14.10.05

Sd/-
G.Satyanarayana Murty
Partner
Membership No: 29919



The profits of the Company for the year ended 31st March, 2001, 2002, 2003, 2004, 2005 and for the period ended August 31, 2005 after making such adjustments as are in our opinion, appropriate and subject to the notes hereunder are as follows : -

Statement of Profit and Loss Account of Kernex Microsystems (India) Limited :

(Rupees in Million)

PARTICULARS	For the Year Ended March 31,					As on 31st August
	2001	2002	2003	2004	2005	2005
INCOME :						
Sales						
a. Manufacture / services	48.00	36.15	68.98	130.45	462.95	187.50
b. Trading goods	-	-	-	22.83	61.87	10.80
Other Income	4.80	9.15	4.06	9.40	6.4	2.26
Increase/decrease in WIP	(1.87)	12.05	(7.78)	16.38	1.47	(7.17)
Total Income	50.93	57.35	65.25	179.07	532.76	193.39
EXPENDITURE :						
Cost of Sales & services	2.46	9.80	17.41	66.87	264.74	61.64
Personnel Expenses	13.26	16.07	16.14	25.75	38.07	16.75
Operating, Admn & Selling Exp.	12.97	15.55	13.85	24.77	62.58	23.73
Finance Charges	1.27	1.45	3.26	7.98	8.72	2.08
Depreciation and Amortization	4.22	5.24	3.58	5.01	12.68	4.48
Preliminary exp w/o	-	-	-	-	-	-
Total Expenditure	34.18	48.11	54.25	130.38	386.78	108.68
Net Profit Before Tax	16.74	9.24	11.00	48.68	145.98	84.71
A. Income Tax						
current tax	1.95	1.35	4.50	17.85	58.40	23.10
Previous year Tax	0.01	(0.03)	-	-	-	-
B. Deferred Tax	-	-	(0.12)	(0.13)	(2.27)	(0.75)
C. Fringe Benefit Tax	-	-	-	-	-	0.20
Net Profit before Extra Ordinary items / Prior period Adjustments	14.78	7.92	6.62	30.96	89.84	62.16
Prior Period (Exp)/income	-	(0.24)	-	-	-	-
Net Profit After Extra Ordinary items / Prior period Adjustments	14.78	7.69	6.62	30.96	89.84	62.16
Dividend	4.86	3.00	-	6.84	7.40	-
Dividend tax	0.50	-	-	0.89	0.97	-
Transfer to General Reserve	5.00	3.00	1.00	5.00	5.00	-
Profit B/f less bonus shares	3.56	3.12	1.80	4.16	18.97	95.44
Balance carried to Balance Sheet	7.98	4.80	7.41	22.39	95.44	157.59



STATEMENT OF OTHER INCOME

(Rupees in Million)

PARTICULARS	For the Year Ended March31,					For the period ended
	2001	2002	2003	2004	2005	31.08.05
RECURRING :						
Interest Received	4.08	3.40	4.03	4.74	5.26	2.05
Exchange Fluctuation	0.00	0.49	0.01	-	-	-
NON RECURRING :						
Salary in lieu of Notice	0.70	0.10	0.02	0.65	1.04	0.21
Profit on Sale of Assets	0.02	0.01	-	-	-	-
Dividend Received	-	5.15	-	-	-	-
Long-Term Capital Gain	-	-	-	4.00	-	-
Rental Income	-	-	-	-	0.17	-
	4.80	9.15	4.06	9.40	6.47	2.26

ANNEXURE-II

The Assets and Liabilities of the Company as on 31st March 2001, 2002, 2003, 2004, 2005 and as on August 31, 2005 after making such adjustments as are in our opinion, appropriate and subject to the notes hereunder are as follows :-

(Rupees in Million)

Particulars	As at March 31,					As on 31st August
	2001	2002	2003	2004	2005	2005
Sources of Funds						
I. Shareholders fund						
Share Capital						
- Equity Share Capital	57.26	62.11	65.12	68.38	74.03	74.03
Reserves and Surplus						
Share Premium	48.57	48.57	48.71	48.71	58.94	58.94
Reserves and Surplus	12.98	12.80	15.23	35.20	113.25	175.41
Deferred Tax Liability	-	-	1.07	0.94	-	-
II. Loan Fund						
Secured Loans	5.53	12.71	50.57	71.02	21.53	41.26
Unsecured Loans	-	-	-	-	-	-
Total Liabilities	124.34	136.20	180.71	224.26	267.75	349.64
Application of Funds						
Fixed Assets						
(At cost less Depreciation)	15.74	11.70	21.27	90.47	83.32	79.62
Capital Work in Progress	8.14	13.15	30.78	-	-	-



Particulars	As at March 31,					August 2005
	2001	2002	2003	2004	2005	
Investments	-	40.55	40.55	11.83	11.83	11.83
Current assets, loans & Advances						
Jobs in process	0.90	12.95	7.12	32.99	54.11	30.72
Sundry debtors	22.13	19.87	36.24	67.49	108.86	202.39
Cash and Bank Balance	76.87	44.67	39.92	71.24	91.21	85.03
Deposit, Loans and Advances	10.19	15.48	19.08	49.96	50.92	98.26
Sub total	110.09	92.97	102.37	221.68	305.10	416.39
Less : Current Liabilities & Provisions	9.63	22.16	14.26	99.73	133.83	160.28
Net Current Assets	100.46	70.81	88.10	121.95	171.27	256.11
Misc. Expenditure (not written off)	0.00	0.00	-	-	-	-
Preliminary Expenses	-	-	-	-	-	-
R & D Expenses	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	1.33	2.07
Total Assets	124.34	136.20	180.71	224.26	267.75	349.64

ANNEXURE-III

Significant Accounting Policies and Notes to Summarized Financial Statements:

1.1 Overview of the Company

Kernex Microsystems (India) Limited is engaged in the Manufacture and sale of Safety Systems like Anti-Collision Devices for Railways and Software Services and its wholly owned subsidiary Avant-Garde Infosystems Inc, USA is engaged in Development of Software Products and consultancy services.

1.2 Basis of Preparation of Summarized Financial Statements

Restatement of the Financial Statements has not been done as there were no Changes in Accounting Policies followed by the Company. There were no extra ordinary and prior period items, which are material.

1.3 Fixed Assets, Depreciation and Amortization

Fixed assets are carried at the cost of acquisition less accumulated depreciation. Fixed assets are valued at original cost including incidental expenditures, taxes and duties net of cenvat credit availed. Depreciation has been charged on fixed assets on WDV method as per the rates specified in Schedule XIV of the Companies Act, 1956.

1.4 Investments:

Investments in subsidiary are accounted under the equity method of accounting, which were initially recorded at cost.

1.5 Inventories

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

1.6. Retirement Benefits to Employees:

Gratuity:

In accordance with the payment of Gratuity Act,1972, KMIL provides for gratuity, covering all the Employees based on the Service of Years rendered to the Company , in excess of 6 Months on a consistent calculation as per The Gratuity Act,1972 .



Provident Fund:

All the eligible employees of the company are covered under PF and Miscellaneous Provisions Act, both Employee and the Company make monthly contributions to the PF plan equal to specified percentage of the Covered Employees salary.

1.7 Revenue Recognition:

Income from software development and services is accounted for on the basis of software development and billed to client on acceptance and / or on the basis of man-days/man-hours as per the terms of contract. Revenue from product sales is stated exclusive of returns and applicable trade discounts but inclusive of Duties and Taxes collected on the same. Service Income is recognized as per the terms of Contracts with the Customer, when the related services are performed.

1.8 Foreign Currency Transactions:

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

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

Revenue items, except opening and closing inventories and depreciation are translated at the respective monthly average rates. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated.

Monetary items are translated using the closing rate. Non-monetary items, other than inventories and fixed assets, are translated using the exchange rate at the date of transaction i.e., the date when they were acquired.

Fixed assets are translated using the exchange rate at the date of their acquisition. The net exchange difference resulting from the translation of items in the financial statements of foreign

Subsidiary is recognized as income or as expense for the year.

1.9 Income Tax :

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

1.9.2 Deferred Tax :

Deferred tax has been accounted in accordance with Accounting Standard - 22 “ Accounting for Taxes on Income”, issued by the ICAI, under the liability method. A provision is made for Income tax annually based on the Tax Liability computed. The difference that result between the profit offered for income taxes and the Profit as per the Financial Statements are identified and thereafter a deferred tax asset or deferred tax liability for timing differences , namely the difference that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. On prevailing enacted regulations.

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

1.9.3 Fringe Benefit Tax (FBT):

Provision for FBT is made in the accounts on the basis of estimated tax liability as per the applicable provisions of the Income Tax Act, 1961 on proportionate basis.

1.10 Warranty Expenses

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

1.11 Segment Reporting:

Since the Company has only one Business and Geographic Segment namely Sales, Service and Software for Anti-Collision Devices, “Segment Reporting “ under “Accounting Standard-17” issued by the “ICAI” is not applicable.


1.12 Related Party Transactions (in respect of related parties of the date of this report) :
1.12.1 Name of the related parties:

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

1.Krisn Information Technologies Ltd Enterprise managed by relative of Managing Director

Hardware Consultancy to Kernex for Different Projects

(Rupees in Million)

Transactions Type	As at March,31			Period ended August 31
	2003	2004	2005	2005
Software consultancy	-	0.42	1.16	-
Balance Outstanding	-	-	-	-

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

Sales & services to (2003) and Consultancy services from (2003-2005) on procurement & Inspection of goods in USA

(Rupees in Million)

Transactions Type	As at March,31			Period ended August 31
	2003	2004	2005	2005
Sales & services	4.47	-	-	-
Balance Outstanding	21.23	11.13	4.47	4.47
Consultancy	0.38	3.21	3.00	0.79
Balance Outstanding	0.10	2.34	1.01	0.22

1.12.2 . Transactions with 100% wholly owned subsidiary (Avant-Garde Infosystems Inc, SA):

(Rupees in Million)

Transactions Type	As at March,31			Period ended August 31
	2003	2004	2005	2005
Working Capital Loan (Including Interest Receivable)				
Opening Balance	8.42	10.74	12.52	13.18
Transaction during the year/period	2.32	1.78	0.66	0.66
Balance Outstanding	10.74	12.52	13.18	13.84

1.12.3 Directors / Key Management Personnel :

(Rupees in Million)

Transactions Type	As at March,31			Period ended August 31
	2003	2004	2005	2005
Remuneration / Fees				
Col.L.V.Raju (Retd) - Managing Director	1.50	1.63	3.00	1.17
B.Murali Mohan - Whole time Director	1.035	1.26	1.56	0.65



1.13 Impairment Of Assets :

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

1.14 DIVIDEND

Dividend has been paid @10% for the years 2004-05, 2003-04, and 2000-01 and @ 5% for the year 2001-02. No dividend was paid during the year 2002-2003.

1.15 Amounts Outstanding in excess of Rs.1, 00, 000/- to Small Scale Industries as at 31st August, 2005 includes an amount of Rs.3, 13,778/- to M/s Geetha Industries, Hyderabad.

B. NOTES TO SUMMARIZED FINANCIAL STATEMENTS:

2.1 Capital Commitments and Contingent Liabilities:

(Rupees in Million)

Particulars	As at March,31					As at August 31
	2001	2002	2003	2004	2005	2005
Capital Commitments						
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	-	-	9.60	2.00	0.50	0.50
Contingent Liabilities						
Outstanding guarantees given by banks in favour of various government authorities and others	0.28	12.06	12.06	50.00	16.10	61.10
Estimated amount of claims against the Company not acknowledged as debts	2.47	-	-	0.80	1.04	1.14

2.2 Deferred tax liability :

(Rupees in Million)

Particulars	As at March,31				As at August 31
	2002	2003	2004	2005	2005
<i>Deferred Tax Asset :</i>					
Unabsorbed losses / depreciation	-	-	-	-	-
Expenses allowable on payment and others	0.20	0.22	1.78	4.48	4.79
Total	0.20	0.22	1.78	4.48	4.79
<i>Deferred Tax Liability :</i>					
Fixed Assets (depreciation)	1.41	1.29	2.72	3.16	2.72
Total	1.41	1.29	2.72	3.16	2.72
Net Deferred Tax (Liability) / Asset	(1.21)	(1.07)	(0.94)	1.33	2.07



2.3 Earnings Per Share :

Particulars	As at March,31					As at August 31
	2001	2002	2003	2004	2005	2005
Profit After Tax (Rupees in Million) attributable to Equity Shareholders	14.78	7.69	6.62	30.96	89.84	62.16
Number of Equity Shares Outstanding as at the date of balance sheet. (in Million)	5.73	6.21	6.51	6.84	7.40	7.40
Diluted weighted average number of Equity Shares outstanding during the Year (in Million)	3.95	4.51	6.21	6.51	7.16	7.40
Nominal value of Equity Shares (Rs.)	10.00	10.00	10.00	10.00	10.00	10.00
Basic Earnings Per Share (Rs.)	2.58	1.24	1.02	4.52	12.14	8.40
Diluted Earnings Per Share (Rs.)	3.74	1.70	1.07	4.75	12.55	8.40

ANNEXURE - IV

Accounting Ratios based on Unconsolidated Statement of Profits and Losses and Assets and Liabilities

Particulars	Year ended March 31,					As at August 31
	2001	2002	2003	2004	2005	2005
Earnings Per Share (EPS)						
Basic (Rs.)	2.58	1.24	1.02	4.52	12.14	8.40
Diluted (Rs.)	3.74	1.70	1.07	4.75	12.55	8.40
Return on Net Worth (For Equity Shareholders) (%)	12.44%	6.22%	5.13%	20.33%	36.49%	20.16%
Net Asset Value per Share (Rs.)	20.75	19.88	19.82	22.27	33.26	41.66
Return on Capital Employed (%)	11.88%	5.64%	3.66%	13.81%	33.72%	17.88%
Number of equity shares outstanding during the year used for computing Basic EPS	5,725,541	6,211,290	6,512,221	6,837,832	7,402,879	7,402,879
Weighted average Number of equity shares outstanding during the year used for computing the Diluted EPS	3,947,136	4,514,337	6,211,351	6,512,221	7,159,742	7,402,879
Total number of shares outstanding at the end of year	5,725,541	6,211,290	6,512,221	6,837,832	7,402,879	7,402,879

The ratios have been computed as below:

- I) Earnings per share (Rs.): Net profit attributable to equity shareholders/number of equity shares outstanding as at the end of the year.
- II) Return on net worth (For Equity Share holders) (%) : Net profit after tax/Net worth as at the end of the year
- III) Net asset value (Rs.): Net worth at the end of the year/Number of equity Shares outstanding



- IV) Return on Capital Employed: Net Profit after Tax/Total of Net Fixed Assets, Investments and net current assets.
- V) Net Profit, as appearing in the statement of profits and losses, has been considered for the purpose of computing the above ratios.
- VI) Earnings per share calculations are done in accordance with Accounting Standard 20 "Earnings Per Share" issued by the Institute of Chartered Accountants of India.

Note: Accounting ratios are calculated on uniform basis for all the years and for the 5 month period ended 31st August, 2005.

ANNEXURE V

Age Wise Analysis of Sundry Debtors Based on Unconsolidated Statement of Assets and Liabilities

(Rupees in Million)

Particulars	As at March 31, 2005	As at August 31, 2005
Debts outstanding for a period exceeding six months :		
Considered Good	18.81	74.24
Considered Doubtful	-	-
	18.81	74.24
Other Debts :		
Considered Good	90.05	128.15
Total	108.86	202.39
Less : Provision for Doubtful Debts	-	-
Total	108.86	202.39

Note: Sundry Debtors As at August 31, 2005 includes Rs.197.92 Millions (As at 31st March, 2005 Rs.104.39 Millions) from Konkan Railway Corporation Limited, and Rs. 4.47 Million (As at 31st March, 2005 Rs.4.47 Millions) from Cova Technologies Inc, USA.

Annexure - VI

Analysis of Loans and Advances	(Amt in million)
Advances :	
Advances for Public Issue Expenses	10.92
Advances Against Supplies	3.61
Advances Against Imports	2.82
Advances for Expenses (Project Execution/Tour/Others)	5.09
Staff Advances	0.20
Deposits- Govt: (CENVAT / PLA)	0.55
Deposits-Others: (EMD/Interest receivable / Rent Deposits / Security Deposits)	4.85
Advance Tax / TDS:	56.37
Loan to Avant-Garde Infosystems Inc	13.84



Statement of Dividends paid for the Last Five Years

(Amount in Rs.)

Year ended	Equity Share Capital	Dividend Amount	Tax on Dividend	Dividend %
31.03.2005	74,028,790	7,402,879	967,464	10%
31.03.2004	68,378,320	6,837,832	893,619	10%
31.03.2003	65,122,210	-	-	Nil
31.03.2002 (see note.1 below)	62,112,900	3,004,447	-	5%
31.03.2001	57,255,410	4,857,485	495,463	10%

Note: 1.Dividend for the year 2001-2002 was given on pro-rata basis

ANNEXURE- VIII

Capitalization statement

(Rupees in Million)

Particulars	Pre-issue as at 31.08.2005	As Adjusted for issue*
Short-Term Debt #	41.26	41.26
Long Term Debt	-	-
TOTAL DEBT	41.26	41.26
Shareholders Funds		
Equity Share Capital	74.03	-
Reserves	234.35	-
Total Shareholders Funds	308.38	-
TOTAL CAPITALISATION	349.64	-
Long Term Debt / Equity	13.38%	-

*Refer Note Below

Note:

- * Share Capital and reserves and Total Shareholders' Funds would be calculated on conclusion of the Book Building
- # Short Term Debt relates to Working Capital facility from State Bank of Hyderabad and Temporary Demand Loan against FDR's from State Bank of Hyderabad.



Tax Shelter statement

(Rupees in Million)

Particulars	Year ended March 31				
	2001	2002	2003	2004	2005
Profit before Tax	16.74	9.24	11.00	48.68	145.98
Tax Rate	39.55%	35.70%	36.75%	35.88%	35.89%
Tax at Notional Rate	6.62	3.30	4.04	17.46	52.30
Adjustments : Export Profits	10.28	2.52	0.24	-	-
Difference between Tax Depreciation and Book Depreciation	2.03	(0.67)	(0.32)	3.80	(26.58)
Other Adjustments	0.26	3.71	0.18	(0.41)	8.63
Net Adjustments	12.57	5.56	0.10	3.39	(17.94)
Tax Saving thereon:	4.97	1.99	0.03	1.22	6.44
Total Taxation	1.65	1.31	4.01	16.25	58.83
Taxation on Extra-ordinary items	-	-	-	-	-
Tax on profits before extra-ordinary items	1.65	1.31	4.01	16.25	58.83

ANNEXURE -X

Statement of Secured / Unsecured Loans and Related Terms of Loans and Assets Charged for Unconsolidated Statements

(Rupees in Million)

Loans	Amount Outstanding as on 31.03.2005	Amount outstanding as on 31.08.2005	Security Offered
SECURED LOANS:			
State Bank of Hyderabad	21.53	10.87	Hypothecation of Stocks and Receivables First Charge on Fixed Assets of the Co. Personal Guarantees of M.D and Chairman.
State Bank of Hyderabad	-	30.38	Against FDR's
UNSECURED LOANS :			
Un Secured Loans	NIL	NIL	NA



Profit & loss of Avant-Garde Infosystems Inc, USA

The profits or losses of the Subsidiary for the year ended 31st March, 2001,2002,2003,2004, 2005 and period ended 31.08.2005 after making such adjustments as are in our opinion, appropriate and subject to the notes hereunder are as follows: -

Statement of Profit and Loss Account of Avant-Garde Infosystems Inc, USA:

(Amounts in US\$)

Particulars	For the Year Ended March 31,					
	2001	2002	2003	2004	2005	31.8.05
INCOME :						
Fee-Consulting	7,500	-	27,670	5,620	17,000	-
Sales	-	42,500	-	-	-	18,000
Misc. Income	-	76	-	-	-	-
Total Income	7,500	42,576	27,670	5,620	17,000	18,000
EXPENDITURE :						
Personnel, Operating, Administration & Selling Exp.	7,041	29,052	38,213	31,136	3,600	12,750
Finance Charges	-	3,138	4,799	7,206	8,000	-
Depreciation and Amortization	4,786	9,266	7,190	5,114	2,690	-
Total Expenditure	11,827	41,456	50,202	43,456	14,290	12,750
Nero Profit / (loss) before Extra Ordinary items / Prior period Adjustments						
	(4,327)	1,120	(22,532)	(37,836)	2,710	5,250
Prior Period (Exp)/income	-	-	-	-	-	-
Net Profit After Extra Ordinary items / Prior period Adjustments	(4,327)	1,120	(22,532)	(37,836)	2,710	5,250
Profit / (loss) brought forward from earlier years	-	(4,327)	(3,207)	(25,739)	(63,575)	(60,865)
Balance carried to Balance Sheet	(4,327)	(3,207)	(25,739)	(63,575)	(60,865)	(55,615)


Statement of Assets and Liabilities of Avant-Garde Infosystems Inc, USA:

The Assets and Liabilities of Avant-Garde Infosystems Inc, USA as on 31st March, 2001, 2002, 2003, 2004, 2005 and as at August 31, 2005 after making such adjustments as are in our opinion, appropriate and subject to the notes hereunder are as follows :

(Amounts in US\$)

Particulars	As at March 31st					As at August 31st
	2001	2002	2003	2004	2005	2005
SOURCES OF FUNDS						
Shareholders Funds						
Share Capital						
- Equity Share Capital	71,582	251,524	251,524	251,524	251,524	251,524

Particulars	As at March 31st					As at August 31st
	2001	2002	2003	2004	2005	2005
Loan Funds						
Unsecured Loans	-	170,000	191,862	231,827	231,827	246,792
Total Liabilities	71,582	421,524	443,386	483,351	483,351	498,316
APPLICATION OF FUNDS						
Fixed Assets						
At cost less Depreciation	18,408	13,615	8,815	5,750	3,174	3,174
Current assets, loans & Advances						
Cash and Bank Balance	60,753	32,258	124	-	10,053	95
Deposit, Loans and Advances	1,550	2,050	3,100	1,550	1,550	31,725
Sub total	62,303	34,308	3,224	1,550	11,603	31,820
Less: Current Liabilities & Provisions	22,521	87,890	100,086	110,640	23,143	23,143
Net Current Assets	39,783	(53,582)	(96,862)	(109,090)	(11,540)	8,677
Misc. Expenditure (not written off)						
Organizational & Start-up costs	9,065	6,676	4,286	2,236	2,122	2,122
R & D Expenses	-	451,608	501,408	520,878	428,728	428,728
Debit balance in P&L Account	4,326	3,207	25,739	63,577	60,867	55,615
Total Assets	71,582	421,524	443,386	483,351	483,351	498,316



Notes to Accounts - August 31, 2005

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts expressed in United States dollars are prepared in accordance with the historical cost convention.

(b) Depreciation

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

Depreciation and Amortization has not been provided in the books for the period ended 31.08.05 as per the compilation report given by CPA, it will be provided at the end of fiscal year.

2. PRINCIPAL ACTIVITIES

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

3. SHARE CAPITAL

Authorized	Authorized as on March 31,2005	Authorized as on August 31,2005
Common shares at no par value	50,000,000	50,000,000

4. HOLDING COMPANY

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

5. ACCOUNTING PERIOD

The Financial Statements are prepared for the period from 1st April, 2004 to 31st March, 2005 and for the period ended 31st August 2005.

6. RELATED PARTY TRANSACTIONS

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

7. The Accounts are reclassified to confirm as near as to the Schedule VI of the Companies Act, 1956.
8. The Financial Statements are the responsibility of the Company's Management and are not required to be audited as per the existing US Laws.
9. Provision for Income Tax has not been provided for the period ended 31st August 2005
10. Previous Years Figures were re-grouped and re-arranged wherever necessary.
11. The Balance Sheet and Profit & Loss Account for the year-ended 31.03.2005 and for the period ended 31st August 2005 are prepared based on the Financial Statements duly certified by C.P.A.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements included in this Prospectus. You should also read the section titled "Risk Factors" beginning on page ix of this Prospectus, which discusses a number of factors and contingencies that could impact our financial condition and results of operations. The following discussion relates to our company on a consolidated basis. These financial statements have been prepared in accordance with Indian GAAP, the Companies Act 1956 and SEBI (DIP) guidelines and as described in Auditors Report of M/s GMK Associates dated May 20, 2005 on page 100 titled "Financial Information".

The following discussion is based on our audited financial statements for the financial year ended March 2001, 2002, 2003, 2004, 2005 and for the period ended August 31, 2005 including significant accounting policies and notes thereto and reports thereon, which have been prepared in accordance Indian GAAP, the Companies Act, 1956 and SEBI (DIP) guidelines and on information available from other sources. Our fiscal year ends on March 31 each year, so all references to a particular financial year are to the 12 months period ended March 31 of that year.

The Directors confirm that there have been no events or circumstances since the date of the last financial statements, which materially and adversely affect or are likely to affect our profitability or the value of its assets or its ability to pay its liabilities within the next twelve months.

Overview

Our Company was incorporated on September 16, 1991 as a private limited company with the object of designing, developing, installing and maintaining software packages for domestic and international markets. We are registered as 100% Export Oriented Unit (EOU) with Software Technology Parks of India, Department of Electronics, Govt. of India, New Delhi.

We developed and exported software packages from 1993 to 2003 namely "Mimex" for GUI application, LearnX a self learning tool, ELX, Flicker, MathX, EzEc builder, Netcare, E-DOCS, etc. With E-DOCS, we provided powerful, extensible and affordable document management and imaging solution to companies and organizations looking to reduce their dependence on paper distributed information more efficiently and assist collaboration among users. MathX was an interactive mathematical wizard on MS-Windows, NT and 95 for evaluating complete expressions and solving intricate equations. It provided an easy to use interface to combine equations, graphics and text in single/multiple documents. EzEc Builder package was an integrated Electronic Commerce Tool to create and maintain supermarkets on Internet. It provided a Back-Office administration and an extensive set of canned reports. A virtual ERP, with all facets electronics commerce, inventory control, financial accounting and customer management. Our turnover increased from Rs. 4.5 Million to Rs. 78 Million during fiscal year 1993 to 2003. In the domestic market, we also developed Intelligent Data Acquisition System and installed on Konkan Railways in 53 stations from 1997 to 1999.

We started developing Railway Safety systems from 1999 and successfully developed and demonstrated a prototype of ACDs to Konkan Railway Corporation Limited and Members of the Railway Safety Board. In March 2000 we entered into a Memorandum of Understanding with KRCL for Technical Collaboration for developing full scale networked Anti-Collision Systems (ACDs). We, jointly with KRCL, took up an intensive analysis of the major accidents that occurred in India. The functional requirements of the clients and operational safety procedures have been fully considered, for designing the logics of Anti Collision Systems. Based on the concept and domain knowledge provided by Konkan Railway Corporation Ltd, we developed the networked Anti-Collision Devices, using Global Positioning System, Radio Data Communication, Application Logics and Inter facing these with an Auto Breaking System developed by KRCL.

The product has been successfully developed for deployment after initial and extended field trials on the Amritsar-Jalandhar Section of Northern Railway using 125 ACDs of different types during July 2002 to January 2003. The product underwent improvements and series of successful trials over a period of 3 years. Consequent to an agreement in the year 2003 with KRCL, we became the exclusive manufactures and suppliers of these systems to KRCL including installation and maintenance. On January 20, 2004, the then Honorable Railway Minister launched the project at Kishangunj, Bihar on the Northeast Frontier Railways. Subsequently we have taken up execution of a project for deployment of ACDs on over 1730 KMs on the same route, which is being completed shortly.



We also developed ADDs for Metro Sky-Bus System during 2003 - 04 under technology partnership with KRCL. We have also been carrying out research and development work on Advanced Railway Signal Systems on cost sharing basis with KRCL.

Our Company with its proven quality systems was certified as an ISO 9001-2000 in terms of process maturity in Software Life-cycle Management from Lloyd's registrar Quality Assurance in June 2002.

We are at present engaged in manufacture, installation, commission and maintenance of networked Anti-Collision Systems for Konkan Railway Corporation Limited. During the financial year 2003-04 and 2004-05, our entire revenues were generated from the manufacture and supply of Anti-Collision Devices and services viz. Track surveys, installation and maintenance, trading activity through sale of accessories of ACDs. In fiscal 2003-04 the revenues from supply of ACDs were just over 50% of our total revenues. The revenues from sales and services of ACDs have increased from Rs.162.7 Million to Rs. 531.53 Million during 2004-05, which shows the importance of increased use of these safety systems by the Railways.

We being the sole manufacturers and suppliers of the anti-collision systems, our technical facility at the Infocity Layout, Madhapur, Hyderabad has been designated as the "Outsourced Facility" for these systems for Konkan Railway Corporation Ltd. We therefore receive our orders for these systems from Konkan Railways Corporation Ltd., who in turn receive the orders from Indian Railways. We also supply the accessories since these are subjected to pre-supply inspections by us. Development of ACD technology and getting the product manufactured at a single source is advantageous to the user as the ACD system requires continuous R&D, innovation and Quality Certification. We also execute on site projects in various zones where the ACD deployment is required. Thus, we provide to KRCL and also Indian Railways through them, Turn Key solution as a single window.

On the basis of the Corporate Safety Plan (2003-2013) of Government of India, Indian Railways have to cover over 62,500 kms of tracks with ACDs in the next seven years. The total requirement of ACDs is therefore estimated to be in the range of 30,000 units to 35,000 units or 7,500 to 9,000 ACDs per year. (Source - Corporate Safety Plan(2003-2013) of Government of India, Ministry of Railways (Railway Board) available at www.indianrailways.gov.in). We are the only company who has an exclusive technology partnership agreement with KRCL for developing, manufacturing, installation, commissioning and maintenance of ACD systems in domestic market and during the last 2 years, we have successfully completed installation of ACD systems about 1800 numbers covering 2466 kms. In addition, we are also manufacturing other railway safety systems like ADDs for Metro-Sky Bus and in the process of developing Train Actuated Warning Device (TAWD) and Signal Passing At Danger (SPAD).

The developments in technology and infrastructure have long gestation periods, and on the basis of immediate requirements and future demands, the infrastructure needs to be created now itself to meet market competition.

Factors affecting Results of our Operations

The following are the main factors affecting the results of our operations:

General Economic Scenario and allocation of funds by the government for installation of safety systems:

Manufacturing and supply of ACDs by us will depend on the general economic scenario of the country, funds allocations by the government of India for installation of safety devices on the railways and placement of orders by Konkan Railway Corporation Ltd.

Competition:

Presently, we are the only player in the domestic market for railway track surveys, manufacture, installation and maintenance of ACDs in India

We have developed this product for about five years of R&D, testing and field trials and hold the unique distinction of being the only technology company in India manufacturing and supplying net-worked ACDs to KRCL, who are the agency deploying the same in Indian Railways. We continue with our R&D efforts for improving the existing product lines both in features and standards. Lack of domain knowledge, long developmental lead times and non-availability of real time testing platforms are entry barriers for others to enter this market.

Alternate Safety Systems:

There are alternate Railway Safety Systems manufactured by overseas manufacturers suitable for high speed/high density railway installations in developed countries. The kind of ACDs manufactured by us is developed to suit the medium to low density railway installations in India and is not presently being manufactured by any other agency especially with the features like side collision, train parting and fouling. The demand for our products may be affected by the emergence of alternative safety systems, if any.



Foreign Exchange fluctuations:

Raw materials constitute a major portion of our total expenses. Since most of our raw materials are imported, their prices are dependent upon, and may fluctuate with, foreign exchange prices. While depreciation of the Rupee against the U.S. Dollar and other foreign currencies increases the Rupee value of such imports and an appreciation of the Rupee, particularly with respect to the U.S. Dollar, decreases the Rupee value of such imports. Any adverse change in currency exchange rates will increase the cost of our imports.

Other Factors:

Our existing and proposed manufacturing facilities are subject to operating risks, such as the breakdown or failure of equipment, power supply or processes, performance below expected levels of output or efficiency, technological obsolescence, labor disputes, continued availability of services of our external contractors, earthquakes and other natural disasters, industrial accidents and the need to comply with the directives of relevant government authorities.

RESULTS OF OPERATIONS

Sales:

Increase in sales revenues from Rs 62.52 million in financial year 2002-03 to Rs. 169.93 million in fiscal 2004 to Rs. 527.03 million in 2004-05 registering annual increases of 171.80% and 210.15% (absolute terms) respectively, has been the most significant trend shown by our sales.

Our sales revenues during the year ended March 31, 2005 were almost entirely derived from the sales of anti-collision devices and their installations. Sales of anti-collision systems commenced for the first time on a commercial basis during the financial year ended March 31, 2005 after Konkan Railway Corporation Limited ordered installation of these systems on 1730 KMs stretch of Northeast Frontier Railway routes and 736 KMs on Konkan route. We have been able to meet the targets stipulated by the Konkan Railway Corporation Limited for installation of these devices.

The emphasis given by the Ministry of Railways on adoption of latest technologies for safety systems including anti-collision devices is expected to increase the manufacture and supply of anti collision devices as well as revenues from track surveys, maintenance revenues etc.

The contribution to net sales from ACDs survey, supply, installation and commissioning was 99% during fiscal 2005 in comparison to 86% in fiscal 2004. There have been no export sales during the financial year ended March 31, 2005. We believe that sales of ACDs will contribute significantly to our revenues in next few years.

Expenses:

Our expenses mainly consist of expenses on procurement of Raw materials, components and other Accessories, personnel expenses, administration, operation and selling expenses, depreciation and financial charges. The following table depicts the expenses on the above heads during the financial years from March 31, 2003 to 2005.

Expenses as % of total expenses

	(Rupees in Million)					
	2002-03		2003-04		2004-05	
	Amount	%	Amount	%	Amount	%
Raw Material Consumed	7.51	13.31	46.47	35.21	181.04	46.76
Manufacturing Expenses	9.90	17.54	20.40	15.46	83.70	21.62
Personnel Expenses	16.78	29.74	25.70	19.47	38.07	9.83
Operating, Selling, & Administrative Expenses	15.06	26.69	26.19	19.84	62.74	16.20
Finance charges	3.26	5.78	7.98	6.05	8.81	2.28
Depreciation & Amortization	3.92	6.95	5.25	3.98	12.81	3.31
Total Expenses	56.43	100.00	131.99	100.00	387.17	100.00



The following table shows our various expenses for financial years from March 31, 2003 to March 31, 2005 and shows such expenses as a percentage to net sales:

Expenses as % of total sales

(Rupees in Million)

	2002-03		2003-04		2004-05	
	Amount	%	Amount	%	Amount	%
Raw Material Consumed	7.51	12.01	46.47	27.35	181.04	34.35
Other Manufacturing expenses	9.90	15.83	20.40	12.00	83.70	15.88
Personnel expenses	16.78	26.84	25.70	15.12	38.07	7.22
Operating, Selling, & Administrative expenses	15.06	24.09	26.19	15.41	62.74	11.90
Finance charges	3.26	5.21	7.98	4.70	8.81	1.67
Depreciation & Amortization	3.92	6.27	5.25	3.09	12.81	2.43
Total Expenses	56.43	90.26	131.99	77.67	387.17	73.46
Margin	6.09	9.74	37.94	22.33	139.86	26.54
Net Sales	62.52	100.00	169.93	100.00	527.03	100.00

Our margins have been improving during the last three financial years i.e. from 9.74% for fiscal ended March 31, 2003 to 26.54% as at March 31, 2005. The reasons for increase in margins have been due to our entry into manufacturing, commissioning and installation of ACDs.

Raw Materials Consumed:

As a percentage to total expenses, the raw material cost has increased significantly from 13.31% in 2002-03 to 35.21% during 2003-04 and to 46.76% during 2004-05. The increases were due to increase in purchases of Accessories including material purchased for development of auto driving devices for Sky-bus.

We require various imported components for production of ACDs like Radio Modems, GPS Receivers, GPS Antennae, Disk on chip, RS 232 Module, CPU Boards, VF Displays, Noise Filters, LCDs, DC/DC Converters, Radio Remotes, Cable Modems. We procure raw materials from USA, Taiwan, Japan, Singapore and Germany. The raw materials are available from other suppliers also in different countries and the cost of these components has been stable. In 2004-05, imported raw materials constituted 61.52% of the total raw material purchased and were dependent upon foreign exchange fluctuations.

Our intended increase in capacity and production will give us the required strength to negotiate prices with the suppliers. There are no losses attributable to wastages or defective components.

Other Manufacturing Expenses:

The other manufacturing expenses mainly comprise of various duties paid on purchases and direct expenses on execution of projects in sites. Manufacturing expenses as a percentage of total expenses were 17.54%, 15.46% and 21.62% in fiscal 2003, 2004 and 2005 respectively. There was an increase in other manufacturing expenses in absolute terms continuously from 2003 onwards due to increased volumes. During 2004 the increase in other manufacturing expenses was lower compared to increase in total expenses.

Operating, Administrative and Selling Expenses:

Operating, administrative and selling expenses comprise of taxes paid (Sales Tax, Service tax, Entry Tax, and Works Contract Tax), product warranty costs, Directors' remuneration, repairs and maintenance expenses, Freight on sales, insurance, Communication expenses and rent etc. These expenses as a percentage of total expenses were 26.69%, 19.84% and 16.20% during fiscal 2003, 2004 and 2005 respectively. Since, all these expenses are semi-variable in nature, these expenses as percentage to total expenses have declined due to economics of scale.



Personnel Expenses:

Personnel expenses consist of salaries and other benefits, contribution to PF and other funds, and staff welfare including technical personnel engaged in R&D activities. Personnel expenses as percentage to total expenses have been declining from 29.74% in fiscal 2003 to 19.47% in fiscal 2004 and 9.83% in fiscal 2005. The continuous decline has been due to increased volumes and improved productivity.

Finance Charges:

Interest and finance charges represent expenses incurred in respect of our short-term and long-term bank loans, fees and other charges incurred by us in respect of letters of credit and other financing arrangements and facilities. The finance charges have been 5.78%, 6.05% and 2.28 % of total expenses in fiscal 2003, 2004, 2005 respectively. However in absolute terms finance charges increased from Rs. 3.26 million in 2003, Rs 7.98 million 2004 and Rs 8.81 million in 2005. The increase in finance charges has not increased in proportion to increase total expenses due to meeting the working capital requirements partly through Internal Accruals and Advances received from our clients.

Depreciation and amortization:

Depreciation as percentage to total expenses has been reducing - i.e. 6.95% in 2002-03, 3.98% in 2003-04, and 3.31% during 2004-05. However in absolute terms depreciation has been increasing from Rs 3.92 million in 2002-03 to Rs 5.25 millions in Rs 2003-04 and Rs. 12.81 million in 2004-05 due to increase in capital expenditure for creation of assets.

Depreciation charges are influenced by increases in capital expenditures on fixed assets. Our planned capital expenditure for new production and other infrastructure facilities will result in significant increase in depreciation expenses on absolute terms. For details on our expansion and capital expenditure plans, please refer to "Objects of the Issue" on page 28 of this Prospectus.

Taxation:

Our provision for income tax has been on the rise due to increased sales as well as margin. Provision for income tax as a percentage to net sales was 7.20% in 2002-03, 10.51% in 2003-04 and 11.08% for 2004-05.

Inflation:

We do not consider the impact of inflation on our financial performance over the periods under review to be significant.

REVIEW OF RESULTS OF OPERATIONS

Comparison for the period ended August, 2005 to Financial year 2004-05

Total Income :

Our income was Rs. 199.08 millions for the period ended August, 2005 in comparison to Rs.527.03 million during the financial year ended March 31, 2005.

Expenditure:

Raw material cost and other manufacturing expenses were Rs. 32.07 million and Rs. 29.57 millions from April, 2005 to August, 2005 in comparison to Rs. 181.04 millions and Rs. 83.70 millions respectively in F.Y. 2004-05. Personnel expenses were Rs. 16.75 million in comparison to Rs. 38.07 million in 2004-05.

For the period ended August, 2005, operating, administrative and selling expenses were Rs. 24.27 million in comparison to Rs.62.74 million. Finance and Depreciation were Rs. 2.08 million & Rs. 4.48 million in comparison to Rs. 8.81 million and Rs. 12.81 million during F.Y. 2004-05 respectively.

Profit before Taxes:

Profit before Taxes increased were Rs. 84.99 million for the period ended August, 2005 in comparison to Rs. 145.68 million in 2004-05.



Financial year March 31, 2005 as compared to financial year March 31, 2004

Net Sales:

Our net sales increased from Rs. 169.93 million during 2003-04 to Rs.527.03 million during the financial year ended March 31, 2005. The increase in sales has been due to taking up commercial manufacture and installation of anti-collision systems for the Konkan Railway Corporation Limited.

Other Income:

Other income decreased by 45.65% from Rs. 10.69 million in 2003-04 to Rs.5.81 million in 2004-05. This was due to a decrease in long-term capital gains.

Raw Materials Consumed:

Raw material cost increased from Rs. 46.47 million in 2003-04 to Rs.181.04 million in 2004-05. As a percentage to total expenses, the raw material cost has increased from 35.21% during 2003-04 to 46.76% during 2004-05. The increase was due to commencement of full-scale production of ACDs during 2004-05 and purchase of more accessories in 2004-05 than 2003-04.

Other Manufacturing Expenses:

Other manufacturing expenses increased from Rs. 20.40 million in 2003-04 to Rs. 83.70 million and as a percentage of total expenses other manufacturing expenses have increased from 15.46% to 21.62% during the period on account of increase in duties taxes paid including service tax paid on Project Execution works.

Personnel Expenses:

Personnel expenses increased from Rs.25.70 million in 2003-04 to Rs. 38.07 million in 2004-05 registering an increase of 48.13% in absolute terms. However, as percentage to total expenses, personnel expenses have declined by about 50.49% from 19.47% in 2003-04 to 9.83% in fiscal 2004-05. The increase in absolute terms was primarily due to general increase in salaries and wages of employees and increased manpower requirement for increased volume of operations and the decrease in percentage was due to economies of scale and improved productivity.

Operating, Administrative and Selling Expenses:

Operating, administrative and selling expenses increased in absolute terms from Rs. 26.19 million in 2003-04 to Rs.62.74 million which shows an increase of 139.55%. However, as a percentage of total expenses, these expenses have declined from 19.84% during 2003-04 to 16.20% during 2004-05. The increase in absolute terms was due to increased production, sales and execution of turnkey projects and decrease in percentage was due to economies of scale.

Finance Charges:

Finance charges increased in absolute terms during 2004-05 to Rs. 8.81 million as compared to Rs.7.98 million during 2003-04 showing an increase of 10.40%. The finance charges as a percentage of total expenses shows a decline from 6.05% to 2.28% during the same period. The reduction in finance charges was partly due to meeting the working capital requirements through Internal Accruals and partial retirement of Term Loans.

Depreciation and amortization:

Depreciation and amortization increased from Rs.5.25 million in 2003-04 to Rs.12.81 million during 2004-05 showing an increase of 144%.

Our charges under the head Depreciation have been 3.98% of total expenses during 2003-04 and 3.31% of total expenses during 2004-05. Depreciation charges are influenced by increases in capital expenditures on fixed assets and our creation of new assets like our new manufacturing facility during 2003-04.

Profit before Taxes:

Profit before Taxes increased from Rs.48.58 million in 2003-04 to Rs. 145.68 million in 2004-05 showing a growth of 199.88%. Increase in our profit was primarily on account of increase in volume of operations and enhanced margins.



Taxation:

Our provisions for income tax increased from Rs.17.85 million in 2003-04 to Rs. 58.40 million for the financial year 2004-05 showing an increase of 227.17%. The increase was due to increased margins.

Financial Year March 31, 2004 as compared to financial year March 31, 2003:

Net Sales:

Our net sales increased by 171.80% from Rs. 62.52 million during 2002-03 to Rs.169.93 million during the financial year 2003-04. The reason for increase in Net Sales was due to execution of survey project over 3400 KMs, development of ACD application software and manufacture of part of ACDs on order during that financial year.

Other Income:

Other income increased from Rs.4.17 million in 2002-03 to Rs.10.69 million in 2003-04 registering a growth of 156.35%. This was due to an increase of Rs.4.0 million from long-term capital gains and Rs.1.7 million from interest received on deposits.

Raw Materials Consumed:

Raw material cost increased by 518.77% from Rs. 7.51 million in 2002-03 to Rs.46.57 million in 2003-04. As a percentage to total expenses, the raw material cost has increased from 13.31% during 2002-03 to 35.21% during 2003-04. The increase was due to increased consumption of items like Radio modems, CPU Boards, GPS receivers etc, for manufacturing part of ACDs on order during the year.

Other Manufacturing Expenses:

Our manufacturing expenses increased from Rs. 9.90 million in 2002-03 to Rs. 20.40 million showing a growth of 106.06% in absolute terms. As a percentage of total expenses, other manufacturing expenses have declined from 17.54% to 15.46% during the period on account of larger volume of production and sales.

Personnel Expenses:

Personnel expenses increased from Rs.16.78 million in 2002-03 to Rs. 25.70 million in 2003-04 registering an increase of 53.16% in absolute terms. However as percentage to total expenses, personnel expenses have declined by about 34.53% from 29.74% in 2002-03 to 19.47% in fiscal 2003-04. The increase in absolute terms was primarily due to general increase in salaries and wages of employees and increased manpower requirement for increased volume of operations.

Operating, Administrative and Selling Expenses:

Due to increase in our sales volumes, operating, administrative and selling expenses increased in absolute terms from Rs. 15.06 million in 2002-03 to Rs.26.19 million - registering an increase of 73.90%. However as a percentage of total expenses these expenses have declined from 26.69% during 2002-03 to 19.84% during 2003-04. The increase in absolute terms was due to provision of warranty costs for ACDs, increase in sales tax on increased sales and Service Tax on installation and commissioning.

Finance Charges:

Finance charges increased in absolute terms during 2003-04 to Rs.7.98 million as compared to Rs.3.26 million during 2002-03 showing an increase of 144.79%. This was due increased borrowings for working capital requirements.

Depreciation and amortization:

Depreciation and amortization increased from Rs.3.92 million in 2002-03 to Rs.5.25 million during 2003-04 showing an increase of 33.93% due to increase in fixed assets from Rs.21 million in 2002-03 to Rs.90 million at the end of 2003-04. The capitalization of enhanced fixed assets took place in February 2004 and accordingly the depreciation has been charged on proportionately for the period.

Profit before Taxes:

Profit before taxes increased from Rs. 10.26 million in 2002-03 to Rs. 48.58 million in 2003-04 showing a growth of 373.49%. The increase in our profit before taxes was due to the factors such as increase in volume of operations and increase in margins from 9.74% to 22.33%.



Taxation:

Our provisions for income tax increased from Rs. 4.50 million in 2002-03 to Rs. 17.85 million for the financial year 2003-04 showing an increase of 296.76%. The increase was primarily due to higher profits during 2003-04.

Net Profits

Net profits improved from Rs. 5.88 million in 2002-03 to Rs.30.85 million in 2003-04 registering an increase of 424.83%.

Information regarding:

a) Unusual or infrequent events or transactions:

There have been no unusual or infrequent transactions that have taken place.

b) Significant Economic changes that materially affected or are likely to affect income from continuing operations:

Volatility in Foreign exchange rates may have an inflationary effect on cost of imports. Barring this factor, there are no significant economic changes that materially affected or likely to affect income from continuing Operations.

c) Known trends or uncertainties:

Some of the raw materials, which are imported, are subject to fluctuations in foreign exchange rates. As a sequel to the volatility in the foreign currencies and thereby the cost of imported inputs, the end product prices tend to move up or come down in the same direction if not in the same proportion.

d) Future relationship between costs and revenue;

Our R&D department has been successful in developing various new safety devices. This is expected to gain momentum and benefit us in the future years.

e) Seasonality of business:

There are no products, which are seasonal in nature.

f) Over dependence on Single supplier/ Customer:

We are exclusively dependent on Konkan Railway for marketing Anti Collision Devices to the Indian Railways and, in turn dependent on Konkan Railways for our revenues. As per the agreement entered into with Konkan Railways, we are not allowed to sell / merge the division / sections / facilities / installation that will be involved in development and manufacture of ACDs to some other parties in India during the period of currency of the said Agreement. In case, Konkan is not able to sell ACDs to Indian Railways, our operations relating to ACDs will adversely get affected.

g) Dependence on single product

At present, our revenues from ACDs account for the entire turnover for the last two years. We are in the process of further diversifying into Auto Driving Devices and Advance Railway Signal System. Any adverse affect on the demand for ACDs will affect our business and financial operations adversely.

h) Competitive conditions

Our business model is unique as we are the only company focusing on developing and marketing Railway Safety system using GPS technology. Our Company, as a whole, has no direct competition.

i) Total turnover of each major industry segment in which we operated

We operated in only one industry segment - Railway Safety Systems. Currently we are the only company manufacturing ACDs in India.

j) The extent to which material increases in net sales or revenue are due to increased sales volume, introduction of new products or services or increased sales prices

A large part of the sales increase over the past few years has been due to manufacture, installation and commissioning of ACDs by us and further, we are in the process of developing new railway safety systems.



CONSOLIDATED CASH FLOW STATEMENT

Rupees in Millions

	August '31	March'31	March'31	March'31	March'31	March'31
CASH FLOW STATEMENT FOR THE YEAR ENDED	2005	2005	2004	2003	2002	2001
Cash Flow from operating activities						
Profit before tax	84.99	145.68	48.58	10.26	9.84	16.76
Adjustments to reconcile profit before tax to cash provided by operating activities:-						
(Profit) / Loss on sale of fixed assets	-	-	-	-	0.01	0.02
Depreciation and amortization	4.48	12.81	5.25	3.92	5.68	4.44
Interest and other income	2.31	5.81	10.69	4.17	9.53	5.01
Changes in current assets and liabilities:-						
Sundry debtors	94.32	41.36	31.18	16.45	(2.26)	1.27
Inventories	(23.39)	21.12	25.87	(5.83)	12.05	(1.87)
Loans and Advances	14.93	(16.14)	24.81	0.29	0.04	1.27
Current liabilities and provisions	(11.59)	(11.06)	63.83	(7.84)	(18.57)	(2.85)
Income-taxes paid during the year	32.35	34.46	8.46	2.28	2.34	2.05
Net cash generated by operating activities	(19.45)	60.81	16.65	(11.02)	12.39	16.30
Cash flows from financing activities						
Increase in share capital	-	12.46	-	0.15	-	52.09
Secured Loans Received/ (Repayment)	19.73	(49.49)	20.45	37.86	7.18	(0.69)
Unsecured Loans Received/ (Repayment)	-	-	-	-	-	-
Dividends paid during the year, including dividend tax	8.37	7.73	-	3.00	5.35	1.92
Net cash used in financing activities	11.36	(44.76)	20.45	35.00	1.83	49.48
Cash flows from investing activities						
Purchases of fixed assets and change in capital work-in-progress	0.78	5.53	43.43	30.79	6.46	16.12
Development Expenditure incurred	-	(4.00)	0.88	2.40	21.55	0.46
Proceeds on disposal of fixed assets	-	-	-	-	0.16	0.15
Investments in securities/ (Sale of securities)	-	-	(28.72)	-	28.72	-
Interest and Dividend income	2.31	5.81	10.69	4.17	9.53	5.01
Net cash used in investing activities	(1.54)	(4.28)	4.90	29.02	47.05	11.43
Effect of exchange differences on translation of foreign current cash and cash equivalents	0.06	(0.09)	0.88	1.28	0.63	-
Cash and cash equivalents at the beginning of the year	91.65	71.24	39.93	46.24	79.71	25.36
Cash and cash equivalents at the end of the year	85.03	91.65	71.24	39.93	46.24	79.71



OUTSTANDING LITIGATIONS

Outstanding Litigations Involving our Company

A. FILED AGAINST COMPANY

1. Litigations involving Criminal, Securities, Economic, Statutory, Civil and Labour Laws

There is no litigation against our Company involving Criminal, Securities, Statutory Civil, and Labour Laws. Apart from an appeal filed by the Dy. Commissioner of Income Tax detailed infra, there is no litigation against our company involving Economic laws

2. Pending Appeal under Income Tax

There is an appeal case filed by the Dy. Commissioner of Income Tax pending before ITAT, Hyderabad against the orders of Commissioner Income Tax (Appeals), details of which are as follows: -

No.	Subject	Details
1.	Name of the case	Deputy Commissioner of Income Tax, Circle - 2(1), Hyderabad v. M/s Kernex Microsystems (India) Limited.
2.	Number of the case	IT Appeal No. 314/Hyd/2002
3.	Parties to the case	<i>Appellant:</i> Deputy Commissioner of Income Tax, Circle - 2(1), Hyderabad <i>Respondent:</i> M/s Kernex Microsystems (India) Limited
4.	Court in which it is filed and in which it is pending as on date	Income Tax Appellate Tribunal (ITAT), Hyderabad
5.	Charges / Allegation involved	The Appellant filed an appeal on April 03, 2002 against the order passed by the Commissioner of Income Tax (Appeals) - III, Hyderabad dated January 23, 2002. Vide the said order date January 23, 2002, the CIT (Appeals) - III allowed a deduction of Rs. 41,23,634/- from the total income of the Company as assessed by the Assessing Officer passing the original order.
6.	Present Status	The matter is pending for hearing
7.	Amount Involved	Rs. 800,000 (Rupees Eight Lakhs only)

B. FILED BY OUR COMPANY

1. Litigations involving Securities & Economic Laws and Labour Laws

There is no litigation filed by our Company involving Securities Laws, Economic Laws and Labour Laws.

2. Litigations involving Criminal Offence

There is no litigation filed by our Company involving criminal offences save as mentioned herein below:

2.1 L.V. Raju representing M/s. Kernex Microsystems (India) Limited v. K. Bhaskar Raju

No.	Subject	Details
1.	Name of the case	L.V. Raju representing M/s. Kernex Microsystems (India) Limited v. K. Bhaskar Raju
2.	Number of the case	CC. No. 581 of 2002
3.	Parties to the case	<i>Complainant:</i> M/s Kernex Microsystems (India) Limited <i>Defendant:</i> K. Bhaskar Raju
4.	Court in which it is filed and in which it is pending as on date	Court of V Metropolitan Magistrate, Nampally, Hyderabad.



5.	Charges / Allegation involved	Mr. K. Bhaskar Raju had issued 3 cheques of Rs. 1,16,000/- each towards the return of security deposit paid by the Complainant towards taking on rent the property situated at 312/ 17, 27th Cross, 10th Main, 3rd Block, Bangalore - 560011. The said cheques were returned by the bank due to insufficiency of funds. We filed a complaint under Section 138 and 142 of the Negotiable Instruments Acts against the Defendant.
6.	Present Status	Non-bailable arrest warrants have been issued against the Defendant, and the case is posted to December 21, 2005.
7.	Amount Involved	Rs. 348,000 (Rupees Three Lakhs Forty Eight Thousand) along with interest thereon @ 24%.

3. Litigation Involving Civil Laws

There is no litigation filed by our Company involving civil laws except for the following cases:

3.1. M/s Kernex Microsystems (India) Limited v. Chundi Srinivas

No.	Subject	Details
1.	Name of the case	M/s Kernex Microsystems (India) Limited v. Chundi Srinivas
2.	Number of the case	O.S. No. 649 of 2001
3.	Parties to the case	<i>Plaintiff:</i> M/s Kernex Microsystems (India) Limited <i>Respondent:</i> Chundi Srinivas Rao
4.	Court in which it is filed and in which it is pending as on date	Court of VII Senior Civil Judge, City Civil Courts, Hyderabad.
5.	Charges / Allegation involved	The Respondent breached his contractual obligations by leaving us after going through an extensive training programme designed for new employees. We have thus filed the suit to recover the amount spent on training process.
6.	Present Status	The Respondent has preferred a revision against an order passed by the High Court of Andhra Pradesh in an interim application moved earlier. The revision petition likely to come for hearing before the High Court during second week of December, 2005.
7.	Amount Involved	Rs. 311,500/- inclusive of an interest of Rs.17,580/- @ 18% p.a. (Rupees Three Lakhs Eleven Thousand Five Hundred).

3.2 M/s. Kernex Microsystems (India) Ltd. v. Marram Srinivas Reddy

No.	Subject	Details
1.	Name of the case	M/s. Kernex Microsystems (India) Ltd. v. Marram Srinivas Reddy
2.	Number of the case	O.S. No 799 of 2001
3.	Parties to the case	<i>Plaintiff:</i> M/s Kernex Microsystems (India) Ltd. <i>Respondent:</i> Marram Srinivas Reddy
4.	Court in which it is filed and in which it is pending as on date	Court of VI Senior Civil Judge, City Civil Courts, Hyderabad.



5.	Charges / Allegation involved	The Respondent breached his contractual obligations by leaving us after going through an extensive training programme designed for new employees. We have thus filed the suit to recover the amount spent on training process. The case is posted to November 21, 2005.
6.	Present Status	The case is still pending for arguments.
7.	Amount Involved	Rs.229,332/- inclusive of an interest of Rs.19332/- @ 18% p.a. (Rupees Two Lakhs Twenty Nine Thousand Three Hundred and Thirty Two)

3.3 Shabana Hashmi v. M/s. Kernex Microsystems (India) Ltd.

No.	Subject	Details
1.	Name of the case	Shabana Hashmi v. M/s. Kernex Microsystems (India) Ltd.
2.	Number of the case	CCCA No. 288 of 2004
3.	Parties to the case	<i>Appellant:</i> Shabana Hashmi <i>Respondent:</i> M/s Kernex Microsystems (India) Ltd.
4.	Court in which it is filed and in which it is pending as on date	High Court of Andhra Pradesh, at Hyderabad.
5.	Charges / Allegation involved	The Respondent breached her contractual obligations by leaving us after going through an extensive training programme designed for new employees. We have filed a suit, being O.S. No. 422 of 2001 before the V Senior Civil Judge, City Civil Courts, Hyderabad, to recover the amount spent on training process. Vide Order dated June 14, 2004, the Learned Judge decreed the suit in favour of the Plaintiff (our Company) and ordered payment of Rs. 2,23,130/- along with interest thereon at 12% till realisation. As against this order the Appellant has filed an appeal before the High Court. The High Court has passed an interim order for payment of an amount of Rs. 1,16,000/-.
6.	Present Status	The case is yet to be listed for hearing.
7.	Amount Involved	Rs. 2,23,130/- (Rupees Two Lakhs Twenty Three Thousand One Hundred and Thirty) along with interest thereon @ 12%.

II. OUTSTANDING LITIGATION INVOLVING DIRECTORS AND PROMOTERS

A. By and Against our Directors and our Promoters.

Litigations involving Tax Liabilities, Criminal Laws, Securities & Economic Laws, Labour Laws and Civil Laws

There is no litigation by or against our Directors and our Promoters involving Tax Liabilities, disputes involving Criminal Laws, Securities & Economic Laws, Labour Laws and Civil Laws.

III. OUTSTANDING LITIGATION INVOLVING OUR GROUP COMPANIES

A. Outstanding Litigation Involving Our Subsidiaries

There is no litigation by or against our subsidiaries pertaining to matters likely to affect our operations and finances, including disputed tax liabilities and prosecution under any in respect of Schedule XIII to the Companies Act, 1956. .



IV. NOTICES

1. We received a notice from the Superintendent of Central Excise pursuant to the Excise Audit carried out by the Excise Department in February 2005, inquiring about calculations for dispatches made for the year 2003 - 2004. We have duly replied to the notice vide our letter March 01, 2005, and paid a differential duty based on their revised calculations. We have, till date, not received any reply from the Department on this issue.
2. We received a notice from the Superintendent of Central Excise on May 03, 2005, inquiring on (a) Cenvat credit availed on photocopies of Courier Bills of Entry, (b) duty relating to supply of Anti-Collision Devices, and (c) income relating to trading activities in respect of electronic equipment. We have submitted our reply vide Letter dated May 04, 2005. We have till date not received any reply from the Department on this issue. This claim has been mentioned under the head "Contingent Liability" in the Notes to Accounts annexed to the latest Balance Sheet, i.e. March 31, 2005 & August 31, 2005 wherein item (c) states: "Claims against the Company not acknowledged as debt of Rs. 2.4 Lakhs in respect of CENVAT claims"

V. AMOUNTS OWED TO SMALL SCALE UNDERTAKINGS

The Auditors Report for the period ending August 31, 2005 shows the following list of dues outstanding for a period of more than 30 days to small-scale industries:

1. M/s. Geeta Industries - Rs. 3,13,778/- (Rupees Three Lakh Thirteen Thousand Seven Hundred and Seventy Eight Only) (as at March 31, 2005 - 1,67,703/-).



MATERIAL DEVELOPMENTS

Significant development since the last audited balance sheet as on August 31, 2005 till the date of Prospectus.

No circumstances have arisen since the date of last financial statements disclosed in the Prospectus, which materially and adversely affect or is likely to affect the operations or profitability of our Company, or value of its assets, or its ability to pay its liability within next twelve months.

There is no subsequent development after the date of the Auditor's Report, which will have a material impact on



the reserves, profits, earnings per share and book value of the Equity Shares of our Company.

LICENSES AND APPROVALS

We do not require any letter of intent or industrial license from the GoI for carrying out its current operations or those proposed in this Prospectus. We also do not require any permission or approval from the GoI and various GoI agencies for proceeding with the proposed capital expenditure from the proceeds of the Issue except those mentioned in this Prospectus. We do not require any further approval from any GoI authority or RBI to undertake the proposed activities save and except those consents and approvals, which it may require to take in the normal course of business from time to time.

We have received all the necessary consents, licenses, permissions and approvals from the GoI and various GoI agencies / private certification bodies required for our present business and no further approvals are required for carrying on the present as well as our proposed business except as mentioned herein. It must, however, be distinctly understood that in granting the above consents/ licenses/ permissions/ approvals, the GoI does not take any responsibility for our financial soundness or for the correctness of any of the statements or any commitments made or opinions expressed.

A. General Approvals

1. Importer - Exporter Code (IEC) issued by the Department of Electronics, Government of India - IEC No. 5197001062 issued on March 3, 1998.
2. Permanent Account Number under Income Tax Act, 1961 - PAN No. AAACK8312Q.
3. Value Added Tax Registration Number under Income Tax Act, 1961 - TIN (Tax Payer Identification Number) - 28380186260 registered by the Commercial Taxes Department, Government of Andhra Pradesh via Notice ID: 230705VAT10500003213 dated 23 March, 2005.

B. STP Units At Hyderabad

1. Approval from the Software Development Division, Department of Electronics, Government of India (as it was then called) under the Software Technology Park Scheme, for development and 100% export of software using data communication channels at Block 404, Maitrivanam, HUDA Complex, Amerpet, Hyderabad, sponsored by the Department of Electronics vide letter Ref. No. 17 (40)/91 - SDA dated 28 August, 1991 which stands renewed till 30 March, 2008 vide letter STPH/IMCS/2003-2004/506/1062 dated February 16, 2004 and for expansion of operations to Plot No 7, Ground to 4th Floor, Software Units Layout, Madhapur, R.R. Dist., Hyderabad vide letter STPH/506/2002-2003/4431 dated August 6, 2002.
2. Approval from the Deputy Commissioner of Customs and Central Excise under Section 58 and Section 65 of the Customs Act, 1962 for the bonding of warehouses to carry on the business of manufacture of computer software in the bonded warehouse and for storage of imported Customs Goods without payment of duty on first importation thereof vide Private Bonded Warehouse Licence No.3/91 dated 31 October, 1991 which now stands renewed until 30 December, 2007 vide Private Bonded Warehouse Licence 02/2002 dated 31 December, 2002.

C. Other Registrations/Consents/Approvals

1 Registration under the Factories Act, 1948.

Approval to work a factory under the Factories Act, 1948 vide Licence No. 38957, Registration No. 6569 issued by the Inspector of Factories, Ranga Reddy III Circle, Hyderabad dated 10 March 2005. This licence shall remain valid until the same has been cancelled.

2 Approval from the Andhra Pradesh Pollution Control Board.

Consent received from the A.P. Pollution Control Board to establish and operate the Unit at Plot No. 7, Software Units Layout, Madhapur, R.R. Dist., Hyderabad vide Letter No. 266/A1/05 dated 3 February, 2005.

3 Registration under Service Tax for providing services of maintenance or repair service and commissioning and installation service.

Registered for payment of Service Tax under Section 69 of the Finance Act, 1994 on services of maintenance or repair service and commissioning and installation service by the Service Tax Cell, Office of the Superintendent of Customs and Central Excise, Hyderabad vide Certificate of Registration bearing



Registration No. AAACK8312QST002 dated 2 April, 2004.

4 Registration under Central Excise.

Registered as a manufacturer by the Central Excise Department vide Central Excise Registration Certificate No. AAACK8312QXM002 dated 17 March 2004.

5 Registration as Small Scale Industrial Unit (SSI Unit).

Permanently registered as a SSI Unit for manufacture of Data Acquisition Logging and Control Systems such as Anti- Collision Devices, Radio Survey Units, GPS Data Collection Units etc. by the Department of Industries, Government of Andhra Pradesh with Permanent Registration No. 28-06-68610 issued on 12 January 2005.

6 Registration under Central and State Sales Tax.

- Registered as a Dealer under Section 5-B of the Andhra Pradesh General Sales Tax Act, 1957 with Registration No. PJT/09/1/4512/2000-2001, issued by Commercial Taxes Department dated 6 September 2000.
- Registered as a Dealer under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956 with Registration No. PJT/09/1/3524/2000-2001, issued by Commercial Taxes Department dated 6 September 2000.
- Registered as a manufacturer under Section 5-B of the Andhra Pradesh General Sales Tax Act vide Certificate of Registration No. PJT/09/5-B/189/2001-02 dated 8 April 2002.
- West Bengal Sales Tax Registration Certificate No. 19894291146 with effect from 29 July, 2004 under Section 26 and 27 of the West Bengal Sales Tax act, 1994 along with Central Sales Tax Registration Certificate No. 19894291243 with effect from 29 July, 2004 under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956.
- Assam General Sales Tax Registration Certificate No. GAU (C) AGST-4443 with effect from 7 June 2004 under Section 11(3) of the Assam General Sales Tax act, 1993 along with Central Sales Tax Registration Certificate No. GAU (C) CST - 4357 with effect from 7 June 2004 under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956.
- Bihar General Sales Tax Registration Certificate No. KS 1054 (R) with effect from 1 July 2004 under Section 14 of the Bihar Finance Act, 1981 along with Central Sales Tax Registration Certificate No. BRKS - 1007 (C) with effect from 1 July 2004 under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956.
- Goa General Sales Tax Registration Certificate No. M/1127 with effect from 3 January, 2005 valid up to 31 March 2005 under Section 11 of the Goa Sales Tax Act, 1964 along with Central Sales Tax Registration Certificate No. M/CST/862 with effect from 03 January 2005 under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956.
- Maharashtra General Sales Tax Registration Certificate No. 415633-S-0491 with effect from 10 February, 2005 under Section 22/22A of the Bombay Sales Tax Act, 1959 along with Central Sales Tax Registration Certificate No. 415699 - C - 0146 with effect from 10 February, 2005 under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956.
- Karnataka General Sales Tax Registration Certificate No. 4332640 - 7 with effect from 22 January 2005 along with Central Sales Tax Registration Certificate No. 4337640 - 0 with effect from 22 February 2005 under Section 7(1) and 7 (2) of the Central Sales Tax Act, 1956.
- Andhra Pradesh General Sales Tax Registration Certificate No. BGT/09/1/4512/2000 - 2001 along with Central Sales Tax Registration Certificate No. BGT/09/1/3524/2000-2001 under Section 7(1)



and 7 (2) of the Central Sales Tax Act, 1956.

OTHER REGULATORY AND STATUTORY DISCLOSURES

Statutory and Other Information

Authority for the Issue

Pursuant to Section 81(1A) of the Companies Act, 1956, the present issue has been authorized by a Special Resolution passed at the Extra ordinary General Meeting of the shareholders of our Company held on May 2, 2005 and Resolution passed by the Board of Directors of our Company in their Meeting held on May 20, 2005.

Prohibition by SEBI

We, our Directors, our Promoters, our subsidiary and companies or entities with which our Company's Directors are associated as directors have not been prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI. Our Company, our Directors, our Promoters, our subsidiary and companies or entities with which our Company's Directors have not been detained as willful defaulters by RBI / government authorities and there are no violations of securities law committed by them in the past or pending against them.

Eligibility for the Issue

Our Company is eligible for the initial public offering of equity shares in accordance with Clause 2.2.1 of SEBI Guidelines as explained under with eligibility criteria calculated as per the financial statements under India GAAP:

- (a) Our Company has net tangible assets of at least Rs. 30 Million in each of the preceding 3 full years (of 12 months each), of which not more than 50% is held in monetary assets and is compliant with Clause 2.2.1(a) of the SEBI Guidelines
- (b) Our Company has a track record of distributable profits in terms of Section 205 of the Companies Act, for at least three (3) out of immediately preceding five (5) years and is compliant with Clause 2.2.1(b) of the SEBI Guidelines;
- (c) Our Company has a net worth of at least Rs. 10 Million in each of the preceding 3 full years (of 12 months each) and is compliant with Clause 2.2.1(c) of the SEBI Guidelines;
- (d) As our Company did not change its name within the last one year, provisions of Clause 2.2. (d) of the SEBI Guidelines are not applicable to us;
- (e) The proposed issue size does not exceed five times the pre-issue net worth of our Company and is compliant with Clause 2.2.1(e) of the SEBI Guidelines.

Our Company's unconsolidated Net Profit, Net Worth, Net Tangible Assets and Monetary Assets derived from the Auditor's Report included in this Prospectus under the section "Financial Statements" as at March 31, 2003, 2004, 2005 and for the period ended August 31, 2005 are set forth below:

				(Rs. in million)
Year ended	March 31,2003	March 31,2004	March 31,2005	August 31, 2005
Net Profit	6.62	30.96	89.84	62.16
Net Worth	129.06	152.29	246.21	308.37
Net Tangible Assets (1)	130.14	153.24	246.22	308.38
Monetary Assets (2)	39.92	71.24	91.21	85.03

(1) Net tangible assets is defined as the sum of fixed assets (including capital work in progress and excluding revaluation reserves), trade investments, current assets (excluding deferred tax assets) less current liabilities (excluding deferred tax liabilities and long term liabilities).

(2) Monetary assets include cash in hand and bank balances and quoted investments



Therefore we are eligible to make this issue as per Clause 2.2.1 of SEBI Guidelines.

DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THE PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE PROSPECTUS TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS VIZ, BOB CAPITAL MARKETS LIMITED AND ALLIANZ SECURITIES LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE ISSUER COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS VIZ, BOB CAPITAL MARKETS LIMITED AND ALLIANZ SECURITIES LIMITED, HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED AUGUST 02, 2005 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992 WHICH READS AS FOLLOWS:

- “(1) WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE PROSPECTUS PERTAINING TO THE SAID ISSUE:**
- (2) ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.**
- (3) WE CONFIRM THAT:**
- A. THE PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
 - B. ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE, AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**
 - C. THE DISCLOSURES MADE IN THE PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;**
 - D. BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND**
 - E. WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE NET WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.**

WE CERTIFY THAT WRITTEN CONSENT FROM PROMOTERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE SECURITIES PROPOSED TO FORM PART OF THE PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED/SOLD/ TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE PROSPECTUS WITH SEBI TILL



THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE PROSPECTUS.

ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY. ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF REGISTRATION OF THE PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH THE APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC., ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY.”

THE FILING OF THE PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTIONS 63 OR 68 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE BOOK RUNNING LEAD MANAGERS ANY IRREGULARITIES OR LAPSES IN THE PROSPECTUS.

Disclaimer from the Issuer and the Book Running Lead Managers:

We, our Directors and the BRLMs accept no responsibility for statements made otherwise than in this Prospectus or in the advertisements or any other material issued by or at instance of the above mentioned entities and anyone placing reliance on any other source of information, including our web site, would be doing so at his own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into between BRLMs and us dated February 7, 2005 with BOB Capital Market Limited and dated June 9, 2005 with Allianz Securities Limited and the Underwriting Agreement to be entered into among the Underwriters and us.

All information shall be made available by the BRLMs and us to the public and investors at large and no selective or additional information would be available for a section of investors in any manner whatsoever including road show presentations, research or sales reports or at bidding centers etc.

We shall not be liable to the Bidders for any failure in downloading the Bids due to faults in any software / hardware system or otherwise.

Disclaimer Clause of BOB Capital Markets Limited (Appraiser):

- It is to be distinctly understood that BOB Capital Markets Ltd. is not responsible for the Company achieving their projected level of production/sales, which have a bearing on the financial viability of the Project.
- The Appraisal report prepared by BOB Capital Markets Ltd. is based upon information provided by the Company that is considered reliable.
- Neither BOB Capital Markets Ltd nor any person connected accepts any liability arising from the use of the appraisal report.
- BOB Capital Markets Ltd. is not participating in the project in any way either by way of Debt or Equity.
- Opinions expressed in the report are as of the date of the appraisal report. Actual results may differ materially from those set forth in the projections.
- The report includes historical and current information that are believed to be reliable although their accuracy and completeness cannot be guaranteed.
- BOB Capital Markets Ltd has relied on the records, available with the Issuer Company.



- BOB Capital Markets Ltd. has not been appointed as a monitoring agency for monitoring the utilization of issue proceeds.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to persons Resident in India, including Indian Nationals Resident in India who are majors, HUFs, companies, Corporate Bodies and Societies Registered under the applicable laws in India and authorized to invest in shares, Indian Mutual Funds Registered with SEBI, Indian Financial Institutions, Scheduled Commercial Banks, Regional Rural Banks, Co-operative Banks (subject to RBI permission) or Trusts under the applicable Trust Law and who are authorized under their constitution to hold and invest in shares, permitted insurance companies and pension funds and to permitted non residents including NRIs, FIIs and other eligible foreign investors (viz. Foreign Venture Capital Funds registered with SEBI, multilateral and bilateral development financial institutions). The Prospectus does not, however, constitute an invitation to subscribe to Equity Shares issued hereby in any other jurisdiction to any person to whom it is unlawful to make an invitation in such jurisdiction. Any person into whose possession this Prospectus comes is required to inform himself or herself about, and to observe, any such restrictions. Any dispute arising out of the Issue will be subject to the jurisdiction of appropriate court(s) in Hyderabad, Andhra Pradesh, India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Draft Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations and the Red Herring Prospectus has been filed with RoC as per the provisions of Companies Act. Accordingly, the Equity Shares, represented thereby may not be offered or sold, directly or indirectly, and this Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

Disclaimer Clause of Bombay Stock Exchange Limited (“BSE”)

As required, a copy of this Red Herring Prospectus has been submitted to Bombay Stock Exchange Limited (BSE). BSE has given vide its letter No. DCS/Smd/sm/2005 dated September 1, 2005 permission to this Company to use the Exchange’s name in this offer document as one of the Stock Exchange on which the Company’s securities are proposed to be listed. BSE has scrutinised this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. BSE does not in any manner-

- (a) Warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; or
- (b) Warrant that this Company’s securities will be listed or will continue to be listed on BSE; or
- (c) Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company;

And it should not for any reason be deemed or construed that this offer document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquire any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Disclaimer Clause of National Stock Exchange (“NSE”)

As required, a copy of this Red Herring Prospectus has been submitted to National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter No. NSE/LIST16696-7 dated September 12, 2005 granted permission to the Company to use the Exchange’s name in this Red Herring Prospectus as one of the Stock Exchanges on which the Company’s securities are proposed to be listed subject to, the Company fulfilling the various criteria for listing including the one related to paid up capital (i.e. the paid up capital shall not be less than 1000 millions and market capitalisation shall not be less than Rs. 250 millions at the time of listing). NSE has scrutinised this Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. It is to be distinctly understood that the aforesaid permission



given by NSE should not in any way be deemed or construed that the Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Prospectus; nor does it warrant that the Company's securities will be listed or will continue to be listed on the NSE; nor does it take any responsibility for the financial or other soundness of the Company, its promoter, its management or any scheme or project of the Company.

Every person who desires to apply for or otherwise acquire any securities of the Company may do so pursuant to an independent inquiry, investigation and analysis and shall not have any claim against the NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription or acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Filing

A copy of the Prospectus along with the documents required to be filed under section 60 of the Companies Act, 1956 has been delivered for registration at Registrar of Companies, Andhra Pradesh, Kendriya Sadan, Sultan Bazar, Hyderabad 500 001. A copy of the Prospectus has been filed with the Corporation Finance Department of SEBI at Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021.

Listing

This is an unlisted company. Applications have been made to BSE & NSE for permission to deal in and for an official quotation of our Equity Shares. BSE will be the Designated Stock Exchange.

If the permissions to further list our Equity Shares are not granted by any of the Stock Exchanges, we shall forthwith repay, without interest, all monies received from the applicants in pursuance of this Prospectus. If such money is not repaid within eight days after we become liable to repay it, i.e., from the date of refusal or within 70 days from the Bid/ Issue Closing Date, whichever is earlier, then we and every director of ours jointly and severally shall, on and from such expiry of eight days, be liable to repay the money, with interest at the rate of 15% per annum on application money, as prescribed under Section 73 of the Companies Act.

We shall ensure that all steps for the completion of the necessary formalities for further listing and commencement of trading at the Stock Exchanges are taken within seven working days of finalization of the Basis of Allotment for the Issue.

Consents

Consents in writing of: (a) the Directors of the Company, the Company Secretary & Compliance Officer, the Auditors, Bankers to the Company; and (b) Book Running Lead Managers to the Issue and Syndicate Members, Project Appraiser, Monitoring Agency, Escrow Collection Bankers, Registrars to the Issue and Legal Advisors to the Issue, Co-Manager to the Issue, to act in their respective capacities, have been obtained and such consents have not been withdrawn up to the time of delivery of this Prospectus.

Consent in writing has been obtained from M/s. Konkan Railway Corporation Limited (KRCL) for disclosure, regarding agreements/MoU with them and inclusion of their name in this Prospectus and such consent has not been withdrawn up to the time of delivery of this Prospectus.

M/s. GMK Associates, Chartered Accountants - Statutory Auditors of the Company, have given their written consent to the inclusion of their report in the form and context in which it appears in this Prospectus and such consent and report have not been withdrawn up to the time of delivery of this Prospectus.

M/s. GMK Associates, Chartered Accountants, have given their written consent to the tax benefits accruing to the Company and its members in the form and context in which it appears in the Prospectus and have not withdrawn such consent up to the time of delivery of the Prospectus.

Expert Opinion

Except as stated in the sections titled "Objects of the Issue", "Statement of Tax Benefits" and "Financial Statements" beginning on pages 28, 48, and 100 of this Prospectus, we have not obtained any expert opinions.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission,



printing and distribution expenses, legal fees, statutory advertising expenses and listing fees. The estimated Issue expenses are as follows:

Activity	Expenses (Rs. in million)
Lead management, underwriting and selling commission	41.46
Advertisement & Marketing expenses	14.34
Printing, stationery including transportation of the same	12.50
Others (Registrar's fees, Legal fee, Listing fee etc.)	11.70
Total estimated Issue Expenses	80.00

All expenses with respect to the Issue would be borne by us, except as agreed between the BRLMs and us.

Fees Payable to the BRLMs, Underwriting, Brokerage and Selling Commission

The total fees payable to the BRLMs and Syndicate Members (including brokerage and selling commission) for the Issue will be as per the Memorandum of Understanding executed between us and the BRLMs dated February 7, 2005 with BOB Capital Market Limited and dated June 9, 2005 with Allianz Securities Limited, copy of which is available for inspection at our Registered Office.

Fees Payable to the Registrar to the Issue

The total fees payable to the Registrar to the Issue will be as per the Memorandum of Understanding dated, June 5, 2005 copy of which is available for inspection at our registered office. Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post.

Particulars regarding public or rights issues during the last 5 years

We have not made any public or rights issues of equity shares either in India or abroad during the 5 years preceding the date of this Prospectus.

Companies under the Same Management, which made capital issue during the last three years

There are no listed companies under the same management, which has made any capital issue during the last three years.

Outstanding Debentures, Bonds, Redeemable Preference Shares or other Instruments.

We have no outstanding debentures, bonds, redeemable preference shares or other instruments.

Stock Market Data for our Equity Shares

This being the initial public issue, the Equity Shares are not listed on any stock exchange.

Mechanism evolved for Redressal of Investor Grievances

Investor's grievances will be settled expeditiously and satisfactorily by Kernex. The agreement between us and the Registrar to the Issue will provide for retention of records with the Registrar to the Issue for a period of at least one year from the last date of dispatch of letters of allotment, refund orders, demat credit, to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, Karvy Computershare Private Limited, giving full details including name, address of the applicant, number of Equity Shares applied for, amount paid on application and the bank branch or collection center where the application was submitted.

Investors may contact the Compliance Officer in case of any Pre-Issue or Post-Issue related complaints such as non-receipt of allotment advice, refund orders, demat credit, etc.

Disposal of Investor Grievances

We estimate that the average time required by us or the Registrar to the Issue for the redressal of routine investor grievances shall be seven working days from the date of receipt of the complaint. In case of non-



routine complaints and where external agencies are involved, we or the Registrar to the Issue will strive to redress these complaints as expeditiously as possible.

We have appointed Mr. I. Srinivas, as the Compliance Officer and he may be contacted in case of any pre issue or post issue related problems. He can be contacted on the following address: -

Kernex Microsystems (India) Limited

“THRUSHNA”, Plot No. 7

Software Units Layout, Info City

Madhapur, Hyderabad - 500 081,

Andhra Pradesh

Tel : 040- 23113192-94

Fax : 040- 23113189

Email : ipo@kernex.in

Changes in Auditors

There has been no change of the auditors in the last three years.

Capitalization of Reserves or Profits

We have not capitalized its reserves or profits at any time except as stated in the section titled “Capital Structure of the Company” on page 14 of this Prospectus.



Revaluation of Assets

We have not revalued any of our assets in the past five years.

TERMS OF THE ISSUE

The Equity Shares being offered are subject to the provisions of the Companies Act, Company's Memorandum and Articles of Association, the terms of this Prospectus, Prospectus, Bid cum Application Form, the Revision Form, the Confirmation of Allocation Note and other terms and conditions as may be incorporated in the allotment advices and other documents/certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government, Stock Exchanges, FIPB, RBI, RoC and/or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of our Memorandum and Articles of Association and shall rank pari passu in all respects with the existing Equity Shares of the Company including rights in respect of dividends. The Persons in receipt of Allotment will be entitled to dividend or any other corporate benefits (including dividend), if any, declared by our Company after the date of Allotment. See the section titled "Main Provisions for the Articles of Association" on page 172 of the Prospectus.

Mode of payment of dividend

We shall pay dividend to our shareholders in accordance with the provisions of Companies Act, 1956 and other applicable statutory provisions/guidelines.

Face Value and Issue Price

The Equity Shares with a face value of Rs. 10/- each are being offered at a total price of Rs. 250/- per Equity Share. At any given point of time there shall be only one denomination for the Equity Shares.

Rights of the Equity Shareholder

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and our Memorandum and Articles of Association.

For a detailed description of the main provisions of our Articles of Association dealing with voting rights, dividend, forfeiture and lien, transfer and transmission and/or consolidation/splitting, refer to the section on "Main Provisions of Articles of Association of the Company" on page 172 of this Prospectus.

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares of the Company shall be allotted only in dematerialized form. As per existing SEBI Guidelines, the trading of our Equity Shares shall only be in dematerialized form for all investors. Since trading of our Equity Shares is compulsorily in dematerialized mode, the tradable lot is one Equity Share. Allotment through this Issue will be done only in electronic form in multiples of one Equity Shares subject to a minimum Allotment of 25 equity shares.

Nomination Facility to the Investor

In accordance with Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidder, may nominate any one Person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A Person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with



Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any Person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of Equity Share(s) by the Person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the registered office of the Company or at the Registrar and Transfer Agents of the Company.

In accordance with Section 109B of the Companies Act, any Person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- a. to register himself or herself as the holder of the Equity Shares; or
- b. to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with, within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Notwithstanding anything stated above, since the allotment of Equity Shares in the Issue will be made only in dematerialized mode, there is no need to make a separate nomination with us. Nominations registered with the respective depository participant of the applicant would prevail. If an investor needs to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If we do not receive the minimum subscription of 90% of the Issue to the public to the extent of the amount payable on application, including devolvement on Underwriters, if any, within 60 days from the Bid Closing Date, we shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after we become liable to pay the amount (i.e., 60 days from the Bid Closing Date), we shall pay interest prescribed under Section 73 of the Companies Act.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with competent courts/authorities in High Court of Andhra Pradesh, Hyderabad.

Subscription by NRIs / FIIs / Foreign Venture Capital Funds / Multilateral and Bilateral Development Financial Institutions

There is no reservation for any Non-Residents, NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions and such Non-Residents, NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions will be treated on the same basis with other categories for the purpose of allocation.

As per RBI regulations, OCBs cannot participate in the issue.

Application in Issue

Equity Shares being issued through this Prospectus can be applied for in the dematerialized form only.

Withdrawal of the Issue

We, in consultation with the BRLMs, reserve the right not to proceed with the Issue at anytime including after the Bid Closing Date, without assigning any reason thereof.

The Equity Shares have not been and will not be registered under the US Securities Act, 1933 (“the Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to “qualified institutional buyers”, as defined in Rule 144A of the Securities Act, and (ii) outside the United States to certain persons in offshore transactions in compliance with Regulations under the Securities Act and the applicable laws of the jurisdiction where those offers and sales occur.



ISSUE STRUCTURE

The Present Issue of 3,960,444 Equity Shares of Rs. 10/- each for cash at price of Rs. 250/- for cash aggregating Rs. 990.11 million is being made through 100% Book Building Process.

	QIBs	Non-Institutional Bidders	Retail individual Bidders
Number of Equity Shares*	Up to 1,980,220 Equity Shares or Issue less allocation to Non-Institutional Bidders and Retail Individual Bidders.	Minimum of 594,067 Equity Shares or Issue less allocation to QIBs and Retails Individual Bidders.	Minimum of 1,386,157 Equity Shares or Issue less allocation to QIBs and Non-Institutional Bidders
Percentage of Issue Size Available for allocation	Up to 50% Issue or Issue less allocation to Non-Institutional Bidders and Retail Individual Bidders.	Minimum of 15% of Issue or Issue less allocation to QIBs and Retails Individual Bidders	Minimum of 35% of Issue or Issue less allocation to QIBs and Non-Institutional Bidders
Basis of Allocation if respective category is oversubscribed	Discretionary	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 25 Equity Shares thereafter.	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 25 Equity Shares thereafter	25 Equity shares and in multiples of 25 Equity Share thereafter.
Maximum Bid	Such number of Equity Shares not exceeding the Issue, subject to applicable limits.	Such number of Equity Shares not exceeding the Issue, subject to applicable limits.	Such number of Equity Shares whereby the Bid amount does not exceeds Rs. 100,000
Mode of Allotment	Compulsorily in dematerialized mode	Compulsorily in dematerialized mode	Compulsorily in dematerialized mode
Trading Lot	One Equity Share	One Equity Share	One Equity Share
Who can apply***	Public financial institutions, as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI and state Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority,	Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, NRIs, scientific institutions, societies and trusts.	Individuals (including NRIs and HUFs) applying for Equity Shares such that the Bid amount does not exceed Rs. 1,00,000 in value.



	QIBs	Non-Institutional Bidders	Retail individual Bidders
	provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable laws.		
Terms of Payment	Margin Money applicable to QIBs at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Money applicable to Non institutional Bidders at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Money applicable to Retail Individual Bidders at the time of submission of Bid cum Application Form to the Syndicate Members.
Margin Amount	NIL	Full Bid amount on Bidding	Full Bid amount on Bidding

* Subject to valid bids being received at or above the Issue Price. Under-subscription, if any, in any portion, would be allowed to be met with spillover from any other portions at our's discretion, in consultation with the BRLMs.

*** In case the Bid cum Application Form is submitted in Joint names, the investors should ensure that the demat account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.



ISSUE PROCEDURE

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Issue to the Public shall be available for allocation on a discretionary basis to Qualified Institutional Bidders. Further not less than 35% of the Issue to the public shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 15% of the Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Syndicate. Our Company in consultation with the BRLMs, reserves the right to reject any Bid procured from Qualified Institutional Bidders, by any or all members of the Syndicate, without assigning any reason thereof. In case of Non-Institutional Bidders and Retail Individual Bidders, we would have a right to reject the Bids only on technical grounds.

Investors should note that allotment to all successful Bidders will only be in the dematerialized form. Bidders will not have the option of getting allotment in physical form. The Equity Shares, on allotment, shall be traded only in the dematerialized segment of the Stock Exchanges.

Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of Equity Shares, dispatch of the CAN, and filing of the Prospectus with the Designated Stock Exchange, the Bid cum Application Form shall be considered as the application form. Upon completing and submitting the Bid cum Application Form to a member of the Syndicate, the Bidder is deemed to have authorized us to make the necessary changes in this Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the Designated Stock Exchange and as would be required by Designated Stock Exchange after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed color of the Bid cum Application Form for various categories is as follows:

Category	Color of Bid cum Application Form
Indian Public including resident QIBs, Non-Institutional Bidders and Retail Individual Bidders	White
NRIs and FIIs	Blue

Who can Bid?

- Indian nationals resident in India who are majors, or in the names of their minor children as natural/legal guardians, in single or joint names (not more than three);
- Hindu Undivided Families or HUFs, in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
- Companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in the Equity Shares;
- Indian Mutual Funds registered with SEBI;
- Indian Financial Institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, as applicable);
- Venture Capital Funds registered with SEBI;
- Foreign Venture Capital Investors registered with SEBI;
- State Industrial Development Corporations;



- Trusts registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts and who are authorized under their constitution to hold and invest in equity shares;
- NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
- Scientific and/or Industrial Research Organizations authorized to invest in equity shares;
- Insurance Companies registered with Insurance Regulatory and Development Authority;
- Provident Funds with minimum corpus of Rs. 250 million and who are authorized under their constitution to hold and invest in equity shares;
- Pension Funds with minimum corpus of Rs. 250 million and who are authorized under their constitution to hold and invest in equity shares;
- Multilateral and Bilateral Development Financial Institutions; and
- Pursuant to the existing regulations, OCBs are not eligible to participate in the Issue.

Note: The BRLMs, the Syndicate Members and any associate of the BRLMs and Syndicate Members (except asset management companies on behalf of mutual funds, Indian financial institutions and public sector banks) cannot participate in that portion of the Issue where allocation is discretionary and will not be eligible in the QIB Portion. Further, the BRLMs and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

In terms of the Regulation 15A (1) of the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995, the Foreign Institutional Investor or sub account ("FIIs") may issue, deal in or hold, off shore derivative instrument systems such as Participatory Notes, Equity Linked Notes or any other similar instruments against underlying securities being allocated to such FIIs.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law.

Application by Mutual Funds

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights. These limits would have to be adhered to by the mutual funds for investment in Equity Shares of our Company.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Application by NRIs

Bid cum application forms have been made available for NRIs at the registered office of the Company.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for allotment under the reserved category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians and shall not use the forms meant for reserved category.

Application by FIIs

As per the current regulations, the following restrictions are applicable for investments by FIIs:

No single FII can hold more than 10 % of the post issue paid up capital of the Company. In respect of an FII investing in our Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub account shall not exceed 10 % of our total issued capital or 5% of our total issued capital in case such sub account is a foreign corporate or an individual. The applicable sectoral cap for foreign investment information technology companies is 100%, hence aggregate FII holding in the company can go up to such limit.



As per the current regulations, the following restrictions are applicable for SEBI registered Venture Capital Funds and Foreign Venture Capital Investors: -

The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed the prescribed investment limit as the case may be.

Maximum and Minimum Bid Size

- (a) **For Retail Individual Bidders:** The Bid must be for a minimum of 25 Equity Shares and in multiples of 25 Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 100,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000. In case the Bid Amount is over Rs. 100,000 due to revision of the Bid or revision of the Price Band or on exercise of cut-off option, the Bid would be considered for allocation under the Non-Institutional Bidders portion. The cut-off option is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Issue Price as determined at the end of the Book Building Process.
- (b) **For Non-Institutional Bidders and QIBs:** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100,000 and in multiples of 25 Equity Shares thereafter. A Bid cannot be submitted for more than the Issue to the public. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Issue Closing Date.

In case of revision in Bids the Non-Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 100,000 for being considered for allocation in the Non- Institutional Portion. In case the Bid Amount reduces to Rs. 100,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non-Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non- Institutional Bidders and QIBs are not allowed to Bid at 'cut-off'.

Information for the Bidders

- a) We shall file the Prospectus with the RoC at least three days before the Bid Opening Date/ Issue Opening Date.
- b) The members of the Syndicate will circulate copies of the Prospectus along with the Bid cum Application Form to potential investors.
- c) Any investor (who is eligible to invest in our Equity Shares according to the terms of this Red Hearing Prospectus and applicable law) who would like to obtain the Prospectus and/or the Bid cum Application Form can obtain the same from our Head Office or from any of the members of the Syndicate.
- d) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms, which do not bear the stamp of the members of the Syndicate, will be rejected.
- e) Investors who are interested in subscribing for the company's Equity Shares should approach any of the BRLMs, Syndicate Members or their authorized agent(s) to register their Bid.

Method and Process of Bidding

- (a) Our Company and the BRLMs shall declare the Bid Opening Date/Issue Opening Date and Bid Closing Date/Issue Closing Date at the time of filing the Prospectus with the RoC and also publish the same in two national newspapers (one each in English and Hindi) and one regional newspaper in Telugu with wide circulation and also on the websites of the BRLMs, Syndicate Members and the Company, as appearing on the cover page. This advertisement shall be in the format and contain the disclosures specified in Part A of Schedule XX-A of the SEBI Guidelines. The Syndicate Members shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.
- (b) Investors who are interested in subscribing for the Equity Shares should approach any of the members of the Syndicate or their authorized agent(s) to register their Bid.



- (c) The Bidding Period shall be a minimum of three working days and not exceeding seven working days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in two National newspapers and one Regional news paper (one each in English, Hindi and Telugu) all with wide circulation, and also on the websites of the BRLMs, Syndicate Members and the Company, as appearing on the cover page, and the Bidding Period may be extended, if required, by an additional three days, subject to the total Bidding Period not exceeding ten working days.
- (d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details see the section titled "Issue Procedure-Bids at Different Price Levels" on page 156 of this Prospectus) within the Price Band and specify the demand (i.e., the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.
- (e) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate will be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Issue Procedure-Build up of the Book and Revision of Bids" on page 159 of this Prospectus.
- (f) The Syndicate Members will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip ("TRS") for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRS for each Bid cum Application Form.
- (g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids.
- (h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled "Issue Procedure-Terms of Payment and Payment into the Escrow Accounts" on page 157 of this Prospectus.

Bids at Different Price Levels

- 1) The Price Band has been fixed at Rs. 225 to Rs. 250 per Equity Share of Rs. 10 each, Rs. 225 being the Floor Price and Rs. 250 being the Cap Price. The Bidders can bid at any price within the Price Band.
- 2) In accordance with SEBI Guidelines, We reserve the right to revise the Price Band during the Bidding Period. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Prospectus.
- 3) In case of revision in the Price Band, the Issue Period will be extended for three additional days after revision of Price Band subject to a maximum of 10 working days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE, by issuing a public notice in two national newspapers (one each in English and Hindi) and one regional newspaper in Telugu, all with wide circulation, and also by indicating the change on the websites of the BRLMs and the Company and at the terminals of the members of the Syndicate.
- 4) Our Company, in consultation with the BRLMs, can finalize the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
- 5) Bidders can bid at any price within the Price Band. Bidders have to bid for the desired number of Equity Shares at a specific price. **Retail Individual Bidders applying for a maximum Bid in any of the bidding options not exceeding Rs. 100,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIBs and Non-Institutional Bidders and such Bids from QIBs and Non-Institutional Bidders shall be rejected.**



- 6) Retail Individual Bidders who bid at the Cut-off Price agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who Bid at Cut-off Price (i.e., the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), the Retail Individual Bidders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/refund account(s).
- 7) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount, i.e., original Bid Amount plus additional payment does not exceed Rs. 100,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e., original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of allotment, such that the no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.
- 8) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).
- 9) In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain 25 Equity Shares irrespective of whether the Bid Amount payable on such minimum application is not in the range of Rs. 5,000 to Rs. 7,000.

HOW TO APPLY

Escrow Mechanism

We shall open Escrow Accounts with one or more Escrow Collection Bank(s) in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in the respective Escrow Account. The Escrow Collection Bank(s) will act in terms of this Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank(s) shall transfer the monies from the Escrow Accounts to the Issue Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between us, the members of the Syndicate, the Escrow Collection Bank(s) and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder, who is required to pay Margin Amount greater than 0% shall, with the submission of the Bid cum Application Form draw a cheque or demand draft for the maximum amount of his/her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details see the section titled "Issue Procedure- Payment Instructions" on page 164 of this Prospectus) and submit the same to the member of the Syndicate to whom the Bid is being submitted. Bid cum Application Forms accompanied by cash shall not be accepted. The maximum Bid price has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Issue Account with the Banker(s) to the Issue. The balance



amount after transfer to the Issue Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for allotment to the Bidders.

Each category of Bidders, i.e., QIBs, Non-Institutional Bidders and Retail Individual Bidders would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The Margin Amount payable by each category of Bidders is mentioned in the section titled "Issue Structure" on page 151 of this Prospectus. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Period, which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs. If the payment is not made favoring the appropriate Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be rejected. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the Bid cum Application Form.

Electronic Registration of Bids

- a) The Syndicate Members will register the Bids using the on-line facilities of BSE and NSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.
- b) BSE and NSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Syndicate Members and their authorized agents during the Bidding Period/Issue Period. Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on regular basis. On the Bid Closing Date/ Issue Closing Date, the Syndicate Members shall upload the Bids till such time as may be permitted by the Stock Exchanges.
- c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on regular basis, consolidated and displayed on-line at all bidding centers. A graphical representation of the consolidated demand and price would be made available at the bidding centers and the websites of the Stock Exchanges during the Bidding Period/Issue Period.
- d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:
 - Name of the investor; (Investors should ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequences in which they appear in the Bid cum Application Form.)
 - Investor Category -Individual, Corporate, FII, NRI or mutual fund, etc.;
 - Numbers of Equity Shares Bid for;
 - Bid price;
 - Bid cum Application Form number;
 - Whether payment is made upon submission of Bid cum Application Form; and
 - Depository Participant identification number and client identification number of the Demat account of the Bidder.
- e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate. The registration of the Bid by the member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or the Company.
- f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.



- (g) In case of QIBs, the members of the Syndicate also have the right to accept the Bid or reject it without assigning any reason. In case of Bids under the Non-Institutional Portion and Bids under the Retail Portion, Bids would not be rejected except on the technical grounds listed in this Prospectus.
- (h) It is to be distinctly understood that the permission given by BSE and NSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by us and the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of our Company, our Promoter, our management or any scheme or project of our Company.
- (i) It is also to be distinctly understood that the approval given by BSE and NSE should not in any way be deemed or construed that this Prospectus has been cleared or approved by the BSE and NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the BSE and NSE.

Build Up of the Book and Revision of Bids

- a) Bids registered by various Bidders through the Syndicate Members shall be electronically transmitted to the BSE or NSE mainframe on an online basis. Data would be uploaded on a regular basis.
- b) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.
- c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- d) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.
- e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Prospectus. In case of QIBs, the members of the Syndicate may at their sole discretion waive the payment requirement at the time of one or more revisions by the QIBs.
- g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**
- h) In case of discrepancy of data between BSE or NSE and the members of the Syndicate, the decision of the BRLMs, based on the physical records of Bid cum Application Forms, shall be final and binding on all concerned.

Price Discovery and Allocation

- a) After the Bid Closing Date/Issue Closing Date, the BRLMs will analyse the demand generated at various price levels and discuss pricing strategy with us.



- b) Our Company, in consultation with the BRLMs, shall finalize the "Issue Price", the number of Equity Shares to be allotted in each portion and the allocation to successful QIBs. The allocation will be decided based inter alia, on the quality of the Bidder, and the size, price and time of the Bid.
- c) The allocation for QIBs for up to 50% of the Issue would be discretionary. The allocation to Non-Institutional Bidders of not less than 15% of the Issue and to Retail Individual Bidders of not less than 35% of the Issue, respectively, would be on proportionate basis, in the manner specified in the SEBI Guidelines, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price.
- d) Allocation to QIBs, Non Residents, FIIs and NRIs applying on repatriation basis will be subject to the terms and conditions stipulated by RBI while granting permission for allotment of Equity Shares to them.
- e) The BRLMs, in consultation with us, shall notify the members of the Syndicate of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- f) We reserve the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date but before allotment without assigning any reasons whatsoever.
- g) In terms of SEBI Guidelines, QIBs shall not be allowed to withdraw their Bid after the Bid Closing Date/ Issue Closing Date.

Signing of Underwriting Agreement and Filing with the Registrar of Companies

- a) Our Company, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on finalization of the Issue Price and allocation(s) to the Bidders.
- b) After signing the Underwriting Agreement, we would update and file the updated Prospectus with the Registrar of Companies, which then would be termed 'Prospectus'. The Prospectus would have details of the Issue Price, Issue size, underwriting arrangements and would be complete in all material respects.

Advertisement regarding Issue Price and Prospectus

We will issue a statutory advertisement after the filing of the Prospectus with the RoC in two widely circulated newspapers (one each in English and Hindi) and one in Telugu language newspaper. This advertisement, in addition to the information (in the format and contain the disclosures specified in Part A of Schedule XX - A of the SEBI Guidelines), that has to be set out in the statutory advertisement, shall indicate the Issue Price alongwith a table showing the number of equity shares. Any material updates between the date of Prospectus and the date of Prospectus will be included in such statutory advertisement.

Issuance of CAN

- a) The BRLMs or Registrar to the Issue shall send to the members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Issue.
- b) The BRLMs or members of the Syndicate would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder. Those Bidders who have not paid into the Escrow Accounts at the time of bidding shall pay in full the amount payable into the Escrow Accounts by the Pay-in Period specified in the CAN.
- c) Bidders who have been allocated Equity Shares and who have already paid into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to realization of their cheque or demand draft paid into the Escrow Accounts. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for the allotment to such Bidder.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allotted to them pursuant to this issue.

Designated Date and Date of Allotment of Equity Shares

- a) Our, Company will ensure that the allotment of Equity Shares is done within 15 days of the Bid Closing Date / Issue Closing Date. After the funds are transferred from the Escrow Accounts to the Issue Account on the Designated Date, we would ensure the credit to the successful Bidders depository account within two working days of the date of allotment.



- b) As per SEBI Guidelines, **Equity Shares will be issued and allotment shall be made only in the dematerialized form to the allottees.** Allottees will have the option to re-materialize the Equity Shares, if they so desire, as per the provisions of the Companies Act and the Depositories Act.

General Instructions

Do's:

- Check if you are eligible to apply;
- Read all the instructions carefully and complete the Resident Bid cum Application Form (white in color) or Non-Resident Bid cum Application Form (blue in color) as the case may be;
- Ensure that the details about Depository Participant and Beneficiary Account are correct as allotment of Equity Shares will be in the dematerialized form only;
- Ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the name of the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.
- Ensure that the Bids are submitted at the bidding centers only on forms bearing the stamp of a member of the Syndicate;
- Ensure that you have been given a TRS for all your Bid options;
- Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more and attach a copy of the PAN Card along with the application for the purpose of verification of the number, with the Bid cum Application Form. In case you do not have a PAN, ensure that you provide a declaration in Form 60 prescribed under the I.T. Act along with the application and.:
- Ensure that the Demographic details (as defined herein below) are updated, true and correct in all respects.

Don'ts:

- Do not Bid for lower than the minimum Bid size;
- Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;
- Do not pay the Bid Amount in cash;
- Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;
- Do not Bid at Cut-off Price (for QIBs, Non-Institutional Bidders, for whom the Bid Amount exceeds Rs.100,000);
- Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue size and/ or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;
- Do not submit Bid accompanied with Stock invest.
- Do not provide your GIR No. Instead of you PAN.



INSTRUCTIONS FOR COMPLETING THE BID CUM APPLICATION FORM

Bidders can obtain Bid cum Application Forms and/or Revision Forms from the members of the Syndicate.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white color for Resident Indians, blue color for NRIs and FIIs and applying on repatriation basis).
- Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- The Bids from the Retail Individual Bidders must be for a minimum of 25 Equity Shares and in multiples of 25 thereafter subject to a maximum Bid Amount of Rs. 100,000.
- For Non-institutional Bidders and QIBs Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 25 Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bidder's Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. **These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant.** Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor We shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALIZED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant- Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of Company particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar.



Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid cum Application Form, Bidder would have deemed to authorize the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither we nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be lodged along with the Bid cum Application Form. Failing this, our company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, our company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

We, in its absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form, subject to such terms and conditions that our Company, and the BRLMs may deem fit.

We, in our absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order / CAN's allocation advice, the Demographic Details given on the Bid cum Application Form should be used (and not obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the Depositories.

Bids by NRIs

NRI bidders may please note the following:

- Individual NRI bidders can obtain the Bid cum Application Forms from our Registered Office, BRLMs, members of the Syndicate, or the Registrar to the Issue.
- NRI bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for allotment under the NRI category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for resident Indians.



Bids by NRIs and FIIs on a repatriation basis

Bids and revision to Bids must be made:

- On the Bid cum Application Form or the Revision Form, as applicable (blue in color), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single name or joint names (not more than three).
- NRI's for a bid price up to Rs. 100,000/- would be considered under the Retail Portion for the purpose of allocation and bids for a Bid Price of more than Rs. 100,000/- would be considered under Non-Institutional Portion for the purpose of allocation; by FII's for a minimum of such number of Equity Shares and in multiples of 25 thereafter that the Bid Amount exceeds Rs. 100,000. For further details see section titled "Issue Procedure Maximum and Minimum Bid Size" on page 155 of this Prospectus.
- In the names of individuals, or in the names of FIIs but not in the names of minors, firms or partnerships, foreign nationals (excluding NRIs) or their nominees, foreign venture capital investors.
- Refunds, dividends and other distributions, if any, will be payable in Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Rupee drafts purchased abroad, such payments in Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. We will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

It is to be distinctly understood that there is no reservation for NRIs and FIIs. All NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

Payment Instructions

We shall open Escrow Accounts with the Escrow Collection Bank(s) for the collection of the Bid prices payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

a) Payment into Escrow Account

- The Bidders for whom the applicable Margin Amount is more than 0% shall, with the submission of the Bid cum Application Form draw a payment instrument for the Bid Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs.
- The payment instruments for payment into the Escrow Account should be drawn in favour of:

In case of Resident Bidders: **"Escrow Account- Kernex IPO"**

In case of Non Resident Bidders: **"Escrow Account-Kernex IPO-NR"**

In case of bids by NRIs applying on a repatriation basis, the payments must be made through Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the Foreign Currency Non-Resident Accounts, maintained with banks authorized to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of the Non Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to the NRE Account or the Foreign Currency Non- Resident Account.



In case of Bids by FIIs, the payment should be made out of funds held in Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to Special Rupee Account.

Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Accounts of the Company.

The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.

On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.

On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation to the Bidders. Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. **Cash/stock invest/money orders/postal orders will not be accepted.**

Payments should be made by cheques, or demand draft on any bank (including a Co-operative Bank), which is situated at, and is a member of or sub - member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques / bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash / Stock Invest / Money Orders / Postal Orders will not be accepted.

Payment by Stock invest

In terms of the Reserve Bank of India Circular No. DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the option to use the stock invest in lieu of cheques or bank drafts for payment of bid money has been withdrawn. Hence, payment through stock invest would not be accepted in this issue.

Submission of Bid cum Application Form

All Bids cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the members of the Syndicate at the time of submission of the Bid. Each member of the Syndicate may, at its sole discretion, waive the requirement of payment at the time of submission of the Bid cum Application Form and Revision Form.

No separate receipts shall be issued for the money payable on the submission of Bid cum Application Form or Revision Form. However, the collection centre of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

Other Instructions

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid cum Application Form or Revision Form. All communications will be addressed to the First Bidder and will be dispatched to his or her address.

Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same. In case of a mutual fund, a separate bid can be made in respect of each scheme of the mutual fund registered with SEBI and such bids in respect of more than one scheme of the mutual fund will not be treated as multiple bids provided that the bids clearly indicate the scheme concerned for which the bid has been made.



We reserve the right to reject, in our absolute discretion, all or any multiple Bids in any or all categories.

Permanent Account Number or PAN

Where the maximum Bid(s) for equity shares by a bidder is for a total value of Rs. 50,000 or more, i.e. the actual number of equity shares bid for multiplied by the bid price is Rs. 50,000 or more, the Bidder or in the case of an Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. **The copy of the PAN card or PAN allotment letter is required to be submitted with the application form.** Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN, as the Bid is liable to be rejected on this ground.** In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration. **It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61, as the case may be.**

Our right to reject Bids

Our Company and the BRLMs reserve the right to reject any Bid without assigning any reason therefore in case of QIBs. In case of Non-Institutional Bidders and Retail Individual Bidders who Bid, our company has a right to reject Bids on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected, inter alia, on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
- Age of First Bidder not given;
- In case of Partnership firms, shares may be registered in the names of the individual partners and no firms as such, shall be entitled to apply.
- Bid by Persons not competent to contract under the Indian Contract Act, 1872, including minors; insane Persons;
- PAN photocopy / PAN Communication / Form 60 / Form 61 declaration not given if Bid is for Rs. 50,000 or more;
- Bids for lower number of Equity Shares than specified for that category of investors;
- Submission of GIR number instead of PAN;
- Bids at a price less than lower end of the Price Band;
- Bids at a price more than the higher end of the Price Band;
- Bank Account details for refund are not given
- Bids at Cut-off Price by Non-Institutional Bidders and QIBs;
- Bids for number of Equity Shares, which are not in multiples of 25;
- Category not ticked;
- Multiple Bids as defined in this Prospectus;



- In case of Bid under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
- Bids accompanied by Stock invest /money order/postal order/cash;
- Signature of sole and /or joint Bidders missing;
- Bid cum Application Forms does not have the stamp of the BRLMs or the Syndicate Members;
- Bid cum Application Forms does not have Bidder's depository account details;
- Bid cum Application Forms are not delivered by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid Opening Date/Issue Opening Date advertisement and this Prospectus and as per the instructions in this Prospectus and the Bid cum Application Forms;
- In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section "Issue Procedure - Bids at different price levels" at page 156 of this RHP.
- Bids by OCBs; and
- Bids by US Persons including "Qualified Institutional Buyers" as defined in Rule 144A of Securities Act.

Equity Shares in Dematerialized Form with NSDL or CDSL

The allotment of Equity Shares in this Issue shall be only in a de-materialized form, (i.e., not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among the company, the respective Depositories and the Registrar to the Issue:

- A tripartite agreement dated October 19, 2005 between NSDL, us and the Registrar to the Issue; and
- A tripartite agreement dated October 19, 2005 between us, CDSL and Registrar to the Issue.

All Bidders can seek allotment only in dematerialized mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.
- Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- Non-transferable allotment advice or refund orders will be directly sent to the Bidders by the Registrar.
- If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.
- It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where our Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.
- The trading of the Equity Shares of the Company would be in dematerialized form only for all investors in the demat segment of the respective Stock Exchanges.



Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, details of Depository Participant, number of Equity Shares applied for, date of Bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Pre-issue and Post-issue related problems

We have appointed Mr. I. Srinivas, as the Compliance Officer and he may be contacted in case of any pre issue or post issue related problems. He can be contacted on the following address: -

Kernex Microsystems (India) Limited

“THRUSHNA”, Plot No. 7

Software Units Layout, Info City

Madhapur, Hyderabad - 500 081,

Andhra Pradesh

Tel: 040- 23113192-94

Fax: 040- 23113189

Email: ipo@kernex.in

Disposal of Applications and Applications Money and Interest in Case of Delay in Dispatch of Allotment Letters/Refund Orders

We shall ensure dispatch of allotment advice, refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of date of finalization of allotment of Equity Shares. Our Company shall dispatch refund orders, if any, of value up to Rs. 1,500, “Under Certificate of Posting”, and shall dispatch refund orders above Rs. 1,500, if any, by registered post or speed post only at the sole or First Bidder’s sole risk and adequate funds for the purpose shall be made available to the Registrar by us.

We shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges where the Equity Shares are proposed to be listed, are taken within seven working days of finalization of the basis of allotment.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, we further undertake that:

- Allotment shall be made only in dematerialized form within 15 days of the Bid Closing Date/Issue Closing Date;
- Dispatch refund orders within 15 days of the Bid Closing Date/Issue Closing Date would be ensured; and
- We shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15 day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No. F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges, and as further modified by SEBI’s Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.
- Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub section (1) of Section 68A of the Companies Act, which is reproduced below: -

“Any person who:

- a) *Makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or*
- b) *Otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years”*



INTEREST IN CASE OF DELAY IN REFUND

In the case of unsuccessful bidders or where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the amount paid/excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/Issue Closing Date, failing which we and shall pay interest at 15% per annum for every day beyond the period as mentioned above.

Basis of Allotment

For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allotment to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Issue size less allotment to Non-Institutional Bidders and QIBs shall be available for allotment to Retail Individual Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 1,386,157 Equity Shares at or above the Issue Price, full allotment shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than the Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of 25 Equity Shares and in multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allocation, refer below.

For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Issue size less allocation to QIBs and Retail Individual Bidders shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 594,067 Equity Shares at or above the Issue Price, full allotment shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than the Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of 25 Equity Shares and in multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

For QIBs

- Bids received from the QIBs at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all the QIBs will be made at the Issue Price.
- The Issue size less allocation to Non-Institutional Bidders and Retail Individual Bidders shall be available for allocation to QIBs who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- The allocation would be decided by us in consultation with the BRLMs and would be at our sole discretion, based on various factors, such as quality of the Bidder, size, price and date of the Bid.
- The aggregate allocation to QIBs shall not be more than 1,980,220 Equity Shares.

Method of proportionate Basis of Allocation in the Retail and Non-Institutional Portions

In the event of the Issue being over-subscribed, the basis of allotment to Retail and Non Institutional Bidders shall be finalized by us in consultation with the Designated Stock Exchange. The Executive Director or Managing Director (or any other senior official nominated by them) of the Designated Stock Exchange along with the BRLM and the Registrar to the Issue shall be responsible for ensuring that the basis of allotment is finalized in a fair and proper manner.



The allotment shall be made in multiples of marketable lot, on a proportionate basis as explained below subject to minimum allotment being equal to the minimum application size:

Bidders will be categorized according to the number of Equity Shares applied for by them.

- a) The total number of Equity Shares to be allotted to each portion, as a whole shall be arrived at on a proportionate basis, being the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- b) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, being the total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.
- c) If the proportionate allotment to a Bidder is a number that is more than 25 but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.
- d) In all Bids where the proportionate allotment is less than 25 Equity Shares per Bidder, the allotment shall be made as follows:
 - Each successful Bidder shall be Allotted a minimum of 25 Equity Shares;
 - The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above; and
 - Each successful Bidder shall be allotted a minimum of 25 Equity Shares.
- e) If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

Letters of Allotment and Refund orders

We shall give credit to the beneficiary account within two working days from the date of the finalization of basis of allotment. We shall ensure dispatch of refund orders, if any, of value up to Rs. 1500 by “Under Certificate of Posting”, and shall dispatch refund orders above Rs. 1500, if any, by registered post only at the sole or First Bidders’ sole risk within 15 days of the Bid Closing Date / Issue Closing Date, and adequate funds for the purpose shall be made available to the Registrar by us.

In accordance, the requirements of the Stock Exchanges and SEBI Guidelines, we undertake that: -

- a) Allotment shall be made only in dematerialized form within 15 days from the Issue Closing Date;
- b) Dispatch of refund orders shall be done within 15 days from the Issue Closing Date; and
- c) We shall pay interest at 15% per annum (for any delay beyond the 15-day time period as mentioned above), if allotment is not made, refund orders are not dispatched and / or demat credits are not made to Bidders within the 15-day time prescribed above, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the demat credit.

We will also provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. The Bank Charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.



Undertakings by our Company

We undertake as follows:

- That the complaints received in respect of this Issue shall be attended to by us expeditiously and satisfactorily;
- That all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalization of the basis of allocation;
- That the funds required for dispatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by us;
- That the refund orders or allotment advice to the successful Bidders shall be dispatched within specified time;
- That no further issue of Equity Shares shall be made till the Equity Shares offered through the Prospectus are listed or until the Bid monies are refunded on account of non-listing, under subscription etc.

We shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

Utilization of Issue Proceeds

Our Board of Directors certifies that: -

- a) All monies received out of the issue shall be credited/transferred to a separate bank account other than the bank account referred to in sub section (3) of section 73 of the Companies Act;
- b) Details of all monies utilized out of issue shall be disclosed under an appropriate head in our balance sheet indicating the purpose for which such monies have been utilized;
- c) Details of all unutilized monies out of the issue, if any shall be disclosed under the appropriate head in the balance sheet indicating the form in which such unutilized monies have been invested;
- d) Our company shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in Indian securities is regulated through the Industrial Policy, 1991 of the Government of India and FEMA. While the Industrial Policy, 1991 prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian Economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of Indian Economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. As per current foreign investment policies, foreign investment in the information technology sector is permitted up to 100% under the automatic route.

Our company does not require approvals from FIBP or RBI for the transfer of Equity Shares in this issue to eligible NRI's, FII's, Foreign Venture Capital investors registered with SEBI and multilateral and bilateral development financial institutions. As per the RBI regulations, OCB's are not permitted to participate in the Issue.

The aggregate FII holding in our company is permitted up to 100 % of the total issued share capital.



MAIN PROVISIONS OF ARTICLES OF ASSOCIATION OF THE COMPANY

Pursuant to Schedule II of the Companies Act 1956 and the SEBI Guidelines, the main provisions of our Articles of Association are detailed below. Please note that each provision below is numbered as per the corresponding Article number in our Articles of Association.

CAPITAL

4. **Capital**

The Authorized share capital of the company is Rs. 15,00,00,000/- (Rupees Fifteen Crore only) divided into 1,50,00,000 (One Crore and Fifty lacs only) Equity-shares Rs. 10/- each.

5. **“Powers to Increase capital.”**

Company in general meeting may from time to time, by ordinary resolution increases the capital by creation of new shares of such amount as may be deemed expedient.

6. **“Allotment of Shares”**

Subject to the Provisions of the Act of the these regulations the shares in the capital of the company for the time being shall be under the control of the Directors who may allot or otherwise dispose off the same or any of them to such persons, in such times as they form time to time think fit.

7. **“Restriction on allotment of shares”**

Company shall not except with the sanction of the Company in General Meeting by a special resolution, give to any person, the option or right to call for allotment of any shares.

8. **“Return of Allotment”**

Whenever the Company shall make an allotment of its shares within thirty days thereafter file with the registrar, a return of allotment and other documents, as required by Section 75 of the Act.

9. **“Installment of Shares”**

If the conditions of allotment of any shares, the whole or part of the issue price thereof shall be payable by installments, every such installment shall, when due, be paid to the company by the person who for the time being and from time to time shall be the registered holder of the shares or his legal representative.

10. **“Commission for placing shares”**

In accordance with the provisions of Section 76 of the Act, the company may, at any time, pay commission to any person, for subscribing or agreeing to subscribe (whether absolutely or conditionally) for any shares or debentures of the company or procuring or agreeing to procure subscriptions (whether absolute or conditional) for any shares or debentures of the company.

11. **“Company may purchase its shares”**

The Company may purchase its own shares or other specified securities out of its free reserves or the securities premium account or the proceeds of any shares or other specified securities in the manner and to the extent as provided in Section 77 A of the Companies Act, 1956 as amended from time to time or any re-enactment thereof and is in force and shall also comply with the provisions of Section 77B of the Companies Act, 1956, where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the shares so purchases shall be transferred to the capital redemption reserve account referred in section 80(1) (d) of the Companies Act, 1956 and details of such transfers shall be disclosed in the balance sheet.

12. **“Trust not recognized”**

Except as required by law no persons shall be recognized by the company as holding any share up to any trust, and the company shall not be bound by or be compelled in any way to recognize (even when having notice thereof) any equitable contingent, future or partial interest in any share, or any interest in any fractional part of share, or (except only by these regulations or by law otherwise provided) any other rights in respect of any share except an absolute right to the entirely thereof in the registered holder.



13. **“Redeemable Preference Share”**

Subject to the provisions of Section 80 of the Act, the company shall have the power to issue preference shares which are, or at the option of the company are, liable to be redeemed and the resolution authorizing such issue shall prescribe the manner terms and conditions of redemption.

14. **“Provisions to apply on issue of Redeemable Preference Shares”**

On the issue of Redeemable Preference Shares under the provisions of Article, 12 hereof, the following provisions shall take effect.

- (a) No such shares shall be redeemed except out of the profits of the Company, which would otherwise be available for dividend, or out of the proceeds of a fresh issue of shares made for the purpose of redemption;
- (b) No such shares shall be redeemed unless they are fully paid;
- (c) The premium, if any, payable on redemption must have been provided for out of the profits of the company or the company's shares premium account before the shares are redeemed;
- (d) Where any such shares are redeemed otherwise than out of the proceeds of a fresh issue there shall out of profits which would otherwise have been available for dividends be transferred to a reserve fund, to be called the capital redemption reserve account a sum equal to the nominal amount of the shares redeemed and the provisions of the Act relating to the reduction of the share capital of the company shall, except as provided in Section 80 of the Act, apply as if the Capital Redemption Reserve Account were paid-up share capital of the company.

15. **“Acceptance of Shares”**

An application signed by or on behalf of an applicant for shares in the company followed by an allotment of shares shall constitute an acceptance of shares for the purpose of the Article on every person who thus or otherwise accepts any shares and whose name appears on the register of members shall for the purpose these articles be a member.

16. **“Debts due to the Company”**

The sum which the Board shall on the allotment of any shares or direct to be paid by way of deposit call or otherwise in respect of any shares shall immediately on the insertion of the name of the allottee in the register become a debt due to and recoverable by the company from the allottee thereof, and shall be paid by him accordingly.

17. **“Liabilities of Members”**

Every member or his heirs, executors or administrator shall pay to the company and proportion of the capital represented by his shares or shares which may for the time being remain unpaid in such amounts, at such time to times, and in such manner as the Board of Directors shall from time to time determine in accordance with these Articles.

COMPANY TO RECOGNISE INTEREST IN DEMATERIALIZED SECURITIES UNDER DEPOSITORIES ACT.

Either the Company or the investor may exercise an option to issue, deal in, hold the securities (including shares) with a depository in electronic form and the certificates in respect thereof shall be dematerialized, in which event the rights and obligations of the parties concerned and matters, connected therewith or incidental thereto, shall be governed by the provisions of the Depository Act, as amended from time to time or any statutory modification(s) thereto or re-enactment thereof.

DEMATERIALIZATION / REMATERIALIZATION OF SECURITIES

Notwithstanding anything to the contrary or inconsistent contained in these Articles, the Company shall be entitled to dematerialize its existing securities, rematerialize its securities held in depositories and/or offer its fresh securities in the dematerialization form pursuant to the Depositories Act and the files framed there-under, if any.



OPTION TO RECEIVE SECURITY CERTIFICATE OR HOLD SECURITIES WITH DEPOSITORY

Every person subscribing to or holding securities of the Company shall have the option to receive the security certificates or hold securities with a Depository. Where a person opts to hold a security with a Depository, the company shall intimate such Depository shall enter in its record tire name of allottee as the beneficial owner of that security.

SECURITIES IN FUNGIBLE FORM

All securities held by a Depository shall be dematerialized and be in fungible form. No Certificate shall be issued for the Securities held by the Depository. Nothing contained in Sections 153, 153A, 153B, 187B, 187C and 372 of the Act shall apply to a Depository in respect of the securities held by it on behalf of the beneficial owners.

BENEFICIAL OWNER DEEMED AS ABSOLUTE OWNER

Except as ordered by a court of competent jurisdiction or by Law required, the Company shall be or entitled to treat the person whose name appears on the Register of Members as the holder of any share or absolute whose name appears as the beneficial owner of shares in the records of the Depository, as the absolute owner thereof and accordingly shall not be bound to recognize any benami, trust equitable contingent, future, partial, interest, other claim or interest in respect of such share or (except only as these Articles otherwise expressly provide) any right in respect of a share other than an absolute right hereto in accordance with these Articles, on the part of any other person whether or not it has express or implied notice thereof but the Board shall at their sole discretion register any share in the joint names of any two or more persons or the survivor and survivors of them.

RIGHTS OF DEPOSITORIES AND BENEFICIAL OWNERS

Notwithstanding anything to the contrary contained in the Act or these Articles, a Depository shall be deemed to be registered owner for the purpose of effecting transfer of ownership of security on behalf of the Beneficial Owner.

Save as otherwise provided above, the Depository as the registered owner of the securities shall not have any voting rights or any rights in respect of the security held by it.

Every person holding securities of the Company and whose name is entered as a beneficial owner in the records of the Depository shall be deemed to be a member of the company. The beneficial owner of securities shall be entitled to all the rights and benefits and subject to all liabilities in respect of his securities, which are held by a Depository.

REGISTER AND INDEX OF BENEFICIAL OWNERS

The company shall cause to be kept a Register and Index of Members with details of shares and debentures held in material and dematerialized forms in any media as may be permitted by law including any form of electronic media. The Register and Index of Beneficial owners maintained by a Depository under the Depositories Act shall be deemed to be a Register and Index of Members for the purpose of this Act. The Company shall have the power to keep in any state or Country outside India a branch register of members resident in that State or Country.

CANCELLATION OF CERTIFICATES UPON SURRENDER BY A PERSON

Upon receipt of certificate of Securities on surrender by a person who has entered into an agreement with the Depository through a Participant, the Company shall cancel such certificate and substitute in its records the name of the Depository as the registered owner in respect of the said securities and shall also inform the Depository accordingly.

SERVICE OF DOCUMENTS

Notwithstanding anything contained in the Act or these Articles to the contrary, where securities are held in a Depository, the records of the beneficial ownership may be served by such Depository on the company by means of electronic mode or by delivery of floppies or discs.



ALLOTMENT OF SECURITIES

Where the Securities are dealt with in a Depository, the Company shall intimate the details of allotment of relevant securities to the Depository on allotment of such securities.

TRANSFER OF SECURITIES

The company shall keep a Register of Transfers and shall have recorded therein fairly and distinctly particulars of every transfer or transmission of any share held in material form. Nothing contained in these Articles shall apply to transfer of securities held in Depository.

DISTINCTIVE NUMBER OF SECURITIES HELD IN A DEPOSITORY

The shares in the capital shall be numbered progressively according to their several denomination provided however, that the provision relating to progressive numbering shall not apply to the shares of the company which are dematerialized or may be dematerialized in future or issued in future in dematerialized form. Except in the manner herein before mentioned, no share shall be sub-divided. Every forfeited or surrendered share held in material form shall continue to bear the number by which the same was originally distinguished.

PROVISIONS OF ARTICLES TO APPLY TO SHARES HELD IN DEPOSITORY

Except as specifically provided in these Articles, the provisions relating to joint holders of shares calls, lien on shares, forfeiture of shares and transfer and transmission of shares shall be applicable to shares held in Depository so far as they apply to shares held in physical form subject to the provisions of the Depository Act.

DEPOSITORY TO FURNISH INFORMATION

Every Depository shall furnish to the company information about the transfer of securities in the name of the beneficial owner at such intervals and in such manner as may be specified by the bye-laws and the company in that behalf.

OPTION TO OPT OUT IN RESPECT OF ANY SUCH SECURITY

If a beneficial owner seeks to opt out of a Depository in respect of any security, he shall inform the Depository accordingly. The depository shall on receipt of such information make appropriate entries in its records and shall inform the Company. The company shall within thirty (30) days of the receipt of intimation from a Depository and on fulfillment of such conditions and on payment of such fees as may be specified by the regulations, issue the certificate of securities to the beneficial owner or the transferee, as the case may be.

NOMINATION FACILITY

- I. Every holder of shares in, or holder of debentures or the company may, at any time, nominate, in the prescribed manner, a person to whom his shares in, or debentures of, the company shall vest in the event of his death.
- II. Where the shares in or debentures of, the company are held by more than one person jointly, the joint holders may together nominate, in the prescribed manner, a person to whom all the rights in the shares or debentures of the company shall vest in the event of death of all the joint holders.
- III. Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of such shares, in or debentures of, the company, where a nomination made in the prescribed manner purports to confer on any person the right to vest the shares in, or debentures of, the company, the nominee shall, on the death of the shareholder or holder of debentures of, the company or, as the case may be, on the death of the joint holders become entitled to all the rights in the shares or debentures of the company or as the case may be, all the joint holders, in relation to such shares in, or debentures of the company to the exclusion of all the other persons, unless the nomination is varied or cancelled in the prescribed manner.
- IV. Where the nominee is a minor, it shall be lawful for the holder of the shares or debentures, to make the nomination and to appoint, in the prescribed manner, any person to become entitled to shares in, or debentures of, the company, in the event of his death, during the minority.
- V. Any person who becomes a nominee by virtue of the provisions of Section 109A of the Act, upon the production of such evidence as may be required by the Board and subject as hereinafter provided elect either



- (a) To be registered himself as holder of the share or debenture, as the case may be, or
 - (b) To make such transfer of the share or debenture, as the case may be as the deceased shareholder or debenture holder, as the case may be, could have made.
- VI. If the person being a nominee, so becoming entitled, elects to be registered as holder of the share or debenture, himself as the case may be, he shall deliver or send to the company notice in writing signed by him stating that he so elects and such notice shall be accompanied with the death certificate of the deceased shareholder or debenture holder, as the case may be.
- VII. All the limitations, restrictions and provisions of this Act relating to the right to transfer and the registration of transfers of shares or debentures shall be applicable to any such notice or transfer as aforesaid as if the death of the member had not occurred and the notice or transfer were signed by that shareholder or debenture holder, as the case may be.
- VIII. A person, being a nominee, becoming entitled to a share or debenture by reason of the death of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the shares or debenture, except that he shall not, before registered a member in respect of his share or debenture, be entitled in respect of it to exercise any right conferred by membership in relation to the meetings of the company.
- Provided that the Board may, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the share or debenture, and if the notice is not complied with within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share or debentures, until the requirements of the notice have been complied with.
- IX. A depositor may, in terms of Section 58A at anytime, make a nomination and the above provision shall, as far as may be, apply to the nomination made under the sub-section

SHARE CERTIFICATE

18. "Issue of share for consideration other than cash."

Subject to these Articles and provisions of the Act, the Board may issue and allot shares in the capital of the company as payment or in consideration or as part payment or in part consideration of the purchase or acquisition of any property or for services rendered to the company in the company in the conduct of its business and shares which may be so issued or allotted shall be credited or deemed to be credited as fully paid up shares.

19. (1) "Issue of Share Certificates"

The share certificate shall be issued in accordance with the provisions of the Companies (issue of Share Certificate) Rules. 1960.

- (2) "Manner of Signature of Director"

A Director may sign a Share Certificate by affixing his signature thereon by means of any machine, equipment or other mechanical means such engraving in metal or lithography, but not by means of a rubber stamp, provided that the Director or any body entrusted with the duty to take care of the same shall be responsible for the safe custody of such machine, equipment or other material used for the purpose.

- (3) "Endorsement on share Certificate"

Every endorsement upon the Certificate of any share in favour of any transferee thereof shall be signed by the Director, Secretary or some other person for the time being authorized by Directors in that behalf.

- (4) "Limitation of time for Issue of certificate"

The Company shall within three months after the allotment of any of its shares or debentures and within one month after the application for the registration of the transfer of any such shares or debentures complete and have ready for delivery the certificate of all shares and debentures allotted or transferred unless the conditions of issue of the shares or debentures otherwise provided.



20. (1) “Declaration by person not holding beneficial interest in any share”

Notwithstanding anything herein contained a person whose name is at any time entered in the Register of Members of the company as the holder or a share in the company, but who does not hold the beneficial interest in such share, shall, within such time and in such form as may be prescribed make a declaration of the Company specifying the name and other particulars of the person or persons who hold the beneficial Interest in such share in such manner as may be provided in Section 197-C the Act.

- (2) A person who holds a beneficial interest in a share or a class of shares of the Company shall within the time prescribed after his becoming such beneficial owner make a declaration to the company specifying the nature of his interest particulars of the persons in whose name the shares stand in the register of members of the company and such other particulars as may be prescribed as provided in section 187 C of the Act;
- (3) Whenever there is a change in the beneficial interest in a share referred to above, the beneficial owner shall, within the time prescribed from the date of such change make a declaration to the company in such form and containing such particulars as may be prescribed as provided in Section 187 of the Act.
- (4) Notwithstanding anything contained in Section 153 of the Act, Article 19 (1) hereof, where any declaration referred to above is made to the company, the company shall make a note of such declaration in the Register of Members and file within the time prescribed from the date of the receipt of the declaration, a return in the prescribed form register with regard to such declaration.

21. “Members right to certificate”

Every member shall be entitled free of charge to one certificate from the share of each class or domination registered in his name or if the directors so approve to several certificates each for one or more shares. Every certificate of shares shall indicate the date of its issue and specify the name of the person in whose favour the certificate is issued the share to which it relates and amount paid thereon. Particulars of every certificate issued shall be entered in the register of members.

22. “Issue of Share Certificate in market lots”

Whenever any public Issue of shares is made under prospects issued for the purpose, share certificate shall be issued in market lots. Where the shares certificate are issued either more or less than the “Market Lots” subdivision or consolidation of share certificates into market lots shall be done free of cost.

23. “Issue of new certificates”

If any certificate of any share or shares be surrendered to the company for sub-division or consolidation or any certificate be defected, torn or old, decrepit or worn or where the cages in the reverse for recording transfers have been duly utilized, upon the surrender thereof to the company the Directors may order the same to be cancelled and may issue a new certificate in lieu thereof and if any certificate be lost or destroyed then upon proof thereof to the satisfaction of the Directors may ordered the same to be cancelled and may issue a new certificate in lieu thereof and if any certificate be lost or destroyed then upon proof thereof to the satisfaction of the Directors and on giving such indemnity as the Board of Directors thinks fit, a new certificate in lieu thereof may be Issued to the registered holder of such shares. For every certificate issued under this Article there shall be paid to the company a fee not exceeding two rupees or as the Directors may from time to time prescribe and the payment of expenses incurred by the company in investigating evidence in case or generally waive the charging of such fees.

Provided that no fees shall be charge of sub-division or consolidation of share certificates into marketable lots or for issue of certificate in lieu of those which are old, decrepit or worn out or where the cages on the reverse for recording transfers have been utilized.

24. “Joint Holders”

Whether two or more persons are registered as the holders of any share the person first named in the register as on of the joint holders of a share shall be deemed to be the sole holder for matters connected with the company subject to the following and other provisions contained.



(a) “Joint & several liabilities for all payments in respect of shares”

The joint holders of any share are liable severally as well as jointly for and in respect of all calls and other payments, which ought to be made in respect of such share.

(b) “Title of survivors”

On the death of any such joint holder the survivor or survivors shall be the only person or persons recognized by the company as having title to the share but the Directors may require such evidence of death as they may deem fit and nothing herein contained shall be taken to realize the estate of a deceased a joint holder any liability on shares held by him jointly with any other persons.

(c) “Joint holders of shares to give receipts for payments in respect thereof”

Any one of several persons who are registered as joint holder of any share may give effectual receipts for all dividends and payments on account of dividends in respects of such share.

(d) “Delivery of certificate and giving of notices to first names holders”

Only the person whose name stands first in the Register of Members as one of the Joint holders of any share shall be entitled to the delivery of the certificates relating to such share or to receive documents (which expression shall be deemed to include all documents referred to in Article 196) from the company and any documents served on or sent to such person shall be deemed service on all the joint holders

(e) Votes of joint holder

Any one of joint holders may vote any meeting either personally or by attorney duly authorized under power of attorney or by proxy in respect of such shares as if he were solely entitled thereto and if more than one such joint holder be present at any meeting personally or by proxy or by attorney then that one of such persons so present whose name stands first or higher (as the case may be) on the register in respect of such share shall alone be entitled to vote In respect thereof but the other or others of the Joint holder shall be entitled to be present at the meeting provided always that a joint holder present by attorney or proxy although the name of such holder present by attorney or proxy stands first or higher (as the case may be) on the register in respect of such shares. Several executors or administrators of a deceased member in whose (Deceased member's) sole name any share stands, shall for the purpose of this sub-clause be deemed joint holders.

25. “Interest out of capital”

Where any share are issued for the purpose of raising money to defray the expenses of the construction of any work of building, or the provision of any plant, which cannot be made profitable for a lengthy period, the company may pay interest on so much of that share capital represented by such shares as is for the time being paid up, for the period, at the rate and subject to the conditions and restrictions provided by Section 208 of the Act, and may charge the same to capital as part of the cost of construction of the work or building, or provision of plant.

CALLS ON SHARES

26. “Calls”

The directors may, from time to time, subject to the terms on which any shares may have been issued and to the provisions of Section 91 of the Act make such calls as they think fit upon members in respect of all money's unpaid on the shares held by them. A call may be made payable by installments as the Directors may determine.

27. “Calls to date from resolution”

A call should be deemed to have been made at the time when the Resolution authorizing such call was passed at a meeting of the Board.

28. “Calls to be revoked or postponed”

A call may be revoked or postponed at the discretion of the Board.



29. "Liability of Joint Holders"

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

30. "Notice of Call"

Not less than thirty days notice shall be given in respect of any call and the notice shall specify the place and the time of payment, and the person to whom such sum shall be paid.

31. "Interest on call or installment"

If the sum payable in respect of any call or installment be not paid on or before the day appointed for payment thereof the holder for the time being of the share in respect of which the call shall have been made or the Installment shall be due, shall pay interest on the same at the rate of 18% to waive payment of any such interest wholly or in part.

32. "Action for recovery of calls"

On the trial or hearing of any such action or suit brought by the company against any member or his representatives to recover any moneys due to the company in respect of his shares, it shall be sufficient to show what the name of the member is or was when the claim arose, in the register as a holder or one of the several holders of the shares in respect of which such claim is made that the amount claimed is not entered as paid in the books of the Company, that the resolution making the call is duly given to the member, and it shall not be necessary to prove the appointment of the Directors who make such call, nor that a quorum was present at the Directors meeting at which any call was made was duly convened or constituted nor any other matter whatsoever, but the proof of matters aforesaid shall be conclusive of the debt.

33. "Payment of calls in advance"

The Directors, if they think fit, receive from any member willing to advance the same, all or part of the money due upon the share held by him beyond the sums actually called for and upon the monies so advanced may pay interest at such rate not exceeding six per cent per annum as the members paying such sums and the directors may agree upon. The directors may at any time repay the sum so advanced upon giving three month's written notice.

34. "When call deemed to have been made"

Call shall be deemed to have been made at the time when the resolution of the directors authorizing such calls was passed.

35. "Amounts payable on allotment etc."

(1) Any such sums which by the terms of issue of shares become payable on allotment or at a fixed date whether on account of the nominal value of the shares or by way of premium shall for the purpose of these regulations be deemed to be a call duly made and payable on the date on which by the terms of issue, such sums become payable

(2) In case of non-payment of such sums all the relevant provisions of these regulations as to payment of interest, expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

FORFEITURE AND LIEN

36. "Payment of call or installment"

If any member or his legal representative, as the case may be, fails to pay any call or installment or any money due in respect of any shares either by way of interest or otherwise on or before the day appointed for the payment or the same or any extension thereof. The Directors may at any time, thereafter during such time as the call installment interest or other money remains unpaid serve a notice on such member on his legal representative as the case may be requiring him to pay the same together with any interest at such rate as may be decided by the Board that may have been incurred by the Company by reason of such non-payment.



37. "Contents of Notice"

The notice shall name a day (not being less than fourteen days from the date of the notice) and a place or places on and at which call or installment and such interest and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment on or before the time and at the place specified, the share in respect of which the call made or installment is payable shall be liable forfeited.

38. "Forfeiture of Shares"

If any member or his legal representative shall fail to comply with any notice as above any shares in respect of which such notice has been given may, at any time thereafter but before all calls, installments, interests, expenses or other moneys, due in respect thereof, are paid, be forfeited by a resolution of the Directors to that effect. Such forfeitures shall include all dividends declared in respect of his shares, either by way of principal or interest, nor any indulgence granted by the company in respect of the payment of any such money, shall preclude the company from thereafter proceedings to enforce a forfeiture of such shares as herein provided.

39. "Notice of Forfeiture"

When any share shall have been so forfeited notice of the forfeiture shall be given to the member in whose name it stood immediately prior to the forfeiture and any entry of the forfeiture with the date thereof shall forthwith be made in the register of members but not forfeiture shall be in any manner invalid by any omission to give such notice or to make such entry as aforesaid.

40. "Forfeited Shares to become property of the Company"

Any share so forfeited shall be deemed to be the property of the Company and the Directors may sell, re-allot or otherwise dispose of the same in such manner as they think fit.

41. "Power to annul forfeiture"

The Directors may at any time before any share so forfeited shall have been sold, re allotted or otherwise disposed of, annul the forfeiture thereof upon such manner as they think fit

42. "Arrears to be paid notwithstanding forfeiture"

Any member whose shares have been forfeited shall notwithstanding the forfeiture, be liable to pay the company all call installment, interest expenses or other moneys owing upon or in respect of such shares on the date of forfeiture together with interest thereon from the date of forfeiture until payment at such rate may be decided by the Board.

43. "Effect of Forfeiture"

The forfeiture of share shall involve the extinction of all interest in and of all claims and demands against the company in respect of the share and all other rights incidental to the share except only such rights as by these articles are expressly saved.

44. "Evidence of forfeiture"

A duly verified declaration in writing that the declarant is a director or secretary of the company and the certain shares in the company have been duly forfeited on a date stated in the declaration shall be conclusive evidence of the facts therein against all persons claiming to be entitled to the shares and such declaration and in the receipt of the company for the consideration if any, given for ten shares on the sale or disposition thereof shall constitute a good title of such shares.

45. "Title of purchase and allottee of forfeited shares."

The company may receive the consideration, if any given for the share on any sale, re-allotment or other disposal thereof and may execute transfer of the share in favour of the person to whom the share is sold or disposed off and the person to whom such share is sold re-allotted or disposed of, may be registered as the holder of the share. Any such purchaser or allottee shall not (unless by express agreement) be liable to pay any calls, amounts, installments, interest and expenses owing to the company prior to such purchase or before such allotment. Such purchaser or allottee shall not be bound to see to the any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, re-allotment or disposal of the share.



46. “Company’s lien on shares”

The company shall have a first and paramount lien upon all shares (other than fully paid up shares) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all moneys (whether payable or not) called or payable at a fixed time in respect of such shares and no equitable interest in any share shall be created except upon the footing and condition that this Article will have full effect. And such lien shall extend to all dividends and bonus from time to time declared in respect of such shares. Unless otherwise agreed the registration of a transfer of shares shall operate as a waiver of the company’s lien, if any on such shares. The directors may at any time declare any share wholly or in part to be exempt from the provisions of this clause.

47. “Enforcing lien by sale”

For the purpose of enforcing such lien, the Directors may sell the shares in such manner as they think fit, but no sale shall be made unless a sum in respect of which the lien exists is presently payable and until notice in writing of the intention not sell the shares shall have been served on such member, his heirs, executors or administrators or his committee or other legal representatives as the case may be and default shall have been by him or them in the payment of the sum payable as aforesaid for fourteen days after such notice. The net proceeds of any such sale (after payment of the cost of such sale) shall be applied towards satisfaction of the amount in respect of which the lien exists and the residue, if any, shall be paid to the person entitled to the share at the date of the sale.

48. “Validity of sales in exercise of lien, etc.”

Upon any sale after forfeiture or for enforcing a lien in purported exercise of the powers herein before given, the Directors may appoint some person to execute an instrument of transfer of the shares sold and cause the purchaser’s name to be entered in the register of members in respect of the shares sold, and the purchaser shall not be bound to see to the regularity of the proceedings or to the application of the purchaser money, and after his name has been entered in the Register of Members in respect of such shares the validity of the sale shall not be impeached by any person and the remedy of any person aggrieved by the sale shall be in damages only against the company exclusively. Upon any such sale as aforesaid, the certificates in respect of shares sold shall become null and void the directors shall be entitled to issue a new certificate to the purchaser.

49. “Applications of forfeiture provisions”

The provisions or the Articles as a forfeiture shall apply in the case non-payment of any sum which by the terms of the issue of share becomes payable at a fixed time whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

TRANSFER AND TRANSMISSION OF SHARES

50. “Register of Transfers”

The company shall keep a register called the Register of Transfers and therein shall fair and distinctly enter the particulars of every transfer of transmission of any shares of the company.

51. ‘Execution of transfer etc.’”

No transfer of shares or debentures of the Company shall be registered unless in accordance with the provisions of Section 108 of the Act and Article 48 hereof a proper instrument of transfer duly stamped and executed by or on behalf of the transferor and by or on behalf of the transferee and specifying the name, address and occupation if any, of the transferee has been delivered to the Company along with the certificates relating to the shares or debentures of if no such certificate is in existence, along with the letter of allotment of the shares or debentures. The transferor shall be deemed to remain the holder of such shares until the name of the transferee is entered in the Register in respect thereof.

52. ‘Form of transfer’”

The instrument of transfer of any share shall be in writing in prescribed form and in accordance with section 108 of the Act.



53. "Notice to the transferee & the transferor of refusal to transfer shares"

The company refuses to register any such transfer or transmission of right, the company shall, one month from the date on which the instrument of transfer on the intimation of transmission as the case may be, was delivered to the company, send notice of the refusal to the transferee and the transferor or to the person giving intimation of such transmission, as the case may be.

54. "Transfer to minor"

No transfer shall be made to a minor, or person of unsound mind.

55. "Transfer to be left at office & evidence of title given when transfer to be retained"

Every instrument of transfer duly executed and stamped shall be left at the office of the company or registration accompanied by the certificate of the shares to be transferred and such other evidence as the company may require to prove the title of the transferor or his right to transfer the shares. All instruments of transfer which the Director may decline to register shall on demand, be returned to the person depositing the same.

56. "Closure of transfer books"

The directors may after giving not less than seven days notice by advertisement as required by section 154 of the Act, close the register of members or the register of debentures holders for any period or periods not exceeding in the aggregate Forty-five days in each year but not exceeding thirty days at any one time.

57. "Directors power to reject application of transfer"

Subject to the provisions of Section 111 of the Companies Act, 1956 and Section 22A of the Securities Contract (Regulations) Act, the Board of Directors shall have absolute and unconditional discretion and power to decline to register any proposed transfer or transmission of any shares without assigning any proposed holder under transmission may already be a member of the company. The registration of a transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the company on any account whatsoever except a lien on the shares. In the event of the other finance institutions opting to dispose off the shares they shall transfer the same to such person, firm or company as may be approved by the company.

58. "Title to shares of deceased members"

On the death of a member, the survivor or survivors where the member was a joint holder and the executors or administrators or holders of succession certificate or the legal representatives unless they shall have first obtained probate or letters of Administration or Succession Certificate and upon such terms as to indemnify or otherwise as the board in its absolute discretion it think fit.

59. "Registration of persons entitled to shares otherwise than by transfer"

Subject to the provisions of the preceding Articles, if any person becoming entitled to share in consequence of the death or insolvency of any member or by any lawful means other than by transfer in accordance with these articles may with the consent of the board which it shall be under any obligation upon producing such evidence, Articles or of his title as the board think sufficient either be registered himself as the holder of the shares or elect to have some persons nominated by him and approved by the board registered as such holder, provided nevertheless that if such person shall elect to have his nominee registered, he shall testify the election by executing in favour of his nominee an instrument of transfer in accordance with provisions herein contained and until he does so, he shall not be freed from any liability in respect of the shares.

60. "Claimant to be entitled to same advantage"

The person becoming entitled to a share by reason of the death or insolvency of the holders shall be entitled the same dividends and other advantages to which he would be entitled as if he were registered as a member in respect of the share, be entitled in respect of it, to exercise any right conferred by membership in relation to the meeting of the Company provided that the Board may at any time give notice requiring such person to elect either to be registered himself or to transfer shares and if notice is not complied with



within sixty days, the Board may thereafter withhold payment of all dividends, bonus, rights or other moneys payable in respect of the share until the requirements of the notice have been complied with.

61. "Board may require evidence of transmission"

Every transmission of share shall be verified in such manner as the Directors may require and the Company may refuse to register any such transmission until the same to be verified or until and unless an indemnity be given to the Company with regard to such registration which the Directors in their discretion shall consider sufficient, provided nevertheless that there shall not be any obligation on the Company or the Directors to accept any Indemnity.

62. "Transfer by legal representative"

A transfer of the share in the Company of a deceased member thereof made by his legal representative is as valid as if he had been a member at the time of the execution of the instrument of transfer.

63. "Registered instrument to remain with the Company"

Every instrument of transfer, which is registered, shall remain in the custody of the Company until destroyed by order of the Board.

64. "No fee for transfer or transmission"

No fee shall be charged for transfer of shares / debentures or for effecting transmission or registering any letters of probate, letters of administration and similar other documents.

ALTERATION OF SHARE CAPITAL

65. "Power to increase capital of ordinary resolution."

The Company may, from time to time, in General Meeting increase its share capital by creation of new shares for such amount as thinks expedient.

66. "New shares to be offered to existing members."

When at any time subsequent to the first allotment of shares in the Company it is proposed to increase the subscribed capital of the Company by the issue of new shares, then, subject to any directions to the contrary which may be given by the Company in general meeting and subject to the provisions of the Companies Act, 1956, such new shares shall be offered to the persons who at the date of the offer are holders of the equity shares of the Company, in proportion, as nearly as circumstances admit, to the capital paid up to those shares at that date and such offer if not accepted, will be deemed to have been declined. After the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board Directors may dispose off them in such manner as they think most beneficial to the Company.

Notwithstanding any thing herein contained the new shares aforesaid may be offered to any persons, whether or not those persons include the persons who, at the date of the offer, are holders of the equity shares of the Company, in any manner whatsoever.

- (a) If a Special Resolution to that effect is passed, by the Company in general meeting;
- (b) Where no such Special Resolution is passed, if the votes cast (whether on a show of hands or on a poll, as the case may be) in favour contained in the issue of such shares (including the casting vote, if any of the Chairman) by members who, being entitled so to do, vote in person, or where proxies are allowed by proxy, exceed the votes, if any, cast against the proposal by members so entitled and voting and the Central Government is satisfied, on an application made by the Board of Directors in that behalf that the proposal is most beneficial to the Company.

66A. "Issue of Sweat Equity Shares"

The company may issue sweat equity shares of a class of shares already issued subject to the provisions of section 79 A of the Companies Act, 1956.



67. “New Capital same as Original Capital”

Except so far as otherwise provided by the conditions of issue or by these presents, any capital raised by the creation of new shares shall be considered part of the original capital shall be subject to the provisions of these presents.

68. “Reduction of Capital”

Subject to confirmation by the courts, the Company may by special resolution, reduce its share capital in any way and in particular and without prejudice to the generality of the foregoing power may:

- (a) Extinguish or reduce the liability on any of its Share, in respect of share capital not paid up;
- (b) Either with or without extinguishing or reducing liability on any of its shares, cancel the paid-up share capital which is lost or unrepresented by any assets; or
- (c) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the Company; and may, if and so far as is necessary, alter its Memorandum by reducing the amount of its share capital and of its share accordingly.

69. “Sub-division and consolidation of shares”

The company in General meeting may

- (1) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.
- (2) Convert all or any of it’s fully paid up shares into stock and reconvert that stock into fully paid up shares of any denomination.
- (3) Sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum, subject to the provisions of section 94 (1)(d) of the Act.
- (4) Cancel any shares, which at the date of passing of resolution have not been taken or agreed to be taken by any person.

70. “Rights in respect of shares on sub-division”

Where any share capital is sub-divided, the Company in General Meeting, subject to the provisions of Section 85, 87, 88 and 106 of the Act may determine that, as between the holders of the share resulting from sub-division, one or more of such shares shall have some preference or special advantage over others as regards dividend, repayment of capital, voting or otherwise.

CONVERSION OF SHARES INTO STOCK AND RECONVERSION

71. “Share, may be converted into stock”

The company in general meeting may convert any fully paid up shares Into stock; and when any shares shall have been convened into stock, the several holders of such stock may henceforth transfer their respective interest therein, or any part of such interest, in the same manners and subject to the regulations, as and subject to which shares from which the stock arose might have been transferred, if no such conversion had taken place, or as near thereto as circumstance will admit. The Company may at any time reconvert any stock into fully paid shares’ of any denomination.

72. “Rights of shareholders”

The holders of stock shall, according the amount of stock held by them, have the same rights, privileges and advantages as regards dividend, voting at meeting of the Company, and other matters, as if they held the shares from which the stock arose but not such privilege or advantage (except participation in the dividends and profits of the Company or in the assets of the Company on winding up) shall up conferred by an amount of stock which would not, if existing in shares, have conferred that privilege or advantage.

MODIFICATION OF RIGHTS

73. “Power to vary rights”

Whenever the share capital, by reason of the issue of preference shares or otherwise is divided into different classes of shares, all or any of the provisions of Section 106 and 107 of the Act, be modified,



commuted, affected, abrogated or dealt with by the consent in writing of the holders of not less than three fourths of the issue shares of that class, and supported by the vote that class and all the provisions hereinafter contained as the General Meeting shall mutatis apply to every such meeting.

BORROWING

74. "Power to borrow"

Subject to the provisions of Section 292 and 293 of the Act, the Board of Directors may from time to time by a resolution passed at a Meeting of the Board, accept deposits from members, either in advance of calls or otherwise and may generally raise or borrow or secure the payment of any sum of sums of money.

75. "Conditions of repayment of moneys Borrowed"

The payment or repayment of moneys borrowed pursuant to article 74 of these presents may be secured in such manner and upon such terms and conditions in all respects as the Board of Directors may think fit including by the issue of debenture of the Company charges upon all or any part of the undertakings or property of Company (both present and Future) and its uncalled share capital for the time being pursuant to a resolution passed at the meeting or Board of Directors but not by its circular resolution.

76. "Debentures and securities to be subject to the Control of Directors"

Any debentures, bonds or other securities issued or to be issued by the Company shall be under the control of the Directors who may issue them upon such terms and conditions and in such manner and such consideration as they shall consider to be for the benefit of the Company.

77. "Securities may be made assignable free from qualities"

Debentures, Bonds or other securities of the Company may be made assignable free from the equities between the Company and the person to whom the same may be issued.

78. "Issue of debentures at discount etc."

The Company may issue any debentures, bonds other securities at a discount, premium or otherwise and with any special privileges as at redemption, surrender, allotment of shares, appointment of directors and otherwise as it may think fit, provided that Debentures with right to allotment of or conversion into shares other than debentures issued to any institution specified by the Central Government in this behalf for the purpose of clause (b) of the provision to subsection (3) of Section 81 of the act, shall be issued only by a special resolution of the Company in General Meeting.

79. "Mortgage of uncalled capital"

If any uncalled capital of the Company is included in or changed by any mortgage or other security, the Board may, subject to the provisions of the Act and these Articles make calls on the members in respect of such uncalled capital in trust for the person in whose favour such mortgage or security is executed.

80. "Indemnity may be given"

If the Directors or any of them or any other persons shall become personally liable for the payment of any sum primarily due from the Company, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to save to Director's or persons so becoming liable as aforesaid from any loss in respect of such liability.

81. "Priority over charge on uncalled capital"

Where any uncalled of the Company is charged all persons taking any subsequent charge thereon take the same subject to such prior charge and shall not be entitled to notice to the share-holders or otherwise, to obtain priority over such prior charge.

RESERVE AND DEPRECIATION FUNDS

82. "Reserve Fund"

The Directors may from time to time, before recommending any dividend set apart by way of reserves such portion of the profits of the company as they think fit as a Reserve Fund to meet contingencies or for the liquidation of any debentures, debts or other liabilities of the company for equalization of dividends or for repairing, improving and maintaining any of the property of the company and for such other purpose of



the company as the directors in their absolute discretion think conducive to the interest of the company and may invest the several sums so set aside upon such investments and dispose of all or any part thereof for the benefit of the company and may divide the Reserve Fund into such special funds as they think fit with full power to transfer the whole or any position of a Reserve Fund or another Reserve Fund or a division of a Reserve fund and also with full power to employ the Reserve Funds or any part thereof in the business of the company separate from the other assets and without being bound to pay interest on the same.

83. "Depreciation Fund"

The Directors may, from time to time before recommending any dividend, set apart any such portion of the profits, of the company, as they think fit, as a depreciation in the investments of the company or for rebuilding, resorting, replacing, or for altering any part of the buildings work plant, machine or other property of the company destroyed or damaged by fire, flood, storm, tempest, earthquake, accident, riot, wear and tear or any other means whatsoever and for repairing altering and keeping in good condition the property of the company or for repairing altering and keeping in good condition the property of the company or for extending and enlarging the building machinery and property of the company with full power to employ the assets constituting such depreciation fund in the business of the company and that without being bound to keep the same separate from the other assets.

84. "Investment of moneys"

All moneys carries to any reserve fund and depreciation funds respectively shall nevertheless remain and the profits of the company applicable subject to due provisions being made for actual loss or depreciation for the payment of dividend and such moneys may be invested by the Directors in or upon investments or securities as they may select or may be used as working capital or may be kept at any bank on deposit or otherwise as the directors may from time to time think proper.

MEETINGS

85. "Annual General Meeting"

In addition to any other meeting, company shall hold a General Meeting as its Annual General Meeting at the intervals specified in Section 166 (1) of the Act, subject to the provisions of Section 166 (2) of the Act, such annual general meeting shall be held at such time and place as may be determined by the board.

86. "Right to attend General Meetings"

Every member of the company shall be entitled to attend every general meeting either in person or by proxy, and the Auditor of the Company shall have the right to attend and to be heard at any general meeting on any part of the business, which concerns him as Auditors.

87. "Reports, Statements and Registers to be laid on the table"

At every Annual General Meeting of the company there shall be laid on the table the Director's Report and audited statement of accounts, Auditors Report, the proxies lodged and the register of directors holding maintained under section 307 of the Act, The Auditors Report shall be read before the company in general meeting and shall be open to inspection by any member of me company.

86. "Directors power to call extraordinary general meeting"

The Directors may, whenever they think fit, call on Extra Ordinary General Meeting.

89. "Extraordinary general meeting on requisition of members" -

The director shall on the requisition of such number of members as is specified in sub-section (4) of Section 169 of the Act, forthwith proceed to call extra ordinary general meeting of company and the provisions of section 169 of the Act, shall apply to any such requisition or to any meeting called pursuant thereto.

90. Notice of meeting

Except as provided in section 172 (2) of the Act, not less than twenty-one days notice shall be given of every General Meeting of the company. Notice of general meeting shall be given to every member, to any person entitled to a share in consequence of the death or insolvency of a member, and to the auditors for



the time being of the company, in the manner hereinafter provided for the giving of notices. The accidental omission or the non-receipt of any notice by any member or other person entitled to receive the same shall not invalidate the proceedings of the meetings.

91. “Contents of Notices”

Every notice of a General Meeting shall specify the place, date and time of the meeting and shall contain a statement of the business to be transacted there at. Where any business to be transacted at the meeting consists of the “Special Business” as hereinafter defined, there shall be annexed to the notice of the meeting an explanatory statement setting out at material facts concerning such item of business as provided in Section 173(2) and (3) of the Act.

92. “Special Business”

All business shall be deemed special that is transacted at an Extraordinary General Meeting and also all business that is transacted at an Annual Meeting with the exception of business relating to the consideration of the Accounts, balance sheet and the reports of the Board and the auditors, declaration of dividend, appointment of Directors in the place of those retiring and the appointment and fixing of the remuneration of the Auditors.

PROCEEDINGS AT GENERAL MEETING

93. “Business of Ordinary Meeting”

The business of an Annual General Meeting shall be to receive and consider the profit and loss account the balance sheet and the report of the directors and the auditors to elect directors in place of those retiring appoint Auditors and to fix their remuneration to declare dividends and to transact any other business which under these presents ought to be transacted at an Annual General Meeting.

94. “Quorum”

Five members present in person and entitled to vote shall be a quorum for all purposes at any General Meeting. No business shall be transacted at any General Meeting unless the quorum requisite shall be present at the commencement of the business.

95. “Chairman of General Meeting”

The Chairman of the Board of Directors or in his absence the vice-chairman of the Board shall if willing, preside as Chairman to every General Meeting, Annual or Extraordinary. If there be no such Chairman or if at any meeting he shall not be present fifteen minutes after the time appointed for holding such meeting or being present declines to take the chair, the Directors present may choose one of their member to be Chairman and in default of their doing so, the members present be willing to take the chair elect one of the member to be the chairman. No business shall be discussed by any General Meeting except by the election of a Chairman, while the chair is vacant.

96. “Meeting to be adjourned”

If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall stand dissolved, but, in any other case, it shall stand adjourned to the same day in the next week, at the same time and place or to such other day time and place as the directors may by notice to the shareholders appoint. If at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting those members present shall constitute a quorum and may transact the business for which the meeting was called.

97. “Voting to be by show of hands in first instance and motion how decided in case of equality of votes.”

At any general meeting a resolution put to the vote of the meeting shall unless a poll is demanded under section 179 of the Act, be decided on a show of hands in the case of an equality of votes the Chairman shall both on a show of hands and at the poll have a casting vote In addition to the vote or votes to which he may be entitled as a member.

98. “What would be evidence of the passing of a resolution where poll not demanded”

A declaration by the Chairman that on a show of hands a resolution has or has not been carried either unanimously or by a particular majority, and an entry to that effect in the book containing the minutes of the



proceedings of the Company shall be conclusive evidence of the fact, without proof of the number of proportion the votes cast in favour of or against such resolution.

99. "Demand for Poll"

Before or on the declaration of the result of voting on any Resolution on a show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion and shall be ordered to be taken by him on demand made in that behalf:

- (1) By any member or members present in person or by proxy and having and having not less that one-tenth of the total voting power in respect of the resolution, or
- (2) By any member or members present in person or by proxy and holding shares on which an aggregate sum of not less than fifty thousand rupees has been paid up.
- (3) By any member or members present in person or by proxy and holding shares in the company conferring a right to vote on the resolution being shares on which aggregate sum had been paid up which is not less than one-tenth of the total sum paid up on all the shares conferring that right

100. "Poll"

- (1) If a poll be demanded on a question of adjournment or election of chairman the poll shall be taken forthwith. A poll demanded on any other question shall be taken at such time not being later than 48 hours from the time when the demand was made, and in such manner and at such place as the chairman of the meeting may direct.
- (2) The demand of a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which a poll has been demanded.
- (3) Where a poll is to be taken, the Chairman of the meeting shall appoint two scrutinizers, at least one of whom shall be a member (not being an officer or an employee of the company) present at the meeting, provided that such a member is willing to scrutinize the votes.

101. "Right of Member to use his votes differently"

On a poll taken at a meeting of the company a member entitled to more than one vote or his proxy or the person entitled to vote for him as the case may be need not if he votes, use all his votes in the same way all the votes he uses.

102. "Power to adjourn General Meeting"

The chairman of a General Meeting may, with the consent of the General Meeting, adjourn the same, from time to time and from place to place but no business shall be transacted, if at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. It shall not be necessary to give any notice of an adjournment or of the business to be transacted at the adjourned meeting.

103. "Resolution passed at adjourned meetings"

Where a resolution is passed at an adjourned meeting of the company of the holders of any class of shares in the company, the resolution shall, for all purposes, be treated as having been passed on the date on which it was, intact passed and shall not be deemed to have been passed on any earlier date.

104. "Minutes of General Meeting"

The company shall cause minutes of all proceedings of every General meeting to be kept by making within thirty days of the conclusion of every such meeting entries thereof in books kept for that purpose with their pages consecutively numbered.

- a) Each page of every such book shall be initialed or signed and the last page of the record of proceedings of each meeting in such book shall be dated and signed by the Chairman of the same meeting within the aforesaid period of thirty days or in the event of the death or inability of that Chairman within that period, by a Director duly authorized by the Board of Directors for the purpose, and by the Vice-Chairman of the Board of Directors.



- b) In no case shall the minutes of proceedings of a meeting be attached to any such books aforesaid bypassing or otherwise.
- c) The minutes of each meeting shall contain a fair and correct summary of the proceedings thereof.
- d) All appointments of officers made at any meetings aforesaid shall be included in the minutes of the meeting.
- e) Nothing herein contained shall require or be deemed to require the inclusion in any such minute of any matter which in the opinion of the Chairman of the meeting a) is or could reasonably be regarded as defamatory of any person, or b) is irrelevant or immaterial to the proceedings. c) is detrimental to the Interest of the Company. The chairman of the meeting shall exercise an absolute discretion in regard to the inclusion or non-inclusion of any matter in the minutes on the aforesaid grounds.
- f) Any such minutes shall be evidence of the proceedings recorded therein.
- g) The book containing the minutes of proceedings of General Meeting shall be open to the inspection of any member without charge shall be kept at the office of the Company and shall be open during business hours, for such period not being less, in the aggregate, than also two hours each day, as the Directors determine.

105. "Voting Rights"

- a) Save as hereinafter provided, on a show of hands every member entitled to vote and present in person by an agent duly authorized under a power of attorney shall have one vote and on a poll every member entitled to vote and present in person or by an agent duly authorized under a power of attorney or by proxy shall have one vote for every share held by him.
- b) Every member of the company holding any preference share shall not be entitled to vote at General Meetings of the Company except as provided by Section 87(2) of the Act.
- c) Where the company accepts from any member all or any part of the money due in respect of the shares held by him beyond the sums actually called for, the member shall not be entitled to any voting rights in respect of the moneys so paid by him.

106. "Representation of Member companies"

If a body corporate (Whether a company within the meaning of the Act or not) is a member of the company or creditor of the company (including a debenture holder), then it shall be entitled through a resolution of its Board, to authorize such person as it thinks fit to act as its representative at any meeting of the company, or any meeting of the creditors of the company held in pursuance of the Act or in pursuance of the provisions contained in any debenture or trust deed. A person authorized by a resolution as aforesaid shall be entitled to exercise the same rights and powers, including the right to vote by proxy which shall the body corporate could exercise if it were an individual member or creditor of the Company.

107. "Votes of members of unsound mind"

A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy may vote whether on a show of hands or on a poll, by his committee or other legal guardian, and such committee or guardian may, on a poll, vote by proxy. If any shareholder be a minor the vote in respect of his share or shares shall be by his guardian.

108. "Votes in respect of shares and bankrupt members"

Any person entitled to transfer any shares by virtue of Article 59 of these Articles may vote at a General Meeting in respect thereof in the same manner as if he were the registered holder of such share, provided that at least forty eight hours before the time of holding the meeting or adjourned meeting, as the case may be at which he proposes to vote, he shall satisfy the directors or any person authorized by the Directors in that behalf, of his right to such shares and furnishes such indemnity as the Directors may require.

109. "Votes by proxies"

On a poll votes may be given either personally or by proxy, or in the case of a Company or other body corporate, by a representative duly authorized as aforesaid. Every notice conveying a meeting is entitled to appoint a proxy to attend and vote instead of him and that proxy need not be a member of the Company.



110. "Instructions appointing proxy"

The instrument appointing a proxy shall be in writing, under the hand of the appointer or of his attorney duly authorized in writing or if such appointer is a corporation under its common seal or the hand of an officer or an attorney duly authorized by it. A proxy appointed as aforesaid shall not have any right to speak at any meeting.

111. "Instrument to be deposited at the Registered office"

The instrument appointing a proxy and the power of attorney or other authorized authority which it is signed or a notary certified copy of the power of authority shall be deposited at the office not less than 48 hours before the time of holding the meeting at which the person names in proposes to vote and in default the instrument of proxy shall not be treated as valid.

112. "Votes valid through authority revoked"

A vote given in accordance with the terms and of a instruments of proxy shall be valid notwithstanding the previous death of the principle or revocation of the proxy or any power or authority under which such proxy is signed or not notwithstanding transfer of the shares in respect of which the vote is given provided that no information in writing of the death revocation or transfer shall have been received at the office or by the chairman of the meting before the vote is given.

113. "Form of Proxy"

Every instrument appointed a proxy whether for a specified meeting or otherwise shall be in either of the forms prescribed by Schedule IX to the Act or in the form as near as circumstances will admit and shall be retained by the company.

114. "Time and place to inspect the Proxies lodged"

Every member entitled to vote at a meeting of the company on any resolution to be moved threat shall be entitled during the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting to inspect the proxies lodged at any time during the business hours of the company provided not less than 3 days notice in writing of the intention to inspect the proxies is given on the company.

115. "Restriction on Voting"

No member shall be entitled to vote a resolution either personally or by proxy at any general meeting or be reckoned in a quorum, while any call or other some in respect of any of the shares of such members shall be due any payable to the company or in regard to any shares on which the company has exercised any lien.

- a) Any objection as to the admission or rejection of a vote made on a show of hands or an a poll shall be referred to the chairman of the meeting who shall forthwith determine the same and such determination made in good faith shall be final and conclusive.
- b) No objection shall be made to the validity of any vote on a show of hands or on a poll expect at the meetings at which such vote shall be tendered and every whether given personally or by proxy riot disallowed at such meeting shall be deemed valid for all purposes.

THE SEAL

174. (1) "The Seal, its custody and use"

The Directors shall provide a common seal for the purpose of the company and may from time to time destroy the same and substitute a new seal in lieu thereof and shall provide for the safe custody of the seal for the time being, under such regulations the Directors may prescribe.

- (2) The company may exercise the powers conferred by Section 50 of the Act and such powers shall accordingly be vested in the Directors.



175. 'Deeds how executed"

Every deed or other instrument, to which the Seal of the Company is required to be affixed, shall unless the same is executed by a constituted attorney of the company be signed by two directors and secretary or some other person appointed by the Board for the purpose, provided that in respect of the Share Certificate the seal shall be affixed in accordance with the prescribed rules.

DIVIDENDS

176. "Dividend"

The profits of the Company after providing for bonus if any of previous years and statutory reserves subject to any special rights thereto created or authorized to be created by the Memorandum and these Articles and subject to the provisions of these Articles shall be divisible among the members in proportion to the capital paid upon the shares held by them respectively.

177. "The Company in general meeting may declare Dividend"

The company in General Meeting may declare dividend to be paid to the members according to their rights and interest in the profits and may fix the time for payment.

178. "Powers of Shareholders to limit dividend."

No larger dividend shall be declared than in recommended by the Directors, but the company in General Meeting may declare a smaller dividend subject to the sections 205A and 205(2A) of the Act and the rules made there under. No dividend shall be payable except out of the profits or the company for the year or any other undistributed profits, and no dividend shall carry interest as against the company.

179. "Capital paid up in advance at interest not to earn dividend"

Where capital is paid advance of calls with capital may carry interest but shall not in respect thereof confer a right to dividend or participate in profits

180. Directors declaration as to the net profits conclusive

181. 'Interim Dividend"

The Directors may from time to time pay to the members such interim dividends as in their judgments the position of the company justifies.

182. "Dividends and call together set off allowed"

Any General Meeting declaring a dividend may on the recommendation of the Directors make a call on the members of such amount as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend may, if so arranged between the company and the members be set off against the calls.

183. "Transferred shares must be registered"

A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer.

184. "No member to receive dividends whilst indebted to the company's right to reimbursement thereon"

The Directors may, if think fit deduct from the dividend payable to any members, all such sums of money as may be actually due from him on account of calls either solely or jointly to the company, without prejudice to the company to due for the balance such moneys or to forfeit or sell any shares as herein before provided.

185. "Dividend how remitted"

Unless otherwise directed any dividend may be paid by cheques or warrants sent through post to the registered address of the member or person entitled or in the case of Joint holders to the registered address of that one of them first named in there register and every cheques or warrant so sent shall be made payable to the order of the persons to whom it is sent. Unclaimed dividends shall be dealt with in the manner prescribed by Section 205 A and 205 B of the Act.



186. "Dividend to be paid within forty two days"

The company shall pay the dividend or send warrant in respect thereof to the shareholder entitled to the payment of the dividend within forty-two days from the date of declaration of the dividend unless,

- (a) Where the dividend could not be paid by reason of the operation of any law.
- (b) Where shareholders have given directions regarding the payment of dividend and those directions cannot be complied with.
- (c) Where there is a dispute regarding the right to receive the dividend.
- (d) Where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder.
- (e) Where for any other reason the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the company.

187. "Unclaimed Dividend"

- (a) If the company has declared a dividend but which has not been paid within 42 days from the date of declaration to any shareholder entitled to the payment of the dividend, the company shall within 7 days from the date of expiry of the said period of 42 days, open a special account in that behalf in any scheduled bank called the unpaid dividend account of KERNEX MICROSYSTEMS (INDIA) LTD and deposit the amount of such unclaimed dividend in the said account.
- (b) Any money transferred to the unpaid dividend account of the company which remains unpaid or unclaimed for a period of seven years from the date of such transfer, shall be transferred by the company to the fund established under section 205(1) of the Companies Act, 1956.

CAPITALISATION OF PROFITS AND RESERVES

188. (1) Any General Meeting may upon the recommendations of the Board resolve that any amounts standing to the credit of the Share Premium Account or the capital Redemption Reserve Account or any moneys, investments or other assets forming part of the undivided profits (including profits or surplus moneys arising from the realization and, when permitted by law from the appreciation in value of any capital assets of the company) standing to the credit of the General Reserve or any Reserve Fund or any other fund of the company or in the hands of the company and available for divided be capitalized.

- (a) By the issue and distribution as fully paid up shares of the company.
 - (b) By crediting shares of the company, which may have been issued and are not fully paid up with the whole or any part of the sum remaining unpaid thereon.
 - (c) Provided that any amounts standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account shall be applied issued to members (as herein provided) as fully paid bonus shares.
- (2) Such issued and distribution under (1) (a) above and such payment to the credit of unpaid shares capital under (1) (b) above, shall be made among, and in favour of the members or any class of them or any of them entitled thereof and in accordance with their respective rights and interests and in proportion to the amount of capital paid up on the shares held by them respectively in respect of which distribution under (1) (a) or payment under (1) (b) above shall be made on the footing that such members become entitled thereto as capital.
- (3) The Directors shall give effect to any such resolution and apply such portion of the profits, General Reserve Fund or any other Fund or account as aforesaid as may be required for the purpose of making payment in full for the shares of the company so distributed under (1)(a) above or (as the case may be) for the purpose of paying in whole or in part the amount remaining unpaid on the shares which may have been issued and are not fully paid up under (1) (b) above, provided that no such distribution or payment shall be made unless recommended such distribution and payment shall be accepted by such members as aforesaid in full satisfaction of their interest in the said capitalized sum.



- (4) For the purpose of giving effect to any such resolution the Directors may settle any difficult which arise in regard to the distribution or payments aforesaid as they think expedient and in particular they may issue fractional certificates and may fix the value for distribution of any specific assets and may determine that cash payment be made to any members on the footing of the value so fixed and may vest any such cash or shares in trustees upon such trusts for the persons entitled thereto as may seem expedient to the directors and generally make such arrangements for the acceptance, allotment and sale of such shares and transactional certificates or otherwise as they think fit.
- (5) When deemed requisite a proper contract shall be delivered for registration in accordance with the act and the Board may appoint any person to sign such contract on behalf of persons entitled to the dividend or capitalized fund, as aforesaid and such appointment shall be effective.

189. "Capitalization in respect of partly paid up shares"

Subject to the provisions of the Act, and these Articles in cases where some of the shares of the company are fully paid and others are partly paid, only such capitalization may be effected by the distribution of further shares in respect of the fully paid shares, and by crediting the partly paid shares with the whole or part of the unpaid liability thereon but so that as between the holder of fully paid shares and the partly paid shares the sums so applied in the payment of such further shares and in the extinguishment or diminution of the liability on the partly paid shares shall be so applied pro-rata in portion to the amount then already paid or credited as paid on the existing fully paid and partly paid shares respectively.

ACCOUNTS

190. "Books of accounts to be kept"

- (1) The company shall keep at its registered office proper books of account with respect to means year of account of the company.
 - (a) All sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place.
 - (b) All sales and purchases of goods by the company and
 - (c) The assets and liabilities of the company;

Provided that all or any or the books of account aforesaid may be kept at such other places in India as the Board of Directors may decide and when the Board of Directors so decides, the Company shall within seven days of the decision, file with the Registrar a notice in writing giving the full address of that other places.

- (2) If the company shall have a branch office whether in or outside India proper books of account relating to the transactions effected at that office shall be kept at that office, and proper summarized returns, made up to date at intervals of not more than three months shall be sent by the branch office to the company as its registered office or other place in India, as the Board thinks fit, where the main books of the company are kept.
- (3) All the aforesaid books shall give a fair and true view of the affairs of the company or of its branch office as the case may be with respect to the matters aforesaid, and explain its transactions.
- (4) The books of accounts and other books and papers shall be open to inspection by any Director during business hours.

191. "Books of account to be preserved"

The books of the account of the company relating to a period not less than 8 years immediately preceding the current year (together with the vouchers relevant to any entry in such books of account) shall be preserved in good order.

192. "Inspection by members of accounts and books of the company."

No member (not being a Director) shall have any right of inspecting any account or book or document of the company except as conferred by law or authorized by Directors or by the Company in General Meeting.



193. "Statement of account to be furnished to general meeting"

The directors shall from time to time, in accordance with Section 210, 211, 212, 215, 216, and 217 of the Act, cause to be prepared and to be laid before the company in General Meeting, such Balance Sheets, Profit and Loss Accounts and reports as are required by these sections.

194. "Rights of members of copies of balance sheet and auditors report"

The company shall comply with the requirements of Section 219 of the Act.

ANNUAL RETURNS

195. "Annual Returns"

The company shall make the requisite annual returns in accordance with Section 159 and 161 of the Act and shall file with the Registrar three copies of the Balance Sheet and Profit and Loss Account in accordance with Section 220 of the Act.

196. "How document to be served on members"

(1) A document (which expression for the purpose shall be deemed to and shall include any summons, notice, requisition, process, order, judgment or any other documents in relation to or in the winding up of the company) may be served or sent by the company on or to any member either personally or (if he has no registered address in India) to address if any within India supplied by him to the company for the giving of notice to him.

(2) "Where document to be served on members"

(a) Service thereof shall be deemed to be effected by property addressing, repaying and posting letter containing the notice provided that where a member has intimated to the company in advance that document should be sent to him under a certificate of posting or by registered post with or without acknowledgement due and has deposited with the company a sum sufficient to defray the expenses of doing so, service of the document shall not be effected unless it is sent in the manner intimated by the members, and

(b) Such service shall be deemed to have been effected;

(i) in the case of a notice of a meeting at the expiration of 48 hours after the letter containing the notice is posted, and

(ii) in any other case at the time at which the letter would be delivered in the ordinary course of post.

197. "Service on members having no registered address"

If a member has no registered address in India and has not supplied to the company an address within India for the giving of notice to him a document advertised in a newspaper circulating in the neighborhood of the registered office of the company shall be deemed to be duly served on him on the day on which the advertisement appears.

198. "Services on joint holders of a share"

A document may be served by the company on the joint holder of share by serving it on the joint holder name first in the register in respect of share.

199. "Services on persons acquiring shares on death or insolvency of a member"

A document may be served by the company on the persons entitled to a share in consequence of the death or insolvency of a member by sending it through the post in a prepaid letter addressed to them by name or by the title or representative of the deceased or assignee of the insolvent or by any like description at the address (if any) in India supplied for the purpose by the persons claiming to be so entitled or (until such an address has been so supplied) by serving the document in any manner in which the same have been served if the death or insolvency had not occurred.



200. "Persons entitled to notice of general meeting"

Subject to the provisions of the Act and these Articles notice of General Meeting shall be given:

- (i) to members of the company in any manner authorised
- (ii) to the person entitled to a share in consequence of the death or insolvency, of a member
- (iii) to the auditor or auditors for the time being of the company

201. "Advertisement"

Subject to the provisions of the Act any document required to be Served or sent by the company on or to the members or any of them and not expressly provided for by these presents shall be deemed to be duly served or sent if advertised once in any daily English and one daily in vernacular newspaper circulating In Andhra Pradesh.

202. "Members bound by documents given to previous holders"

Every person, who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every document in respect of such share which previously to his name and address being entered on the Register shall be duly served on or sent to the person from who he derives his title so such shares.

203. "Notice by Company and Signature thereto"

Any notice to be given by the company shall be signed by the Managing Director or Secretary or by such director or officer as the Directors may appoint and such signature may be written or printed or lithographed.

204. "Service of notice by shareholders"

All notices to be given on the part of shareholders shall be left or sent by registered post to the register office of the company.

AUDIT

205. "Accounts to be audited"

Every Balance Sheet and Profit and Loss Account shall be audited by one or more Auditors to be appointed as hereinafter mentioned.

206. "Audited Provisions"

The company at the Annual General Meeting in each year shall appoint an Auditor or Auditors to hold office from the conclusion of that meeting until the conclusion of the next Annual General Meeting and shall comply with the Provisions of Section 224, 224A to 226 and other applicable provisions in regard thereto of the Act.

207. "Remuneration of Auditors"

The remuneration of the auditors of the company shall be fixed by the company in general meeting except that the remuneration of the Auditors appointed to fill any casual vacancy may be fixed by the Directors.

208. "Powers and duties of Auditors"

The powers and duties of the Auditors of the Company shall be as laid down in Section 227 of the Act.

209. "Audit Branch Offices"

The company shall comply with the provisions of Sect 228 of the Act in relation to the audit of the accounts of branch offices of the company except to the extent to which any exception may be granted by the Central Government In that behalf.

210. "Reading and Inspection of Auditors Report"

The Auditors Report shall be read before the Company in General Meeting and shall be open to inspection by any member of the company.



211. "When account to be deemed conclusive"

Every account when audited and approved by a general meeting shall be conclusive except as regards any error discovered therein within three months next after the approval thereof. Whenever any such error is discovered within that period the account shall forthwith be corrected and henceforth shall be conclusive.

AUTHENTICATION OF DOCUMENTS

212. "Authentication of documents and proceedings"

Save as otherwise expressly provided in the Act or these Articles a document or proceeding requiring authentication by the company may be Signed by Director or Secretary or an authorised officer of the company and need not be under its seal.

WINDING UP

213. "Distribution of assets"

If the company shall be wound up, and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid up capital, such assets shall be distributed so that as nearly as may be, the Losses shall be born by the members in proportion to the capital paid up or which ought to have been paid up at the commencement of the winding up and if the assets available for distribution among the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital at the commencement of the winding up paid up or which ought to have been paid on shares held by them respectively. But this Article is to be without prejudice to the right of the holders of shares issues upon special terms and conditions.

214. "Distribution in specie or kind"

If the company shall be wound up whether voluntarily or otherwise, the liquidators may with the sanction of a special resolution, divide amongst the contributories, in specie or kind, any part of the assets of the Company and may with the like sanction, vest any part of the assets of the company in Trustees upon such trusts for the benefits of the contributors or any of them, as the liquidators, with the like sanction shall thin fit

215. "Right of shares holder in case of sale"

A special resolution sanctioning a sale to any other company duly passed pursuant of Section 494 of the Act, may subject to the provision of the Act, in like manner as aforesaid determine that any or other considerations receivable by the liquidators be distributed amongst the members otherwise than in accordance with their existing rights and any such determination shall be binding upon all the members subject to the right of dissent and consequential rights conferred 2t by the said- section.

INDEMNITY AND RESPONSIBILITY

216. "Directors and others right to indemnity"

- (a) Subject to the provisions of Sect 201 of the Act, every Director, Managing Director, Secretary and other officer or employee of the company shall be Indemnified out of the assets of the company and it shall be the duty of the to spend out of the funds of the company to pay all costs, losses and expenses (including traveling expenses) which any such Director, Managing Director, Officer or employee may incur or become liable to by reason of any contract entered into or act or deed done by him as such Director, Officer or Servant or in any way in the discharge of his duties.
- (b) Subject as aforesaid every Director, Managing Directors, Secretary or other officer or employee of the company shall be indemnified out of the assets of the company, against any liability incurred by him in defending any proceeding whether civil or criminal in which judgment is given in his favour or in which he is acquitted or in connection with any application under Section 633 of the Act, in which relief is given to him by the court.

217. "Not responsible for acts of others"

Subject to the provisions of Section 201 of the Act, no Director or Managing Director, secretary or other officer of the Company shall be liable for the act, receipts, or defaults of any other director or officer or for



joining in any receipt or other act of conformity, or for any loss or expenses happening to the company through insufficiency or deficiency of title to a property acquired by order of the Directors for or on behalf of the company or for the insufficiency or deficiency of any security in or upon which any of the moneys, of the company shall be invested or for any loss or damages arising from the bankruptcy, insolvency or tortuous act of any person, company or corporation with whom any moneys, securities or effects shall be entrusted or deposited or for any loss occasioned by any error of judgment or oversight in his part, or for any loss occasioned by any error of judgment or oversight in his part, or for any other loss occasioned by any error of judgment oversight or oversight in his part; or for any other loss or damages or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto, unless the same happen through his own dishonesty.

SECRECY

218. "Every Director, Manager, Auditor, Treasurer, Trustee, Member of a Committee, Officer, Servant, Agent, Accountant or other person employed in the business of the company shall, if so required by the Directors, before entering upon his duties sign a declaration pledging himself to observe strict secrecy in respect of all customers and the state of the accounts with individuals and in matter relating thereto and shall by such declaration pledge himself not to reveal any of the matters which may come to his knowledge in the discharge of his duties except when required to do so by the Board or by the court of law and except so far as be necessary in order to comply with any of the provisions on these presents contained.



MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by our Company or entered into more than two years before the date of this Prospectus) which are or may be deemed material have been entered or to be entered into by our Company. These contracts, copies of which have been attached to the copy of this Prospectus, delivered to the Registrar of Companies, Andhra Pradesh for registration and also the documents for inspection referred to hereunder, may be inspected at the Registered office of our Company situated at Kernex Microsystems (India) Limited "THRUSHNA" Plot No. 7, Software Units Layout, Infocity Madhapur, Hyderabad - 500 081 from 10.00 am to 4.00 pm on any working days from the date of the Prospectus until the Bid Closing Date/Issue Closing Date.

Material Contracts:

1. Engagement Letter dated October 15, 2004 for Appointment of BOB Capital Markets Limited as Book Running Lead Manager to the Issue.
2. Engagement Letter dated June 9, 2005 for Appointment of Allianz Securities Limited as Book Running Lead Manager to the Issue.
3. Memorandum of Understanding dated February 7, 2005 amongst our Company and the Book Running Lead Managers to the Issue (BRLMs) BOB Capital Markets Limited and dated June 9, 2005 Allianz Securities Limited.
4. Memorandum of Understanding dated June 5, 2005 executed by our Company with Registrar to the Issue i.e. Karvy Computershare Private Limited.
5. Inter-se allocation of responsibilities between Lead Managers to the Issue i.e. BOB Capital Markets Ltd and Allianz Securities Ltd signed on June 9, 2005
6. Escrow Agreement dated November 9, 2005 between the BRLMs, Escrow Collection Banks, the Registrar, and us to the Issue.
7. Syndicate Agreement dated November 9, 2005 between us and the BRLMs and Syndicate Members.
8. Underwriting Agreement dated December 6, 2005 between us and the BRLMs and Syndicate Members.

Material Documents:

1. Our Memorandum and Articles of Association as amended till date.
2. Our certification of incorporation amended for change of name, dated June 30, 2000
3. Shareholders' Resolutions dated May 2, 2005 in relation to this Issue and other related matters.
4. Resolutions of the Board dated May 20, 2005 authorizing the Issue.
5. Resolutions of the general body for appointment and remuneration of our whole-time Directors.
6. Copy of letter dated May 20, 2005 received from GMK Associates, Chartered Accountants and Statutory Auditors of the Company regarding Tax Benefits available to the Company and its Shareholders.
7. Reports of the Auditors, GMK Associates, Chartered Accountants, prepared as per Indian GAAP and mentioned in this Prospectus dated May 20, 2005
8. Copies of Annual reports of our Company for the past five financial years 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 ended March 31 and for the period ended August 31, 2005.
9. Consents of the Auditors, being GMK Associates, Chartered Accountants, for inclusion of their report on accounts in the form and context in which they appear in this Prospectus.
10. Consents of Auditors, Bankers to the Company, Book Running Lead Managers to the Issue, Syndicate Members, Project Appraiser, Monitoring Agency, Co-Manager to the Issue, Registrar to the Issue, Escrow Collection Banks, Legal Counsel to the Company, Directors of our Company, Company Secretary and Compliance Officer, as referred to, in their respective capacities.
11. Copies of application made to BSE and NSE for 'in-principle' approval dated August 3, 2005.



12. In-principle approvals from BSE vide their letter no. DCS/Smd/sm/2005 dated September 01, 2005 and from NSE vide their letter No: NSE/LIST/16696-7.dated September 12, 2005.
13. Agreement between NSDL, our Company and the Registrar to the Issue dated October 19, 2005.
14. Agreement between CDSL, our Company and the Registrar to the Issue dated October 19, 2005.
15. Due Diligence certificate dated August 2, 2005 to SEBI from BOB Capital Markets Limited and Allianz Securities Limited.
16. Memorandum of Understanding with Konkan Railway Corporation Limited
17. Copy of quotations, wherever applicable, in respect of items proposed to be purchased for the expansion as disclosed in the Chapter "Objects of Issue"
18. Project Appraisal Report prepared by BOB Capital Markets Limited dated June 16, 2005.
19. Copies of Memorandum of Association and Annual Report of our subsidiary for the past three financial years and for the period ended August 31, 2005.
20. Power of Attorney executed by Mr. S V Subba Raju, Chairman, Dr. M Anji Raju, Director and Ms. Jyothi Raju, Director in favour of Col. L V Raju (Retd.), Managing Director for signing and making corrections in the Prospectus, Prospectus on their behalf.
21. SEBI observation letter no. CFD/DIL/ISSUES/MB/EB/2005 dated September 16, 2005.

Any of the contracts or documents mentioned in this Prospectus may be amended or modified at any time if so required in the interest of the Company or if required by the other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.



DECLARATION

All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government of India or the guidelines issued by Securities and Exchange Board of India, established under Section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Prospectus is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or rules made there under or guidelines issued, as the case may be. We further certify that all statements in this Prospectus are true and correct.

Signed by all Directors

Mr. S.V. Subba Raju - Chairman*

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

Mr. B. Murali Mohan - Director (Technical)

Mr. R. Sankaran - Director*

Mr. S Nandakumar - Director

Col. S.S. Rajan - Director

Ms. Jyoti Raju - Director*

Dr. Anji Raju - Director*

* Through their constituted attorney Col. L.V. Raju (Retd.) - Managing Director

Signed by Managing Director

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

Signed by Company Secretary & Compliance Officer

Mr. I. Srinivas

Date: December 6, 2005

Place: Hyderabad



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