

Teamwork • Technology • Trust



**CENTUM ELECTRONICS LIMITED**

**Annual Report 2008 - 09**



## QUALITY POLICY

All our products and activities shall meet the expectations of our customers and stakeholders in quality, technology and value.

This commitment is achieved through effective teamwork of every employee, supplier and customer.

We shall develop, maintain and continuously improve the documented systems and enhance quality of all our products, processes and services and promote customer trust and satisfaction.

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## Centum Electronics Limited

### Board of Directors

Apparao V Mallavarapu, *Managing Director*

Som Mittal, *Director*

S. Krishnan, *Director*

Dr. P. Rama Rao, *Director*

### Chief Financial Officer (CFO)

K S Desikan

### Company Secretary

Ellroy Furtado

### Statutory Auditors

BSR & Co.

### Internal Auditors

Ernst & Young Pvt. Ltd.

### Bankers

State Bank of India - SSI Branch  
Kumara Park, Bangalore

### Share Transfer Agents

M/s Karvy Computershare Private Limited,  
No. 17-24, Vittal Rao Nagar,  
Madhapur  
Hyderabad - 500 081.

### Registered office

No. 44, KHB Industrial Area,  
Yelahanka New Township,  
Bangalore- 560 106.

## Notice of the 16th Annual General Meeting

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Notice is hereby given that the Sixteenth Annual General Meeting of the Members of Centum Electronics Limited will be held at No. 4, 12<sup>th</sup> KM, Bellary Road, Opp. Government Flying School, Jakkur, Bangalore 560064 on Thursday, July 30, 2009 at 11.00 a.m. to transact the following business:-

### ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31<sup>st</sup> March 2009 and Profit and Loss Account for the year ended 31<sup>st</sup> March 2009 and the Reports of the Directors and Auditors thereon.
2. To declare dividend for the financial year 2008-09
3. To appoint a Director in place of Mr. Som Mittal who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. BSR & Co., Chartered Accountants, as Auditors of the Company for holding office up to the conclusion of the next Annual General Meeting and to fix their remuneration.

### SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modification(s), the following resolutions as **Special Resolutions**:

5. "RESOLVED THAT in accordance with the provisions of sections 198, 269, 309, 310 read with Schedule XIII and all other applicable provisions if any, of the Companies Act, 1956, and subject to the approval of the Central Government, consent of the members be and is hereby accorded to the re-appointment of Mr. Apparao V Mallavarapu as Managing Director of the Company for a period of 5 years with effect from 1<sup>st</sup> August 2009 upon the terms and conditions including remuneration as set out in the agreement entered into by the Company and Mr. Apparao V Mallavarapu and as set out in the explanatory statement annexed hereto and forming part of this notice."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to fix and vary the remuneration and perquisite including the monetary value thereof as specified in the agreement to the extent the Board of Directors may consider appropriate and as may be permitted or authorized in accordance with the provisions under the Companies Act, for the time being in force and any Statutory modifications or re-enactment thereof, and / or any rules and regulations framed there under and with the approval of Central Government if required, the terms of the aforesaid agreement between the Company and Mr. Apparao V Mallavarapu shall be suitably modified to give effect to such variation or increase as the case may be."

6. "RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Sections 79A, 81(1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") (including any statutory modification(s) or re-enactment of the Act or the Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the board of directors of the company (hereinafter referred to as "the board" which term shall be deemed to include any committees thereof), consent be and is hereby accorded for the insertion of the following clause for surrender of options by the eligible employees who have been granted shares under the Centum ESOP 2007 Plan of the company

14A Surrender of Options

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An employee may surrender his vested / unvested options at any time during his employment with the company. Any employee willing to surrender his options shall communicate the same to the Company. Thereafter the surrendered options shall expire and stand terminated with effect from the date of surrender of options. Such options will be treated in the manner as provided under Clause 4 (c) of the Plan.”

7. “RESOLVED THAT, subject to approval by shareholders and pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force), the Articles of Association of the Company be and are hereby altered by inserting the following Article 14A after Article 14:

**BUY BACK OF SHARES**

14A. Subject to provisions of the Act and other applicable statutory regulation, the Company may purchase its own shares or other specified securities from time to time.”

**NOTES:**

1. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and vote instead of himself and a proxy need not be a member of the company. Proxies in order to be effective must be deposited with the company not less than 48 hours before the meeting.
2. Register of members and Share Transfer books will remain closed from July 18, 2009 to July 30, 2009 (both days inclusive) for the purpose of AGM and ascertaining the members eligible to receive the recommended dividend
3. Members are requested to inform any change in their address to the Company or to the Company’s Registrar and Share Transfer Agents (RTA) M/s Karvy Computershare Private Limited giving the relevant details.
4. Nomination facility: Consequent to the introduction of Section 109A of the Companies Act, 1956 and as has been brought to the notice of all the Members, individual Members are entitled to make a nomination in respect of the shares held by them. The Members, who desire to send their nominations, are requested to send the Nomination in Form-2B (in duplicate) to the Registrars and Share Transfer Agents of the company for registering the nominations, if any.
5. Members attending the Annual General Meeting are requested to bring the following with them (as applicable):
  - a) Members holding shares in dematerialized form, their DP & Client ID Number(s).
  - b) Members holding shares in physical form, their folio number,
  - c) Copy of the Annual Report & Notice (2008-09).
  - d) The Attendance Slip duly completed & signed in terms of specimen signature lodged with the company.
  - e) Member companies/Institutions are requested to send a copy of the resolution of their Board/Governing Body, authorizing their representative to attend and vote at the Annual General Meeting.

## Notice of the 16th Annual General Meeting (contd...)

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### Explanatory Statement under Section 173 (2) of the Companies Act, 1956

#### Item No. 5:

The Shareholders in the Annual General meeting held on 21<sup>st</sup> September 2004 had approved the appointment of Mr. Apparao V Mallavarapu as Managing Director for a period of 5 years with effect from 1<sup>st</sup> August 2004 to 31<sup>st</sup> July 2009 on the terms and conditions including remuneration and minimum remuneration as set out in the agreement dated 4<sup>th</sup> June 2009 entered into by the Company and Mr. Apparao V Mallavarapu.

As the tenure of contract of Mr. Apparao V Mallavarapu as Managing Director of the Company ends on 31<sup>st</sup> July 2009, the Board of Directors at their meeting held on 4<sup>th</sup> June 2009 approved the re-appointment of Mr. Apparao V Mallavarapu as Managing Director for a period of five years with effect from 1<sup>st</sup> August 2009.

The Board also considered that in view of the volume of business of the Company it is desirable to compensate the Managing Director in accordance with the Industry standards and approved the agreement setting out the terms and conditions including the remuneration payable to Mr. Apparao V Mallavarapu.

The proposed remuneration exceeds the limits prescribed under section 198(4), 309(3) and Schedule XIII as amended and is subject to the approval of members in the General Meeting and of the Central Government. The Company will be making an application to Central Government for obtaining approval for the appointment and payment of remuneration to the Managing Director

The remuneration committee of the Board has approved the remuneration payable to Mr. Apparao V Mallavarapu, Managing Director for a period of 5 years with effect from 1<sup>st</sup> August 2009 to 31<sup>st</sup> July 2014 on the following terms and conditions :

| <b>Particulars</b> | <b>Amount in Rs<br/>(per month)</b> |
|--------------------|-------------------------------------|
| Basic              | 300,000                             |
| Allowances         | 447,800                             |
| Perquisites        | 2,200                               |
| Contribution to PF | 36,000                              |
| <b>Grand Total</b> | <b>786,000</b>                      |

#### TERMS AND CONDITIONS

- Contribution to Provident Fund, Superannuation Fund, Annuity Fund and Gratuity shall be as per the rules in force of the Company from time to time.
- Encashment of leave : As per the rules in force of the Company from time to time.
- Other perquisites : Other perquisites are as applicable to the senior executives of the Company.

Notwithstanding the above, Mr. Apparao V Mallavarapu will be entitled to a commission such that the aggregate of the remuneration and perquisites / benefits including contribution towards provident fund, mentioned above, shall be 5% of the Net Profits of the Company calculated in accordance with the provisions of Sections 198 and 309 of the Companies Act, 1956.

#### OTHER TERMS AND CONDITIONS

- The Managing Director must use his best endeavour to promote the interest of the Company. The Managing Director shall however be entitled to hold directorship of any other company.

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2. The Managing Director shall perform his duties and exercise such powers subject to the supervision and control of the Board.
  3. The Managing Director shall as long as he functions as such shall not become interested or otherwise concerned directly or through his relatives in any selling agency of the Company without prior approval of the Board.

The terms and conditions concerning the remuneration of Mr. Apparao V Mallavarapu, Managing Director in the accompanying notice may be treated as an abstract pursuant to Section 302 of the Companies Act, 1956.

The other disclosures as required are furnished as under :

#### I. GENERAL INFORMATION:

- 1 Nature of industry : Manufacturing
- 2 Date or expected date of commencement of commercial production : September 1994
- 3 In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus : Existing Company
- 4 Financial performance based on given indicators :
 

|   | Year ended March 31 | 2009       | 2008       |
|---|---------------------|------------|------------|
|   |                     | Rs.In lacs | Rs.In lacs |
| Turnover                                |                     | 2290.82    | 5198.56    |
| Profit before Depreciation and Interest |                     | 327.17     | 1500.90    |
| Depreciation                            |                     | 193.29     | 302.54     |
| Interest                                |                     | 77.16      | 103.43     |
| Profit before tax                       |                     | 56.72      | 1094.93    |
| Provision for tax                       |                     | 19.77      | 427.80     |
| Profit after tax                        |                     | 36.94      | 667.13     |
| Net Cash from Operations                |                     | 220.14     | 1972.88    |
- 5 Export performance and net foreign exchange collaborations :
 

|                                 | Year ended    |
|---------------------------------|---------------|
|                                 | 31 March 2009 |
|                                 | (Rs in lacs)  |
| Export of goods on F.O.B. basis | 105.27        |
- 6 Foreign investments or collaborators, if any : NIL

## Notice of the 16th Annual General Meeting (contd...)

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### II. INFORMATION ABOUT THE APPOINTEE:

- 1 Background details : Mr. Apparao V Mallavarapu promoted the Company in 1993 to manufacture Hybrid Micro Circuits. In 1997, he was instrumental in bringing the strategic alliance with C-Mac Industries of Canada. In 1999, he played the lead role in C-Mac Industries moving part of the Frequency Control Products (FCP) manufacturing to Centum. During the dot com / technology bust, when many companies folded and most of them incurred heavy losses, he quickly devised strategies to ensure the company stayed profitable even during the bad years.
- Centum under his leadership has grown to be the largest Hybrid Micro Circuits and Frequency control products company in the country and also the largest exporter of these products.
- In 2004, the Company entered into a collaboration with Solectron Corporation to commence the Electronic Manufacturing Services (EMS) operations which has grown over the years.
- Earlier to promoting Centum, he was General Manager with Rao Insulating Company (RIC) for a decade.
- Mr. Apparao received his Masters of Engineering from Daltech University, Canada. He is a recipient of the Ford foundation scholarship and Engineering research Scholarship in Canada.
- 2 Past remuneration : The remuneration including perquisites paid to Mr. Apparao V Mallavarapu for the year 2008-09 is Rs. 7,86,000/- per month which exceeds the limits prescribed under Schedule XIII.
- 3 Recognition or awards : Under his leadership the Company received many Awards from Trade Bodies, Government and Customers
- 4 Job profile and his suitability : Mr. Apparao V Mallavarapu is responsible for overall Management of the Company and is best suited for the position in the current scenario.
- 5 Remuneration proposed : 

| Particulars        | Amount in Rs.(per month) |
|--------------------|--------------------------|
| Basic              | 300,000                  |
| Allowances         | 447,800                  |
| Perquisites        | 2,200                    |
| Contribution to PF | 36,000                   |
| Grand Total        | 786,000                  |
- 6 Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin) : The proposed remuneration is in line with the Industry standards.
- 7 Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any : None

**III. OTHER INFORMATION:**

- |   |  |   |                |
|---|--|---|----------------|
| 1 | Reasons of loss or inadequate profits                    | : | Not applicable |
| 2 | Steps taken or proposed to be taken for improvement      | : | Not applicable |
| 3 | Increase in productivity and profits in measurable terms | : | Not applicable |

Your directors recommend the resolution as set out at item No. 5 of the notice for your approval. None of the Directors of the Company is in any way deemed to be concerned or interested in the aforesaid resolution except Mr. Apparao V Mallavarapu himself.

**ITEM NO. 6:**

The Centum ESOP 2007 Plan does not contain a clause to provide for the surrender of options.

SEBI ESOP Guidelines provide that any variation of the ESOP Plan should not be detrimental to the interests of the option holders and shall be approved by the shareholders by Special resolution.

The surrender of options, if included in the ESOP Plan is not detrimental to the interest of the option holders.

Your directors recommend the resolution as set out at item No. 6 of the notice for your approval. None of the Directors of the Company are in any way deemed to be concerned or interested in the aforesaid resolution.

**ITEM NO. 7:**

The Articles of Association of the Company currently does not authorise the buyback of shares and other specified securities.

It is proposed to amend the Articles of Association by incorporating a new clause 14A after the existing Clause 14. Pursuant to Section 31 of the Companies Act, 1956, the amendment of Articles of Association shall be approved by shareholders by special resolution,

Your directors recommend the resolution as set out at item No. 6 of the notice for your approval. None of the Directors of the Company are in any way deemed to be concerned or interested in the aforesaid resolution.

By the order of the Board  
for **Centum Electronics Limited**

Place: Bangalore  
Date: 4 June 2009

**Apparao V Mallavarapu**  
**Managing Director**

**Brief details of director proposed to be appointed / re-appointed at the Annual General Meeting**

Mr. Som Mittal is willing to act as a Director of the company, if so re-appointed as a director of the company.

Mr. Som Mittal is President of NASSCOM, the premier trade body and the "Chamber of Commerce" for the IT - BPO industry in India. In this role, he is responsible for representing the Indian IT - BPO software and services industry to multiple stakeholders. His key responsibility areas include enhancing India's leadership position in the global offshore IT-BPO and work towards further growing the market by enabling industry to tap into emerging opportunity areas and to strengthen the domestic market in India.

Mr. Som Mittal assumed office of the President, NASSCOM in January 2008. He has a rich and wide ranging work experience of over 30 years in corporate India, he has been a part of the Indian IT industry for the past 18 years. Before joining NASSCOM, he was heading the Services business for Hewlett Packard in Asia Pacific and Japan. In addition to chairing NASSCOM in 2003-04, and being part of the NASSCOM Executive Council for several years, Som Mittal has been closely associated with other industry bodies like MAIT and CII. He has played and active role in the formulation and implementation of Karnataka's IT policy. He has been on the CII National Council for several years and part of the Chief Ministers IT Task Force in Karnataka. He is also the Founding member of the IIIT, Bangalore and the Board of IT Education Standards.

Mr. Som Mittal holds a B.Tech from IIT, Kanpur and an MBA from Indian Institute of Management (IIM), Ahmedabad. Additionally, he has attended executive programs at Harvard and IMD.

Mr. Som Mittal does not hold any shares of the company.

## Directors' Report

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Your Directors have pleasure in presenting their Sixteenth Annual Report on the business and Operations of your Company and the audited Statement of Accounts for the year ended 31<sup>st</sup> March 2009.

### FINANCIAL HIGHLIGHTS

|  | Rs. Millions |        |
|--|--------------|--------|
| Year ended March 31                          | 2009         | 2008   |
| Revenue                                      | 229.08       | 519.86 |
| Profit before Depreciation and Interest      | 32.72        | 144.18 |
| Depreciation                                 | 19.33        | 24.35  |
| Interest                                     | 7.72         | 10.34  |
| Profit before tax                            | 5.67         | 109.49 |
| Provision for tax                            | 1.98         | 42.78  |
| Profit after tax                             | 3.69         | 66.71  |
| Proposed Dividend including distribution tax | 8.66         | 8.66   |

### PERFORMANCE

The current year is the first full year of operations after hiving off the Frequency Control Products (FCP) business into the joint venture company. During the current year of operations, your company has registered a revenue of Rs.229.08 million and posted Profit before Taxes of Rs. 5.67 million.

During the year, significant contributions were made to India's most prestigious moon mission Chandrayaan - I. Many Modules were developed and qualified which performed exceedingly well during the Chandrayaan Mission. Your Company also developed complex modules as a part of Indigenisation programme for major defence customers.

### SUBSIDIARY

The subsidiary, Centum Rakon India Private Limited completed its first full year of operations. During the year, Centum Rakon has registered revenue of Rs.289.87 million and posted Loss before Taxes of Rs. 11.68 million.

### DIVIDEND

A dividend of 10% on the paid up share capital of the company is recommended. The dividend payout is Rs. 74,00,000 and the tax on dividend for the year is Rs. 12,57,630.

### CONSOLIDATED FINANCIAL RESULTS

The Consolidated Financial statements have been prepared by the Company in accordance with the applicable Accounting standards (AS-21, AS-23 and AS-27) issued by the Institute of Chartered Accountants of India and the same together with the Auditor's Report thereon form part of the Annual Report.

### QUALIFICATION IN AUDITOR'S REPORT OF TRANSACTIONS WITH CENTUM INDUSTRIES PVT. LTD.

During the years 2005-06 to 2007-08, the Company had transactions with Centum Industries, a private company in which Mr. Apparao V Mallavarapu, Managing Director is a member and director. Pursuant to Section 297 of the Companies Act, the Company was required to obtain the prior approval of the Central Government for the transactions with Centum Industries Pvt. Ltd. Since the prior approval was not obtained, the company had applied for the permission and also for the condonation by the Company Law Board. The same was condoned by the Company Law Board.

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On January 21, 2009, the company also made an application for prior approval to the Regional Director, Ministry of Corporate Affairs, for transacting with Centum Industries. The approval was granted for a period of three years from January 29, 2009. The company has applied to the Company Law Board for extending the approval and condonation for the period from 1<sup>st</sup> Apr 08 to 29<sup>th</sup> Jan 09 also.

## HUMAN RESOURCES

The human capital has been recognized as a vital factor in achieving the goals and objectives of the organization. Emphasis is placed to build a network of dedicated and experienced professionals who would strive for organizational growth by maximizing the effectiveness while the policies and practices would foster employees' satisfaction, retention and productivity.

## PARTICULARS OF EMPLOYEES

Information pursuant to Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, forms part of this Report. However, as per the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the shareholders of the Company excluding the statement of particulars of employees under Section 217 (2A) of the Act. Any shareholder interested in obtaining a copy of the statement may write to the Company Secretary at the Registered Office address.

## EMPLOYEE STOCK OPTION PLAN

As a measure of rewarding the employees, your company had introduced an Employee Stock Option Plan (ESOP) during the previous year.

The Compensation Committee granted a further 88,700 options to the employees of the Company and its subsidiary, Centum Rakon India Pvt. Ltd bringing the total outstanding options to 161,200.

The particulars prescribed under Guideline 12.1 of the SEBI (Employee Stock Option scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are given in the annexure included in this report

## DIRECTORS

The Changes that had occurred in the composition of the Board of Directors are given below:

Dr. P Rama Rao was appointed as an Additional director w.e.f. August 18, 2008

In terms of the provisions of Section 256 and other applicable provisions, if any, of the Companies Act, 1956, Mr. Som Mittal, Director, retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment. The particulars relating to Mr. Som Mittal are mentioned in the Report of Corporate Governance. Your Directors recommend for re-appointment of Mr. Som Mittal.

None of the Directors of the company are disqualified for being appointed as Directors as specified in Section 274 of the Companies Act, 1956.

The required resolutions for re-appointment of the aforesaid director have been included in the notice convening ensuing Annual General Meeting.

## DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of Companies Act, 1956, the Directors confirm that:

- i. in the preparation of annual accounts for the year ended 31<sup>st</sup> March 2009 all the applicable Accounting Standards had been followed along with the proper explanations relating to material departures, if any;
- ii. accounting policies were adopted and applied consistently and made judgements and estimates that

## Directors' Report (contd...)

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are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31<sup>st</sup> March 2009 and of the profit or loss of the Company for year ended on that date;

- iii. proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- iv. the Directors had prepared the annual accounts on a going concern basis.

### **CORPORATE GOVERNANCE**

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the company has complied with the requirements. The Certificate on compliance of Corporate Governance requirements, issued by the Statutory Auditors is annexed to the Report of Corporate Governance.

### **AUDITORS**

M/s BSR & Co., Chartered Accountants, Statutory Auditors of the company will retire at the forthcoming annual general meeting and they are eligible for re-appointment. Your Directors recommend the re-appointment of the above Statutory Auditors and resolution in this regard forms part of the agenda for the forthcoming Annual General Meeting, requiring approval of the shareholders. The retiring auditors have furnished a certificate of their eligibility for reappointment under Sec 224 (1B) of the Companies Act, 1956 and have indicated their willingness to continue.

### **MANAGEMENT DISCUSSION AND ANALYSIS**

In compliance with the requirements of the listing agreement, a detailed Management Discussion and Analysis Report giving details of the company's business and operating results is annexed to this report.

### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, RESEARCH & DEVELOPMENT AND FOREIGN EXCHANGE EARNINGS AND OUTGO.**

The particulars prescribed under subsection (1) (e) of Section 217 of the Companies Act, 1956 read with the companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are given in the annexure included in this report.

### **ACKNOWLEDGEMENTS**

Your Directors thank the customers for their continued patronage and the investors, bankers and vendors for their continued support.

Your Directors acknowledge and thank the invaluable contributions of all the employees, who have demonstrated their skill, teamwork and commitment through their competence, hard work, cooperation and support.

Your Directors would also like to place on record the support received from, the Electronic Hardware Technology Park, the Customs and Excise Departments, the Reserve Bank of India, the Department of Industries and Commerce, Karnataka, the Karnataka Udyog Mitra and all the other Central and State Governmental agencies.

for and on behalf of the Board

Place: Bangalore  
Date: 4 June 2009

Apparao V Mallavarapu  
Managing Director

S. Krishnan  
Director

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**ANNEXURES TO THE DIRECTORS' REPORT****INFORMATION PURSUANT TO THE SECTION 217(1)(e) OF THE COMPANIES ACT, 1956.****1. CONSERVATION OF ENERGY**

The Company has started a Small Group activity (Focus Team) to conserve energy. The team identified several energy saving projects & implemented them which resulted in energy cost savings of more than 30% .

Some of the energy conservation measures, your company had undertaken during the period under report are:

- Improved Power Factor (from 0.9 to 0.97) by connecting APFC panel
- Transformer Compensation capacitor was connected
- All employees were made aware of the power saving they can do & encouraged them to switch off lights /AC when not required
- Chiller & AC temperature were kept at Optimum level
- Auto Timer control for the Office lightings
- Localised Controls for Air Handling Units given in all departments
- Enabled Auto save for all computers
- Everyday, energy costs are monitored & suitable corrective actions are taken.

**2. TECHNOLOGY ABSORPTION, RESEARCH AND DEVELOPMENT**

- The company continued to develop several complex products.
- Space Grade DC-DC convertors were developed and qualified for use onboard various Satellite programs
- Significant contributions were made to the India's most prestigious moon mission Chandrayaan - I. Many Modules were developed and qualified which performed exceedingly well during Chandrayaan Mission.
- Development of complex modules as a part of Indigenisation programme for major defence customers.
- Many modules were developed in the Navigational Systems area.

**3. FOREIGN EXCHANGE EARNINGS AND OUTGO**

Foreign Exchange Earnings and Outgo are reported in Notes to Accounts No. 20 (n) & (o) and forming part of the Balance Sheet and Profit and Loss Account for the year ended 31st March, 2009.

**Directors' Report (contd...)**

**EMPLOYEE STOCK OPTION PLAN**

Particulars prescribed under Guideline 12.1 of the SEBI (Employee Stock Option scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and forming part of the Directors Report.

|    |   |  |
|----|---|--|
| 1  | Total Size of ESOP  | 250,000 shares (each option represents one share)  |
| 2  | Options granted during the year   | NIL  |
| 3  | Pricing Formula   | Closing price, prior to the date of the meeting of the Compensation Committee in which Options are granted   |
| 4  | Options vested as on March 31, 2009   | 18,125   |
| 5  | Options exercised during the year   | Nil  |
| 6  | Number of shares arising as a result of exercise of option  | NA   |
| 7  | Options lapsed  | 14,900   |
| 8  | Variation of terms of options   | NA   |
| 9  | Money realized by exercise of options   | NA   |
| 10 | Total number of options in force as on March 31, 2009   | 72,500   |
| 11 | Grant to senior management personnel  | Gopinath Vedprakash 7400<br>Vinod S Chippalkatti 12200<br>P Unnikrishnan 9400<br>Desikan KS 11100<br>Sandhya Thyagarajan 7100  |
| 12 | Employees receiving more than 5% of the options in a year   | Apart from the senior management personnel mentioned above, the employees are:<br>Bhagya M 5000<br>M Chandrashekar 5000<br>M Ramamadhav 4900<br>Brahmananda Reddy 4800 |
| 13 | Employees receiving grants equal or more than 1% of the issued capital                            | NA   |
| 14 | Diluted EPS pursuant to issue of shares on exercise of options calculated in accordance with AS20 | Re. 0.03   |
| 15 | Impact on Net Profit and EPS  | The Profit after tax would be lower by Rs. 3,473,726<br>The EPS would be lower by Rs. 0.47   |
| 16 | Method used to estimate the fair value of options   | Black Scholes model  |
| 17 | Significant Assumptions used  | a. Dividend Yield 10%<br>b. Risk free interest rate 5.7-6.5%<br>c. Expected Life of Option 1-4 years<br>d. Expected Volatility 94.83%                                  |

For and on behalf of the Board

Place: Bangalore  
Date: 4 June 2009

Apparao V Mallavarapu  
Managing Director

S. Krishnan  
Director

## Management Discussion & Analysis

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### COMPANY BACKGROUND

Centum Electronics Limited (Centum) designs and manufactures advanced electronics systems, subsystems and components. It caters to Defense, Space, Communications and Automotive Electronics markets.

Centum has been steadily increasing its product and service range, geographical reach and catering to increased industry segments in its goal to expand its offerings and become the sophisticated one stop shop OEMs are seeking.

With extensive design & development expertise and leading edge enabling technologies Centum is now the industry leader in India in electronics solutions & components.

Our customers include world and Indian leaders in Defense & Space Electronics.

The strategy over the years has been consistent and is based on high customer focus with competent people, state of the art technology and high quality products.

### INDUSTRY STRUCTURE AND DEVELOPMENT

Broadly, the electronics industry is categorized under Entertainment, Medical, Defense, Space, Communications and Industrial segments

As a company we identified Defense and Space segments as thrust area and have been working on this area for the past few years.

### DEFENSE

The Indian Defense Budget is increasing year on year both in terms of the total value and also as a percentage of the budget allocation itself. Of the total defense budget, the percentage of expenditure towards Capital head is increasing every year creating an even bigger opportunity for the defense market. Also studies show that Indian defense market is one of the most attractive defense markets in the world.

Till recently, the indigenous defence manufacturing was restricted to Defense Public Sector Units and Ordnance Factories only. However, in the recent past, the Government is encouraging the private industry participation. Due to increasing requirements, the Defense PSUs and the Ordnance Factories are also actively working with the private industry to create new capacities and capabilities.

More recently, the Government of India has created a huge opportunity by introducing the defence offset policy. Due to this policy the international suppliers of defense products to India are actively looking to procure from high quality companies in the defense segment.

### SPACE

India has a space program which is very vibrant and successful. The Government of India has given the Indian Space Programme a special status and the budget allocation in the 11th Plan period is 300% higher than the 10th Plan period.

In addition to meeting the objectives of the Indian Space Program, the Indian Space Agency has become an attractive option for other countries to build and launch satellites for them. This in turn further increases the potential business in this segment

Due to the above reasons, the Indian Space Agency is actively involved in developing the private industry in meeting their increasing requirements.

## Management Discussion & Analysis (Contd...)

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### STRATEGIES & BUSINESS OUTLOOK

Your company having established as major player in the Defense and Space business, expects to see the benefits of the growth in these sectors

Our strategy will be to continue to consolidate and grow the product business thro' innovation, technology, quality and overall competitiveness.

Over the years, your company has moved into design & manufacturing of systems & modules for the Defense & Space industry by delivering advanced and complex products for the first time by an Indian company

For faster growth and with our proven ability to absorb technologies and excellence in design, manufacturing and operations, we would also be exploring the opportunities to transfer design and manufacturing of Hi-Tech products from high cost countries to India Last year we constituted a team to explore the defense offset opportunities. This has resulted in your company signing MOUs with large American and European conglomerates. These may result in significant business in the years to come. In a small way, your company has already received an order from a US defense company and we expect more in the future. To address the offset opportunity, which can be very large, we will have to make significant investments in infrastructure, plant & machinery and other hard assets.

Your company is developing products in partnership with Defense PSUs and the Defense Research Labs towards indigenization of products that are currently being imported. Due to the nature of Defense business, the approval times may be long but once approved will result in steady revenue stream over years due to the long product life cycles.

Your company is actively pursuing some large projects in the space business which has long gestation times. Apart from these large projects, your company is also working on indigenizing high end standard products such as DC DC converters which have a steady revenue stream.

During the year, significant contributions were made to India's most prestigious moon mission Chandrayaan - I. Many Modules were developed and qualified which performed exceedingly well during the Chandrayaan Mission.

Your company entered into a joint venture with Rakon, New Zealand, world leaders in FCP during Feb 2008. The Joint Venture combines Centum's strong design and low cost manufacturing capability with Rakon's OXCO design and manufacturing expertise developed in France. The project transfer has been smooth, successful and was on time & on budget.. Most of the products that were manufactured in France have already been transferred successfully to the joint venture and the few remaining ones will be transferred during the course of the current year. This has helped the Joint Venture to increase its revenues and will continue to do so. Additionally, due to the cost advantage offered by the Joint Venture, we expect the market share to increase there by increasing the revenues further.

### HUMAN RESOURCES

Your company has some of the best talent in the country coming from various domains of experience. Great emphasis is given in ensuring that the employees have a rewarding experience working for your company. Special attention is given for training and upgrading of peoples' skills, providing excellent working conditions, bench mark with other large companies while rewarding the employees.

We introduced an Employee Stock Option Plan (ESOP) scheme to ensure the retention and attraction of the best talent.

The Kaizen and Lean Six Sigma initiatives have been in place and have been institutionalized with all the employees of the company taking active part in the same. This has helped in improving the operational excellence continuously and the company has seen the benefits of this in the form of better customer satisfaction.

#### RISK FACTORS

As our business is specific to customers and also the products are hi-tech and complex, sometimes the approval cycles can get much longer than originally planned. This can result in delays in deliveries affecting the revenues.

#### INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your company has placed strong emphasis and effort on the internal control systems. The internal checks and balances are augmented by a formal system of Internal Audit by Ernst & Young.

#### FINANCIAL CONDITION

##### SHARE CAPITAL

The share capital of the company stands at Rs.74 million.

##### LOANS

The Secured Loans have decreased by Rs. 20.74 million from Rs. 40.72 million as on 31st March 2008 to Rs. 19.98 million as on 31st March 2009

##### FIXED ASSETS

The Capital expenditure for 2008-09 is Rs. 20.70 million.

##### WORKING CAPITAL

Inventories has gone up by Rs. 1.11 million from Rs 73.18 million as on 31st March 2008 to Rs 74.29 million as on 31st March 2009.

Receivables has gone up by Rs. 15.60 million from Rs. 8.39 million as on 31st March 2008 to Rs. 23.99 million as on 31st March 2009.

Current liabilities has gone up by Rs.8.52 million from Rs. 103.56 million as on 31st March 2008 to Rs. 112.08 million as on 31st March 2009.

##### CASH FLOWS

|                                       | <i>Rs. million.</i> |
|---------------------------------------|---------------------|
| Cash flows from Operating activities  | 22.01               |
| Cash outflows in Financing activities | (36.98)             |
| Cash outflows in Investing activities | (9.47)              |

##### RESULTS OF OPERATIONS

The business operation for 2008-09 resulted in the Company, achieving sales of Rs.215.26 million as against Rs. 501.85 million for 2007-08.

The revenue drop from Rs. 519.86 million to Rs. 229.08 million is mainly due to hiving off the FCP division into the joint venture with Rakon and completion of a major space project during the year.

The Profit before tax for the year 2008-09 is Rs. 5.67 million as against Rs. 109.49 million for the year 2007-08.

## Management Responsibility for Financial Statements

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The accompanying financial statements of Centum Electronics Limited are the responsibility of management and are approved by the Board of Directors of your company.

These financial statements have been prepared by management in conformity with Indian generally accepted accounting principles and includes amounts that are based on best estimates and judgments.

Management of the company in furtherance of the integrity and objectivity of data in the financial statements has developed and maintains systems of internal accounting controls. Management believes that the systems of internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee. The Audit Committee reviews the Company's annual financial statements and formulates the appropriate recommendations to the Board of Directors. The Audit Committee has full access to the auditors appointed by the shareholders, with or without the management being present.

The auditors appointed by the shareholders, BSR & Co., Chartered Accountants have examined these financial statements, and their report is presented hereafter.

K S DESIKAN  
CFO

APPARAO V MALLAVARAPU  
Managing Director

## Report on Corporate Governance

### 1) COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Centum Electronics Limited firmly believes that implementation of good corporate governance will help the Company to achieve Corporate goals and enhance stakeholders value. Your company's philosophy on corporate governance envisages attainment of the highest level of transparency, accountability and integrity in all facets of its operation. The fundamental objective is enhancement of long-term shareholder value, while at the same time protecting the interests of other stakeholders.

### 2) BOARD OF DIRECTORS

#### A) COMPOSITION

The composition of the Board is 4 members. There are 3 independent directors on the Board of the company.

The composition of the Board of Directors as at March 31, 2009 is as follows:

| Name                      | Category                      | Designation       | Number of other Directorships * | Number of other Board Committees Membership/ Chairmanship** |
|---------------------------|-------------------------------|-------------------|---------------------------------|---|
| Mr. Apparao V Mallavarapu | Executive and Non Independent | Managing Director | 4                               | 5   |
| Mr. Som Mittal            | Non-Executive and Independent | Director          | 2                               | 2 (Including 2 Chairmanship)                                |
| Mr. S. Krishnan           | Non-Executive and Independent | Director          | 1                               | 1   |
| Dr. P Rama Rao            | Non-Executive and Independent | Director          | Nil                             | Nil   |

Mr. P V Prasad was appointed as an Alternate Director for Mr. S Krishnan for the period 26 July 2008 to 15 October 2008

· Only the Directorships of the Indian Companies have been taken into consideration.

\*\* List includes Centum Electronics Limited.

None of the Directors of the company were members in more than ten committees or acted as chairman of more than five companies across all companies in which they are directors.

None of the Independent Non-Executive directors of the company have any pecuniary relationships or transactions with the company.

#### B) BOARD MEETINGS

The Board has met four times during the financial year 2008-09 i.e. on June 29, 2008, July 31, 2008, October 29, 2008, January 28, 2009. The details of the attendance of each director at the board meetings and the last Annual General Meeting ('AGM') are as given below:

| Name of the Director      | Number of meetings attended | Attendance at the last AGM |
|---------------------------|-----------------------------|----------------------------|
| Mr. Apparao V Mallavarapu | 4                           | Yes                        |
| Mr. Som Mittal            | -                           | No                         |
| Mr. S. Krishnan           | 3                           | No                         |
| Dr. P Rama Rao*           | 2                           | NA                         |

Mr. P V Prasad attended the meeting held on 31 July 2008 as the alternate director to Mr. S Krishnan.

\* Appointed as director w.e.f. August 18, 2008

## Report on Corporate Governance (Contd...)

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### **C) CODE OF CONDUCT FOR DIRECTORS AND SENIOR MANAGEMENT**

The company has adopted the Code of Conduct for Directors and Senior Management and the company receives the annual affirmations with regard to the adherence to the Code of Conduct for the financial year 2008-09. The Code of Conduct is available on the company's website ([www.centumelectronics.com](http://www.centumelectronics.com))

### **D) TERM OF OFFICE OF DIRECTORS**

Pursuant to the provisions of Section 255, 256 and all other applicable provisions of the Companies Act, 1956, two-thirds of the directors are in the category of directors required to retire by rotation and one-third of those directors would retire every year and if eligible, they might seek re-appointment at the annual general meetings.

### **E) APPOINTMENT OF DIRECTORS**

The Board of Directors appointed Dr. P Rama Rao as Additional Director w.e.f. 18.08.2008.

Dr. P. Rama Rao, presently Chairman, Governing Council, ARCI, Hyderabad, obtained his Ph.D. degree in Physics-Metallurgy from Banaras Hindu University (BHU), Varanasi, India in 1964. He was a post-doctoral research associate during 1966-67 at the University of Pennsylvania. He started his career as a faculty member of the Department of Metallurgy at the Indian Institute of Science, Bangalore in 1960 and then moved to BHU in 1962 as a Lecturer. He was appointed Professor of Physical Metallurgy at BHU in 1975, in which position he continued till 1982. For the next 9 years he served as Director, Defence Metallurgical Research Laboratory (DMRL), Hyderabad. In 1991 Dr. Rao was appointed Secretary to Government of India, Department of Science and Technology, a position he held till 1995. Additionally, he held charge as Secretary, Department of Ocean Development. Subsequently, during 1996-99, he served as Chairman, Atomic Energy Regulatory Board, Government of India and as Vice-Chancellor, University of Hyderabad during 1999-2002. He was appointed a Member of the Atomic Energy Commission, Government of India in 2004. He was awarded a distinguished Professorship by the Indian Space Research Organisation which he held during 2002-07

He spearheaded the setting up of the following institutions: The Heavy Alloy Penetrator Plant (HAPP), Tiruchirapally, (a manufacturing plant, the first full-fledged Ordnance Factory to come up in the country based on indigenous R & D), International Advanced Research Centre for Powder Metallurgy & New Materials (ARCI), Hyderabad, Non-Ferrous Materials Technology Development Centre (NFTDC), Hyderabad, National Institute of Ocean Technology, Chennai, Safety Research Institute, Kalpakkam and the Technology Development Board (TDB) of the Department of Science and Technology, New Delhi.

He is a recipient of the Shanti Swarup Bhatnagar Prize (1979), the Platinum Medal of the Indian Institute of Metals (1994), the Tata Gold Medal (1992) and the Homi J. Bhabha Award for Applied Sciences (1986) and the Materials Science Prize of the Indian National Science Academy (1996). The Union Ministry of Steel gave him the honour of National Metallurgist in 1999. He was awarded a "Millennium Plaque of Honour" (2003) and Jawaharlal Birth Centenary Award (1999) by the Indian Science Congress Association. He received the Presidential honours Padma Shri in the year 1989 and Padma Bhushan in the year 2001. He was awarded "General Medal: The Meghnad Saha Medal 2004" by the Indian National Science Academy and the "Distinguished Life Membership" award (2004) by the American Society of Materials, ASM (International).

Dr. P Rama Rao does not hold any shares of the company.

### **F) RE-APPOINTMENT OF DIRECTORS**

In terms of applicable provisions of the Companies Act, 1956, Mr. Som Mittal, is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Som Mittal is President of NASSCOM, the premier trade body and the "Chamber of Commerce" for the IT - BPO industry in India. In this role, he is responsible for representing the Indian IT - BPO software and services industry to multiple stakeholders. His key responsibility areas include enhancing India's leadership position in the global offshore IT-BPO and work towards further growing the market by enabling industry to tap into emerging opportunity areas and to strengthen the domestic market in India.

Mr. Som Mittal assumed office of the President, NASSCOM in January 2008. He has a rich and wide ranging work experience of over 30 years in corporate India, he has been a part of the Indian IT industry for the past 18 years. Before joining NASSCOM, he was heading the Services business for Hewlett Packard in Asia Pacific and Japan. In addition to chairing NASSCOM in 2003-04, and being part of the NASSCOM Executive Council for several years, Som Mittal has been closely associated with other industry bodies like MAIT and CII. He has played an active role in the formulation and implementation of Karnataka's IT policy. He has been on the CII National Council for several years and part of the Chief Ministers IT Task Force in Karnataka. He is also the Founding member of the IIIT, Bangalore and the Board of IT Education Standards.

Mr. Som Mittal holds a B.Tech from IIT, Kanpur and an MBA from Indian Institute of Management (IIM), Ahmedabad. Additionally, he has attended executive programs at Harvard and IMD.

Mr. Som Mittal does not hold any shares of the company.

The directors recommend the re-appointment of Mr. Som Mittal as a Director of the company and the related resolution is included in the notice convening the ensuing Annual General Meeting.

### 3) BOARD COMMITTEES

The Board of Directors has constituted committees, which are mandatory with appropriate delegation of powers. These committees are functioning as required.

#### A) AUDIT COMMITTEE

As a measure of good corporate governance and to provide assistance to the Board of Directors in overseeing the Board's responsibilities, an Audit Committee consisting of all independent Directors was formed on January 29, 2001 as a Sub-committee of the Board. The functions of the Audit Committee include:

- Overseeing of the company's financial reporting process and disclosure of the financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending the appointment and removal of the external auditor, fixation of the audit fees and also approval for payment of any other services.
- Reviewing the adequacy of the Internal Control systems with the Management, statutory and internal auditors.
- Reviewing the company's financial and risk management policies.

The composition of the audit committee is as follows:

|                           |          |               |
|---------------------------|----------|---------------|
| Mr. Som Mittal            | Chairman | Non Executive |
| Mr. Apparao V Mallavarapu | Member   | Non Executive |
| Mr. S. Krishnan           | Member   | Non Executive |
| Dr. P. Rama Rao           | Member   | Non Executive |

The Chairman of the Audit Committee is an Independent Director.

The audit committee has met 4 times during the financial year i.e. June 29, 2008, July 31, 2008, October 29, 2008 and January 28, 2009. The details of the attendance at such meetings is as follows:

| Name of the Member        | Number of Meetings Held during the year | Number of meetings attended during the year |
|---------------------------|---|---|
| Mr. Som Mittal            | 4                                       | -   |
| Mr. Apparao V Mallavarapu | 4                                       | 4   |
| Mr. S. Krishnan           | 4                                       | 3   |
| Mr. Dr. P. Rama Rao@      | 1                                       | 1   |

Mr. P V Prasad attended the meeting held on 31 July 2008 as the alternate director to Mr. S Krishnan

@ Appointed as member w.e.f. January 28, 2009.

The Company Secretary acts as the Secretary to the Committee.

## Report on Corporate Governance (Contd...)

### B) REMUNERATION COMMITTEE

The remuneration committee was constituted on 29 January 2002 to review the payment of remuneration to the executive directors. The composition of the remuneration committee is as follows:

|                                 |          |               |
|---------------------------------|----------|---------------|
| Mr. Som Mittal                  | Chairman | Non-executive |
| Mr. S. Krishnan                 | Member   | Non-executive |
| Mr. Dr. P Rama Rao <sup>@</sup> | Member   | Non Executive |

@ Appointed as member w.e.f. January 28, 2009

During the year, on receiving the approval of the shareholders, remuneration of Rs 6,00,000/- has been paid to Non-Executive Directors for the years 2008-09. A sitting fee of Rs.2,000/- per meeting (Board and Audit Committee) is paid to the Non-Executive Directors attending the meeting in person. As there was no change in the terms of employment of the Managing Director, the committee has not met during the year.

The Company is paying Remuneration to the Managing Director of the Company. The details of the same are disclosed in the notes to accounts under Managerial Remuneration.

The Company Secretary acts as the Secretary to the Committee.

### C) SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

The shareholders'/Investors' Grievance Committee has been formed for the effective redressal of the investors' complaints, reviewing the activities of the share transfer committee and reporting of the same to the Board periodically.

The composition of the shareholders committee is as follows:

|                         |          |
|-------------------------|----------|
| Mr. Som Mittal          | Chairman |
| Mr. Apparao Mallavarapu | Member   |

**Compliance Officer** - Mr. Ellroy Furtado, Company Secretary

The Company has received complaints/requests during the year from the shareholders. All the complaints have been redressed to the satisfaction of the shareholders. An analysis of the complaints /requests is as follows:

#### Status of Redressal of investors grievances from 1.4.2008 to 31.3.2009

| Sl. No. | Nature of Complaints             | Opening Balance | Received | Redressed | Pending |
|---------|----------------------------------|-----------------|----------|-----------|---------|
| 1.      | Non-receipt of securities after  | 0               | 7        | 7         | 0       |
| 2.      | Non-receipt of Dividend Warrants | 0               | 5        | 5         | 0       |
| 3.      | Non receipt of securities        | 0               | 16       | 16        | 0       |
| 4.      | Others                           | 0               | 104      | 104       | 0       |
|         | Total                            | 0               | 132      | 132       | 0       |

### D) COMPENSATION COMMITTEE

The Compensation Committee has been formed for the administration and supervision of the Employee Stock Option Plan (ESOP).

The composition of the Compensation committee is as follows:

|                         |          |
|-------------------------|----------|
| Mr. Som Mittal          | Chairman |
| Mr. S. Krishnan         | Member   |
| Mr. Apparao Mallavarapu | Member   |

The Committee had granted 87,400 options to the employees of the Company.

#### 4) SUBSIDIARY COMPANIES

The company has a subsidiary, Centum Rakon India Private Limited, which is a joint venture between the Company and Rakon Ltd of New Zealand.

Mr. S Krishnan, an independent director has been appointed as a director of the subsidiary.

#### 5) DISCLOSURES

##### a) Related Party Transactions

There are no materially significant related party transactions i.e. transactions of the company of material nature with its promoters, the Directors, the Management, their subsidiaries or the relatives etc. that may have potential conflict with the interests of the company at large.

Details of the significant related party transactions with the group companies are given in the appended financial statements under Note No. 20(t) of the notes to the accounts of the financial statements.

##### b) Compliance with Statutory/legal requirements

There are no non-compliances by the company and no penalties, strictures imposed on the Company by the Stock Exchange or SEBI or any other statutory authority, on any matter related to capital matters, during the last three years.

##### c) Compliance with Accounting Standards

Your company confirms that it has complied with all the applicable Accounting Standards issued by the Institute of Chartered Accountants of India.

##### d) Compliance of mandatory requirements

The company is pleased to inform you that your company has complied with all the mandatory requirements of the Clause 49 of the Listing Agreement except the following:

- The chairman of the audit committee was not present at the Annual General Meeting of the Company held on 27 September 2008

#### 6) GENERAL BODY MEETINGS

##### a) Date and venue of the last three AGMs are given below:

| Year    | Date               | Venue   | Time     | Number of special resolutions |
|---------|--------------------|---|----------|-------------------------------|
| 2005-06 | September 11, 2006 | Senate Hall, The Capitol, Raj Bhavan Road, Bangalore-560001           | 3.30. PM | 0                             |
| 2006-07 | December 3, 2007   | No. 44, KHB Industrial Area, Yelahanka New Township, Bangalore-560064 | 11:00 AM | 3                             |
| 2007-08 | September 27, 2008 | No 44, KHB Industrial Area Yelahanka New Township, Bangalore-560064.  | 10:00 AM | 0                             |

##### b) Means of Communication

The company has its own website viz. [www.centumelectronics.com](http://www.centumelectronics.com). The quarterly, half- yearly and annual results are posted on the company's website for the information of the shareholders.

The results are also published in Economic Times (Bangalore and Mumbai) and Udayavani (Bangalore).

All the material information is promptly sent to the stock exchanges where the shares of the company are listed. The Management Discussion and Analysis Report form part of the Annual Report. Annual reports are sent to each shareholder, brokers and stock exchanges.

The official news releases and the presentations made to institutional investors or to the analysts would be made available in future.

## Report on Corporate Governance (Contd...)

### 7) GENERAL SHAREHOLDING INFORMATION

#### A. Annual General Meeting

**Date and Time** 30 July 2009 at 11.00 a.m.  
**Venue** No. 4, 12<sup>th</sup> KM, Bellary Road, Opp. Government Flying School, Jakkur, Bangalore 560064

**B. Dates of book closure** 18 July 2009 to 30 July 2009 (both days inclusive)

**C. Listing on stock exchanges** Bombay Stock Exchange Ltd. (BSE)  
National Stock Exchange of India Ltd. (NSE)

**D. Stock Code** BSE - 517544  
NSE - CENTUM

#### E. Market price data

| Month     | Price - BSE |       | Index<br>BSE Sensex |           | Price - BSE |       | Index<br>S&P CNX Nifty |          |
|-----------|-------------|-------|---------------------|-----------|-------------|-------|------------------------|----------|
|           | High        | Low   | High                | Low       | High        | Low   | High                   | Low      |
| Apr-2008  | 124.30      | 94.50 | 17,480.74           | 15,297.96 | 124.80      | 92.00 | 5,230.75               | 4,628.75 |
| May-2008  | 114.00      | 90.20 | 17,735.70           | 16,196.02 | 120.00      | 94.00 | 5,298.85               | 4,801.90 |
| June-2008 | 112.00      | 81.95 | 16,632.72           | 13,405.54 | 110.00      | 78.10 | 4,908.80               | 4,021.70 |
| July-2008 | 109.00      | 69.45 | 15,130.09           | 12,514.02 | 102.95      | 69.15 | 4,539.45               | 3,790.20 |
| Aug-2008  | 97.40       | 72.80 | 15,579.78           | 14,002.43 | 99.90       | 70.00 | 4,649.85               | 4,201.85 |
| Sep-2008  | 83.80       | 55.00 | 15,107.01           | 12,153.55 | 88.70       | 54.50 | 4,558.00               | 3,715.05 |
| Oct-2008  | 71.25       | 35.50 | 13,203.86           | 7,697.39  | 74.00       | 35.00 | 4,000.50               | 2,252.75 |
| Nov-2008  | 44.90       | 28.60 | 10,945.41           | 8,316.39  | 44.50       | 29.00 | 3,240.55               | 2,502.90 |
| Dec-2008  | 41.95       | 29.00 | 10,188.54           | 8,467.43  | 38.00       | 29.00 | 3,110.45               | 2,570.70 |
| Jan-2009  | 40.00       | 26.80 | 10,469.72           | 8,631.60  | 38.45       | 27.00 | 3,147.20               | 2,661.65 |
| Feb-2009  | 36.80       | 24.00 | 9,724.87            | 8,619.22  | 34.00       | 25.10 | 2,969.75               | 2,677.55 |
| Mar-2009  | 27.85       | 17.10 | 10,127.09           | 8,047.17  | 28.10       | 16.45 | 3,123.35               | 2,539.45 |

Source: <http://www.bseindia.com> & <http://www.nseindia.com>

#### F. Registrars and Share transfer agents

Karvy Computershare Private Limited  
**Unit: Centum Electronics Limited**  
Plot No. 17-24, Vittal Rao Nagar,  
Madhapur, Hyderabad - 500 081  
Ph: 040-23420815 - 824, Fax No. 040-23420814  
Email: mailmanager@karvy.com

#### G. Share transfer system

The composition of the share transfer committee is as follows:

|                           |                         |
|---------------------------|-------------------------|
| Mr. Apparao V Mallavarapu | Managing Director       |
| Mr. K S Desikan           | Chief Financial Officer |
| Mr. Ellroy Furtado        | Company Secretary       |

The share transfer committee meets as and when required. The share transfer committee reports periodically to the Shareholder/Investors Grievance Committee on receipt of the Investors' complaints, if any.

The company has delegated the power of share transfers to Karvy Computershare Private Limited, the company's Registrar and Share Transfer Agent ('RTA'). They process the share transfers and the same are approved by the share transfer committee periodically. The share transfers are effected within 15 days from the date of receipt. The shareholders can send their share transfer/demat/remat requests either to the RTA directly or to the company.

#### H. Distribution of shareholding

The distribution of the shareholding as on 31 March 2009 is as follows

| No of equity shares held | No of share holders | % to total shareholders | No of shares held |
|--------------------------|---------------------|-------------------------|-------------------|
| 1 - 500                  | 8,064               | 95.31                   | 667,746           |
| 501 - 1,000              | 202                 | 2.39                    | 152,598           |
| 1,001 - 2,000            | 82                  | 0.97                    | 122,443           |
| 2,001 - 3,000            | 37                  | 0.44                    | 91,110            |
| 3,001 - 4,000            | 16                  | 0.19                    | 56,440            |
| 4,001 - 5,000            | 15                  | 0.18                    | 67,079            |
| 5,001 - 10,000           | 17                  | 0.20                    | 119,566           |
| Above 10,000             | 28                  | 0.33                    | 6,123,018         |
| <b>Total</b>             | <b>8,461</b>        | <b>100.00</b>           | <b>7,400,000</b>  |

#### Shareholding pattern

The shareholding pattern as on 31 March 2009 is as follows:

| Particulars  | No of shares held | % to total shares |
|--|-------------------|-------------------|
| <b>Shareholding of promoter and promoter group</b> |                   |                   |
| -Indian Promoters                                  | 4,178             | 56.46             |
| -Foreign Promoters                                 | 355,409           | 4.80              |
| <b>Public Shareholding</b>                         |                   |                   |
| -Institutions                                      | 1,074,600         | 14.52             |
| -Non-institutions                                  | 1,791,791         | 24.22             |
| <b>Total</b>                                       | <b>74,00,000</b>  | <b>100.00</b>     |

#### I. Dematerialisation of shares and liquidity

The Company's shares are covered under the compulsory dematerialisation list and are transferable through depository systems. M/s Karvy Computershare Private Limited act as our RTA agents. Shares received for dematerialisation are usually registered within 5 days from the date of the receipt if all the documents are complete in all respects. The ISIN number of the Company is INE320B01020.

The break up of the shares held in physical and electronic form as on March 31, 2009 is as follows:

| Particulars  | No.of holders | Total Shares     | %             |
|--------------|---------------|------------------|---------------|
| Physical     | 1,933         | 149,307          | 2.02          |
| NSDL         | 4,976         | 6,286,776        | 84.96         |
| CDSL         | 1,552         | 963,917          | 13.02         |
| <b>Total</b> | <b>8,461</b>  | <b>74,00,000</b> | <b>100.00</b> |

#### J. Financial Year

The Financial Year of the Company is from 1st April to 31st March.

## Report on Corporate Governance (Contd...)

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### K. Financial Calendar

Tentative calendar of events for the financial year 2009-10 is given below:

|  |                             |
|--|-----------------------------|
| Financial reporting for the quarter ending June 30, 2009.        | Third week of July 2009.    |
| Financial reporting for the half year ending September 30, 2009. | Third week of October 2009. |
| Financial reporting for the quarter ending December 31, 2009     | Third week of January 2010. |
| Financial reporting for the year ending March 31, 2010.          | First week of June 2010.    |
| Annual General Meeting for the year ended March 31, 2010.        | August/September 2010.      |

### L. Outstanding GDRs/ADRs/warrants

Outstanding GDRs/ADRs/warrants of any convertible instruments, conversion date and likely impact on equity. Nil

### M. Registered Office & plant address / Phone and Fax Numbers

No 44, KHB Industrial Area  
Yelahanka New Township  
Bangalore - 560 106  
Phone : +91 80 41436000  
Fax : +91 80 41436005

### N. Investors correspondence

Company Secretary  
Centum Electronics Limited  
No. 44, KHB Industrial Area  
Yelahanka New Township  
Bangalore-560 106  
Phone : +91 80 41436000  
Fax : +91 80 41436005  
ellroyf@centumelectronics.com

### Non-mandatory information

1. As detailed in the earlier paragraphs, the Company has constituted a remuneration committee.
2. The quarterly results are published in leading English and Kannada newspapers and significant events are published as news items/advertisements in newspapers and on Company's/SEBI EDIFAR website and also communicated to the Stock Exchanges wherever required.
3. Other non-mandatory requirements have not been complied by the Company.

By order of the Board

For Centum Electronics Limited

Place: Bangalore  
Date: 4 June 2009

**Apparao V Mallavarapu**  
Managing Director

**S. Krishnan**  
Director

## Auditors' Certificate

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### To the Members of Centum Electronics Limited (formerly Solectron Centum Electronics Limited)

We have examined the compliance of conditions of Corporate Governance by Centum Electronics Limited ("the Company") for the year ended on 31 March 2009 as stipulated in clause 49 of the Listing Agreement of the Company with the Stock Exchange(s).

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion, and to the best of our information and according to the explanations given to us, *subject to the chairman of the audit committee not being present at the Annual General Meeting of the Company held on 27 September 2008*, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

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

for BSR & Co.  
**Chartered Accountants**

Zubin Shekary  
**Partner**  
Membership No.: 48814

Place : Bangalore  
Date : 1 July 2009

## Auditors' Report

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### To the Members of Centum Electronics Limited (formerly Solectron Centum Electronics Limited)

We have audited the attached balance sheet of Centum Electronics Limited (formerly Solectron Centum Electronics Limited) ("the Company") as at 31 March 2009 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

- a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- c) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
- d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- e) on the basis of written representations received from the directors, as at 31 March 2009 and taken on record by the Board of Directors, we report that none of the directors are disqualified as at 31 March 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 on the said date;
- f) *As stated in note (b) of schedule 20 of the financial statements, the Company has entered into contracts with Centum Industries Private Limited (CIPL) for purchase of services aggregating Rs. 3,693,950 and sale of goods and services aggregating Rs 11,268,500 during the period 1 April 2008 to 28 January 2009. Since the Company's paid-up share capital is more than Rs. 1 crore and one of the directors of the Company was also a director / member of CIPL at the time of entering into the contracts, prior approval of the Central Government of India under Section 297 of the Companies Act, 1956 was required. The Company has not obtained Central Government of India approval for the aforementioned transactions and hence we are unable to quantify the impact of this non-compliance on the profit for the year and the accumulated balance of profit and loss account of the Company as at 31 March 2009. The Company has obtained an approval from the Central Government of India for transactions to be entered into with CIPL for a period of three years effective 29 January 2009.*
- g) *subject to the matter stated in paragraph (f) above, in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:*
  - i) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2009;
  - ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date; and
  - iii) in the case of the cash flow statement, of the cash flows of the Company for the year ended on that date.

For BSR & Co.  
Chartered Accountants

Zubin Shekary  
Partner

Bangalore  
4 June 2009

Membership Number: 48814

## Annexure to the Auditors' Report

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Annexure referred to in our report to the members of Centum Electronics Limited (formerly Solectron Centum Electronics Limited) ("the Company") for the year ended 31 March 2009. We report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) Fixed assets disposed of during the year were not substantial, and therefore, do not affect the going concern assumption.
- (ii) (a) The inventory, except materials in transit, has been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures for the physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) (a) The Company has granted loan to a company covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount outstanding during the year and the year end balance of such loan was Rs 98,560,000. The Company has not given loan to any other firm / other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (b) In our opinion, the rate of interest and other terms and conditions on which the loan has been granted to the company listed in the register maintained under Section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
- (c) In the case of loan granted to a company listed in the register maintained under section 301, the Company has been regular in repaying the interest amounts as stipulated and there was no stipulation as to repayment of principal amount during the year under audit.
- (d) There is no overdue amount of more than Rupees one lakh in respect of the loan granted to a company listed in the register maintained under Section 301 of the Companies Act, 1956.
- (e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and similarly certain goods and services sold are for the specialised requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.
- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that Section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements referred to in (a) above and exceeding the value of

## Annexure to the Auditors' Report (Contd...)

Rs 5 lakhs with each party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time. *As explained in more detail in paragraph (f) above of our audit report, no Central Government of India approval has been obtained by the Company in respect of some of these transactions.*

- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government of India has not prescribed the maintenance of cost records under section 209(1) (d) of the Companies Act, 1956 for any of the products manufactured/services rendered by the Company.
- (ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. As informed to us, the Company did not have any dues on account of Investor Education and Protection Fund.

There are no dues on account of Cess under section 441A of the Companies Act, 1956 since the date from which the aforesaid section comes into force has not yet been notified by the Central Government of India.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty and other material statutory dues were in arrears as at 31 March 2009 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, there are no dues of Service tax, Custom duty, Wealth tax and Excise duty which have not been deposited with the appropriate authorities on account of any dispute. According to the information and explanations given to us, the following Income tax and Sales tax dues have not been deposited by the Company on account of disputes:

| Name of the statute                    | Nature of dues             | Amount (Rs) | Period to which the amount relates | Forum where dispute is pending                   |
|--|----------------------------|-------------|------------------------------------|--|
| Income Tax Act, 1961                   | Disallowance of exemptions | 30,719,151  | Assessment Year 2005-06            | Commissioner of Income Tax (Appeals) - Bangalore |
| Income Tax Act, 1961                   | Disallowance of exemptions | 2,665,351   | Assessment Year 2006-07            | Commissioner of Income Tax (Appeals) - Bangalore |
| Karnataka Value Added Tax, 2005 (KVAT) | Central sales tax          | 6,968,273   | Financial year 2005-2006           | Karnataka Appellate Tribunal                     |

- 
- (x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
  - (xi) In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of its dues to any banks during the year. The Company did not have any outstanding dues to any financial institution or debentureholders during the year.
  - (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
  - (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund /nidhi/ mutual benefit fund/ society.
  - (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
  - (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
  - (xvi) The Company did not have any term loan outstanding during the year.
  - (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
  - (xviii) The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.
  - (xix) The Company did not have any outstanding debentures during the year.
  - (xx) The Company has not raised any money by public issues during the year.
  - (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For BSR & Co.  
*Chartered Accountants*

Bangalore  
4 June 2009

Zubin Shekary  
*Partner*  
Membership Number: 48814

**Centum Electronics Limited**  
(formerly Solectron Centum Electronics Limited)

**Balance Sheet**

|   | SCHEDULE | As at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|---|----------|---------------------------------|---------------------------------|
| <b>SOURCES OF FUNDS</b>                   |          |                                 |                                 |
| <b>SHAREHOLDERS' FUNDS</b>                |          |                                 |                                 |
| Share capital                             | 4        | 74,000,000                      | 74,000,000                      |
| Reserves and surplus                      | 5        | 248,682,088                     | 253,645,252                     |
|   |          | <u>322,682,088</u>              | <u>327,645,252</u>              |
| <b>LOAN FUND</b>                          |          |                                 |                                 |
| Secured loan                              | 6        | 19,978,227                      | 40,717,841                      |
|   |          | <u>19,978,227</u>               | <u>40,717,841</u>               |
| <b>DEFERRED TAX LIABILITY, NET</b>        | 20(v)    | <u>11,615,068</u>               | <u>12,254,963</u>               |
|   |          | <u>354,275,383</u>              | <u>380,618,056</u>              |
| <b>APPLICATION OF FUNDS</b>               |          |                                 |                                 |
| <b>FIXED ASSETS</b>                       |          |                                 |                                 |
| Gross block                               | 7        | 362,427,664                     | 343,728,302                     |
| Less: Accumulated depreciation            |          | (210,971,120)                   | (192,638,470)                   |
| Net block                                 |          | 151,456,544                     | 151,089,832                     |
| Capital work-in-progress                  |          | 73,708                          | -                               |
|   |          | <u>151,530,252</u>              | <u>151,089,832</u>              |
| <b>INVESTMENTS</b>                        | 8        | <u>28,560,000</u>               | <u>28,560,000</u>               |
| <b>CURRENT ASSETS, LOANS AND ADVANCES</b> |          |                                 |                                 |
| Inventories                               | 9        | 74,289,978                      | 73,175,935                      |
| Sundry debtors                            | 10       | 23,994,520                      | 8,394,054                       |
| Cash and bank balances                    | 11       | 22,714,013                      | 48,188,666                      |
| Loans and advances                        | 12       | 165,269,406                     | 174,772,715                     |
|   |          | <u>286,267,917</u>              | <u>304,531,370</u>              |
| <b>CURRENT LIABILITIES AND PROVISIONS</b> |          |                                 |                                 |
| Current liabilities                       | 13       | 90,076,694                      | 78,601,558                      |
| Provisions                                | 14       | 22,006,092                      | 24,961,588                      |
|   |          | <u>112,082,786</u>              | <u>103,563,146</u>              |
| <b>NET CURRENT ASSETS</b>                 |          | <u>174,185,131</u>              | <u>200,968,224</u>              |
|   |          | <u>354,275,383</u>              | <u>380,618,056</u>              |
| <b>SIGNIFICANT ACCOUNTING POLICIES</b>    | 2        |                                 |                                 |
| <b>NOTES TO THE ACCOUNTS</b>              | 20       |                                 |                                 |

The schedules referred to above form an integral part of the Balance Sheet

As per our report attached

for BSR & Co.  
Chartered Accountants

Zubin Shekary  
Partner  
Membership No. 48814

Place : Bangalore  
Date : 4 June 2009

for Centum Electronics Limited

Apparao V. Mallavarapu  
Managing Director

Ellroy Furtado  
Company Secretary

S. Krishnan  
Director

K.S.Desikan  
CFO

## Profit and Loss Account

|   | SCHEDULE | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|---|----------|--------------------------------------|--------------------------------------|
| <b>INCOME</b>   |          |                                      |                                      |
| Sale of manufactured goods  |          | 157,087,294                          | 503,814,951                          |
| Less: Excise duty   |          | (2,645,144)                          | (6,479,630)                          |
| Sale of manufactured goods, net   |          | 154,442,150                          | 497,335,321                          |
| Service income  |          | 60,816,811                           | 4,516,667                            |
| Other income  | 15       | 12,055,313                           | 18,003,926                           |
|   |          | <u>227,314,274</u>                   | <u>519,855,914</u>                   |
| <b>EXPENDITURE</b>  |          |                                      |                                      |
| Material costs  | 16       | 55,969,575                           | 211,140,334                          |
| Personnel costs   | 17       | 70,015,930                           | 76,706,678                           |
| Other expenses  | 18       | 64,551,005                           | 81,974,833                           |
| Finance expenses  | 19       | 11,777,110                           | 16,186,789                           |
| Depreciation  | 7        | 19,328,753                           | 30,254,263                           |
| Less: Release from capital reserve  | 20(e)    | -                                    | (5,899,784)                          |
|   |          | <u>221,642,373</u>                   | <u>410,363,113</u>                   |
|   |          | <u>5,671,901</u>                     | <u>109,492,801</u>                   |
| <b>Profit before taxation</b>   |          |                                      |                                      |
| Profit from continuing operations before tax  | 20(d)    | 5,671,901                            | 93,252,204                           |
| Income taxes  |          |                                      |                                      |
| - Current   |          | 1,700,000                            | 35,649,014                           |
| - Prior year  |          | -                                    | 1,077,709                            |
| - Deferred  |          | (639,894)                            | (800,500)                            |
| - Fringe benefit tax  |          | 917,329                              | 668,385                              |
| <b>Profit from continuing operations after tax</b>  |          | <u>3,694,466</u>                     | <u>56,657,596</u>                    |
| Profit from discontinuing operations before tax   | 20(d)    | -                                    | 16,240,597                           |
| Income taxes  |          |                                      |                                      |
| - Current   |          | -                                    | 6,208,553                            |
| - Deferred  |          | -                                    | (139,413)                            |
| - Fringe benefit tax  |          | -                                    | 116,404                              |
| <b>Profit from discontinuing operations after tax</b>   |          | <u>-</u>                             | <u>10,055,053</u>                    |
| <b>Profit after taxation</b>  |          | <u>3,694,466</u>                     | <u>66,712,649</u>                    |
| Balance in profit and loss account brought forward  |          | 253,645,252                          | 185,762,362                          |
| Less: Transitional adjustment in accordance with revised AS 15 "Employee benefits"                            | 20(q)    | -                                    | (3,529,177)                          |
| Add: Balance in capital reserve transferred pursuant to the sale of Frequency Control Products (FCP) business | 20(e)    | -                                    | 13,357,048                           |
| <b>Profit available for appropriation</b>   |          | <u>257,339,718</u>                   | <u>262,302,882</u>                   |
| <b>Appropriation during the year</b>  |          |                                      |                                      |
| - Proposed final dividend   |          | 7,400,000                            | 7,400,000                            |
| - Corporate dividend tax  |          | 1,257,630                            | 1,257,630                            |
| <b>Balance carried to the balance sheet</b>   |          | <u>248,682,088</u>                   | <u>253,645,252</u>                   |
| <b>Earnings per share (par value Rs 10 each)</b>  | 20(f)    |                                      |                                      |
| Basic   |          | 0.50                                 | 9.02                                 |
| Diluted   |          | 0.50                                 | 9.01                                 |
| <b>Weighted average number of equity shares</b>   |          |                                      |                                      |
| Basic   |          | 7,400,000                            | 7,400,000                            |
| Diluted   |          | 7,400,000                            | 7,400,792                            |
| <b>SIGNIFICANT ACCOUNTING POLICIES</b>  | 2        |                                      |                                      |
| <b>NOTES TO THE ACCOUNTS</b>  | 20       |                                      |                                      |

The schedules referred to above form an integral part of the Profit and Loss Account

As per our report attached

for **BSR & Co.**  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Place : Bangalore  
Date : 4 June 2009

for **Centum Electronics Limited**

**Apparao V. Mallavarapu**  
Managing Director

**Ellroy Furtado**  
Company Secretary

**S. Krishnan**  
Director

**K.S. Desikan**  
CFO

## Schedules to the Financial Statements

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### 1. Background

Centum Electronics Limited (formerly Solectron Centum Electronics Limited) (“the Company”) was incorporated as a public limited company on 8 January 1993 as Centum Electronics Limited (“Centum”) and commenced commercial production in 1994. In September 1997, Centum allotted 7,500,000 equity shares of Rs 10 each at par to C-Mac Holdings British Virgin Islands, a 100% subsidiary of C-Mac Industries Inc. (“C-Mac”), Canada. In December 2001 Solectron Corporation acquired C-Mac. Consequent to the acquisition, the Company changed its name to Solectron Centum Electronics Limited effective 30 September 2002.

In December 2007, pursuant to the demerger of the Electronic Manufacturing Division (EMS) and the subsequent promoter share swap, Solectron Corporation discontinued being the holding company and the name of the Company was changed to Centum Electronics Limited.

The Company is primarily involved in the manufacture of Advanced Microelectronics Modules and Resistor Networks catering to the communications, military, aerospace and industrial electronics markets.

### 2. Significant accounting policies

#### a) Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards (“AS”) prescribed in the Companies (Accounting Standards) Rules 2006 and the relevant provisions of the Companies Act, 1956 and the guidelines issued by the Securities and Exchange Board of India, to the extent applicable.

#### b) Cash flow statement

Cash flow statement is reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows arising from operating, investing and financing activities of the Company are segregated.

#### c) Use of estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP) in India, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

#### d) Fixed assets

Fixed assets are carried at cost of acquisition less accumulated depreciation. The cost of fixed assets includes freight, duties, taxes and other incidental expenses related to the acquisition or construction of the respective assets. Intangible assets are recorded at their acquisition cost. Machinery spares which are specific to a particular item of fixed asset are capitalized at the time of their purchase.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date, are disclosed as capital work-in-progress.

#### e) Depreciation

Depreciation is provided on the straight-line method from the date the asset is ready for use.

The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. However, where management’s estimate of the useful life of a fixed asset at the time of acquisition of the fixed asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on management’s estimate of the useful life/ remaining useful life.

Depreciation on assets has been provided at the rates based on the following estimated useful lives of fixed assets:

| <b>Asset categories</b> | <b>Years</b>   |
|-------------------------|--|
| Plant and machinery     | 8 - 9 years  |
| Leasehold improvements  | 5 years  |
| Computers               | 5 - 6 years  |
| Software                | 5 - 6 years  |
| All other assets        | On straight line basis at the rates prescribed under Schedule XIV to the Companies Act, 1956 |

Freehold land is not depreciated.

For assets acquired/ disposed during the year, depreciation is provided from/upto the date the assets are acquired/ disposed. Assets individually costing Rs 5,000 or less are depreciated at the rate of 100%. Machinery spares are depreciated on a systematic basis over the period of the remaining useful life of the fixed asset for which they are utilized.

#### f) Investments

Investments in subsidiary is made to enhance the Company's business interests. Investments are either classified as current or long-term based on the Management's intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment.

#### g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises purchase price and all incidental expenses (other than those subsequently recoverable by the Company from the tax authorities) incurred in bringing the inventory to its present location and condition. The basis of determining cost is set out below:

|                                     |  |
|-------------------------------------|--|
| Stores and spares                   | Weighted average cost method                         |
| Raw materials and components        | Weighted average cost method                         |
| Work-in-progress and finished goods | Weighted average cost including costs of conversion. |

Fixed production overheads are allocated on the basis of normal capacity of production facilities.

#### h) Revenue recognition

Revenue from the sale of products and materials is recognized on transfer of all significant risks and rewards of ownership to the buyer. Sales are accounted inclusive of excise duty and exclude sales tax and trade and quantity discounts and are net of sales returns. Revenue from sale of manufactured goods has been presented both gross and net of excise duty.

Revenue from services is recognized as and when services are rendered as per the terms of the contract.

Rental income from lease of properties under operating lease is recognized in the income statement on a straight line basis over the term of the lease

Interest on deployment of surplus funds is recognized using the time proportionate method, based on the underlying interest rates.

#### i) Foreign currency transactions

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account for the year.

## Schedules to the Financial Statements (Contd...)

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Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date, the resultant exchange differences are recognized in the profit and loss account.

### **j) Employee benefits**

Contributions payable to the recognised provident fund, which is a defined contribution scheme, are charged to the profit and loss account on accrual basis.

Gratuity and compensated absences costs, which are defined benefit scheme, are accrued based on actuarial valuation at the balance sheet date, carried out by independent actuary.

### **k) Earnings per share**

In determining earnings per share, the Company considers the net profit after tax and includes the post tax effect of any extra ordinary/exceptional item. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The diluted potential equity shares are adjusted for the proceeds receivable, had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares). Dilutive potential equity shares are deemed converted as of the beginning of the year, unless issued at a later date.

### **l) Provisions and contingent liabilities**

The Company recognizes a provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.

### **m) Taxation**

Income-tax expense comprises current tax (i.e. amount of tax for the year determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the year). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets / liabilities are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Assets and liabilities representing current and deferred tax are disclosed on a net basis when there is a legally enforceable right to set off and management intends to settle the asset and liability on a net basis.

The Company provides for and discloses the Fringe Benefit Tax ("FBT") in accordance with the provisions of Section 115 WC of the Income-tax Act, 1961 and the guidance note on FBT issued by Institute of

Chartered Accountants of India. The Finance Act, 2007 levied FBT on Employees Stock Option Plan. Such FBT liability crystallises on the date of exercise of stock option and is accounted for accordingly.

**n) Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset or a group of assets comprising a cash generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. For an asset or group of assets that does not generate largely independent cash in flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined; if no impairment loss had been recognised.

**o) Government grants**

Grants related to revenue are presented as a credit in the profit and loss account statement, either separately or under a general heading as “Other income”.

**p) Borrowing costs**

Borrowing costs directly attributable to the acquisition/ construction of the qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

**q) Stock compensation expense**

The Company accounts for stock based compensation expense based on the intrinsic value method as prescribed by the by the Guidance Note on Accounting for Employee Share-based Payments issued by Institute of Chartered Accountants of India.

**3. Sale of Frequency Control Products business (“FCP business”):**

The Company entered into a Business Transfer Agreement on 1 February 2008 to transfer the FCP business on a going concern basis to a wholly owned subsidiary company Centum Rakon India Private Limited [“Centum Rakon”] (formerly Centum Frequency Products Private Limited). The sale of FCP business was effective 29 February 2008 and accordingly all the identified fixed assets, current assets, current liabilities and secured loan pertaining to the FCP business were transferred to Centum Rakon for a consideration Rs 127,011,427. The computation of the profit / loss on the sale of the FCP business is as follows:

| Particulars                                     | Rs.<br>Amount |
|---|---------------|
| Fixed assets and net current assets transferred | 144,328,677   |
| Secured loan transferred                        | (17,317,250)  |
| Net value of assets transferred                 | 127,011,427   |
| Consideration received from Centum Rakon        | 127,011,427   |
| Profit / loss on sale of FCP business           | -             |

The Company had subscribed to and had been allotted 2,856,000 equity shares of Rs 10 each in Centum Rakon for a sum of Rs 28,560,000. Further, the Company has also granted a loan of Rs 98,560,000 to Centum Rakon at an interest rate of 6% per annum.

As at 31 March 2009, the Company holds 51% stake in Centum Rakon India Private Limited.

**Schedules to the Financial Statements (Contd...)**

|   | As at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|---|---------------------------------|---------------------------------|
| <b>4. SHARE CAPITAL</b>   |                                 |                                 |
| <b>Authorised</b>   |                                 |                                 |
| 15,500,000 (previous year - 15,500,000)<br>equity shares of Rs 10 each  | <u>155,000,000</u>              | <u>155,000,000</u>              |
| <b>Issued, subscribed and paid-up</b>   |                                 |                                 |
| 7,400,000 (previous year - 7,400,000) equity shares<br>of Rs 10 each, fully paid  | <u>74,000,000</u>               | <u>74,000,000</u>               |
| <b>5. RESERVES AND SURPLUS</b>  |                                 |                                 |
| <b>Capital reserve</b>  |                                 |                                 |
| Balance brought forward   | -                               | 19,256,832                      |
| <i>Less: Amount released from capital reserve and credited to<br/>profit and loss account (refer schedule 20(e))</i>  | -                               | (5,899,784)                     |
| <i>Less: Amount released from capital reserve and credited<br/>to profit and loss account pursuant to the sale of FCP business<br/>(refer schedule 20(e))</i> | -                               | (13,357,048)                    |
|   | <u>-</u>                        | <u>-</u>                        |
| Profit and loss account balance   | <u>248,682,088</u>              | <u>253,645,252</u>              |
|   | <u><b>248,682,088</b></u>       | <u><b>253,645,252</b></u>       |
| <b>6. SECURED LOAN</b>  |                                 |                                 |
| Cash credit - bank  | <u>19,978,227</u>               | <u>40,717,841</u>               |
|   | <u><b>19,978,227</b></u>        | <u><b>40,717,841</b></u>        |

Cash credit obtained from State Bank of India is secured by way of hypothecation on the inventories, book debts and other current assets of the Company. Additionally, it is secured by way of collateral charge on plant and machinery and an equitable mortgage of land.

## SCHEDULE : 7 FIXED ASSETS

(Amount in Rs.)

| Particulars                     | GROSS BLOCK           |                                 |                                 |                        |                       | ACCUMULATED DEPRECIATION |                                 |                        |                        |                        | NET BLOCK              |                        |
|---------------------------------|-----------------------|---------------------------------|---------------------------------|------------------------|-----------------------|--------------------------|---------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                                 | As at<br>1 April 2008 | Additions<br>during the<br>year | Deletions<br>during<br>the year | As at<br>31 March 2009 | As at<br>1 April 2008 | Charge for<br>the year   | Deletions<br>during<br>the year | As at<br>31 March 2009 | As at<br>31 March 2009 | As at<br>31 March 2008 | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Tangible assets, owned</b>   |                       |                                 |                                 |                        |                       |                          |                                 |                        |                        |                        |                        |                        |
| Freehold land                   | 4,409,383             | -                               | -                               | 4,409,383              | -                     | -                        | -                               | -                      | -                      | -                      | 4,409,383              | 4,409,383              |
| Building                        | 56,061,716            | 2,429,913                       | -                               | 58,491,629             | 9,715,286             | 1,948,793                | -                               | 11,664,079             | -                      | 46,827,550             | 46,346,430             | 46,346,430             |
| Plant and machinery             | 225,475,373           | 7,782,692                       | -                               | 233,258,065            | 167,244,893           | 12,924,385               | -                               | 180,169,278            | -                      | 53,088,787             | 58,230,480             | 58,230,480             |
| Electrical installations        | 18,797,810            | 2,803,347                       | -                               | 21,601,157             | 5,604,721             | 978,187                  | -                               | 6,582,908              | -                      | 15,018,249             | 13,193,089             | 13,193,089             |
| Computers                       | 6,739,804             | 1,588,296                       | -                               | 8,328,100              | 2,441,283             | 879,427                  | -                               | 3,320,710              | -                      | 5,007,390              | 4,298,521              | 4,298,521              |
| Office equipments               | 13,464,418            | 46,943                          | -                               | 13,511,361             | 1,747,905             | 632,416                  | -                               | 2,380,321              | -                      | 11,131,040             | 11,716,513             | 11,716,513             |
| Furniture                       | 13,469,855            | 144,298                         | -                               | 13,614,153             | 3,683,208             | 767,737                  | -                               | 4,450,945              | -                      | 9,163,208              | 9,786,647              | 9,786,647              |
| Vehicles                        | 3,355,389             | 2,075,293                       | 1,997,202                       | 3,433,480              | 1,552,363             | 327,948                  | 996,103                         | 884,208                | -                      | 2,549,272              | 1,803,026              | 1,803,026              |
| <b>Total (A)</b>                | <b>341,773,748</b>    | <b>16,870,782</b>               | <b>1,997,202</b>                | <b>356,647,328</b>     | <b>191,989,659</b>    | <b>18,458,893</b>        | <b>996,103</b>                  | <b>209,452,449</b>     | <b>147,194,879</b>     | <b>149,784,089</b>     | <b>149,784,089</b>     | <b>149,784,089</b>     |
| <b>Intangible assets, owned</b> |                       |                                 |                                 |                        |                       |                          |                                 |                        |                        |                        |                        |                        |
| Computer software               | 1,954,554             | 3,825,782                       | -                               | 5,780,336              | 648,811               | 869,860                  | -                               | 1,518,671              | -                      | 4,261,665              | 1,305,743              | 1,305,743              |
| <b>Total (B)</b>                | <b>1,954,554</b>      | <b>3,825,782</b>                | <b>-</b>                        | <b>5,780,336</b>       | <b>648,811</b>        | <b>869,860</b>           | <b>-</b>                        | <b>1,518,671</b>       | <b>-</b>               | <b>4,261,665</b>       | <b>1,305,743</b>       | <b>1,305,743</b>       |
| <b>Total (A+B)</b>              | <b>343,728,302</b>    | <b>20,696,564</b>               | <b>1,997,202</b>                | <b>362,427,664</b>     | <b>192,638,470</b>    | <b>19,328,753</b>        | <b>996,103</b>                  | <b>210,971,120</b>     | <b>151,456,544</b>     | <b>151,089,832</b>     | <b>151,089,832</b>     | <b>151,089,832</b>     |
| Previous year                   | 433,495,244           | 39,038,291                      | 128,805,233                     | 343,728,302            | 242,465,791           | 30,254,263               | 80,081,584                      | 192,638,470            | 151,089,832            | 151,089,832            | 151,089,832            | 151,089,832            |

**Schedules to the Financial Statements (Contd...)**

|  | As at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|--|---------------------------------|---------------------------------|
| <b>8. INVESTMENTS</b>  |                                 |                                 |
| <b>Unquoted, long-term - trade (at cost)</b>   |                                 |                                 |
| Investment in subsidiary company<br>2,856,000 (Previous year: 2,856,000) equity shares of<br>Centum Rakon India Private Limited of Rs.10 each, fully paid up | 28,560,000                      | 28,560,000                      |
|  | <u>28,560,000</u>               | <u>28,560,000</u>               |
| <b>9. INVENTORIES</b>  |                                 |                                 |
| Stores and spares  | 87,092                          | 2,549,202                       |
| Raw materials and components   | 36,359,818                      | 33,128,987                      |
| Raw material in transit  | 1,052,125                       | -                               |
| Work-in-progress   | 36,790,943                      | 37,497,746                      |
|  | <u>74,289,978</u>               | <u>73,175,935</u>               |
| <b>10. SUNDRY DEBTORS*</b>   |                                 |                                 |
| <i>Unsecured</i>   |                                 |                                 |
| Debts outstanding for a period exceeding six months  |                                 |                                 |
| - considered good  | 441,792                         | 209,034                         |
| - considered doubtful  | 889,806                         | 74,173                          |
|  | <u>1,331,598</u>                | <u>283,207</u>                  |
| Other debts  |                                 |                                 |
| - considered good  | 23,552,728                      | 8,185,020                       |
| - considered doubtful  | 285,850                         | -                               |
|  | <u>25,170,176</u>               | <u>8,468,227</u>                |
| Less: Provision for doubtful debts   | <u>(1,175,656)</u>              | <u>(74,173)</u>                 |
|  | <u>23,994,520</u>               | <u>8,394,054</u>                |
| * Includes amounts due from the companies under the same management as defined under Section 370(1B) of the Companies Act, 1956                              |                                 |                                 |
| - Solelectron EMS India Limited (refer note 1)   | 2,953,422                       | -                               |
| - Centum Industries Private Limited  | 270,878                         | -                               |
| - Centum Rakon India Private Limited   | 8,526,762                       | -                               |
| * Maximum amount outstanding during the year from companies under same management as defined under Section 370(1B) of the Companies Act, 1956:               |                                 |                                 |
| - Solelectron EMS India Limited (refer note 1)   | 5,056,200                       | -                               |
| - Centum Industries Private Limited  | 10,739,174                      | -                               |
| - Centum Rakon India Private Limited   | 15,533,784                      | -                               |
| 1. Company under same management with effect from 13 May 2008  |                                 |                                 |
| <b>11. CASH AND BANK BALANCES</b>  |                                 |                                 |
| Cash in hand   | 25,746                          | 32,683                          |
| Cheques in hand  | 4,144,633                       | 13,573,226                      |
| Balances with scheduled banks  |                                 |                                 |
| - in current accounts  | 796,862                         | 148,140                         |
| - in margin money accounts   | 17,746,772                      | 34,434,617                      |
|  | <u>22,714,013</u>               | <u>48,188,666</u>               |

|  | As at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|--|---------------------------------|---------------------------------|
| <b>12. LOANS AND ADVANCES</b>  |                                 |                                 |
| <i>Unsecured, considered good</i>  |                                 |                                 |
| Loan to subsidiary company   | 98,560,000                      | 98,560,000                      |
| Advances recoverable in cash or in kind or for value to be received *  | 35,550,025                      | 37,796,892                      |
| Advance to suppliers   | 4,075,737                       | 18,326,532                      |
| Deposits   | 3,679,957                       | 4,673,101                       |
| Prepaid expenses   | 2,838,585                       | 3,360,772                       |
| Accrued interest   | 733,734                         | 3,421,831                       |
| Balances with government authorities   | 3,390,970                       | 4,826,532                       |
| Advance tax and tax deducted at source<br>[net of provision for tax of Rs. 50,274,072<br>(Previous year: Rs. 54,013,400)]            | 16,440,398                      | 3,807,055                       |
|  | <u>165,269,406</u>              | <u>174,772,715</u>              |
| <i>Unsecured, considered doubtful</i>  |                                 |                                 |
| Advances recoverable in cash or in kind or for value to be received  | 1,361,015                       | 1,361,015                       |
|  | <u>166,630,421</u>              | <u>176,133,730</u>              |
| Less: Provision for doubtful advances  | <u>(1,361,015)</u>              | <u>(1,361,015)</u>              |
|  | <u><u>165,269,406</u></u>       | <u><u>174,772,715</u></u>       |
| * Includes   |                                 |                                 |
| - advances recoverable from the Managing Director  | -                               | 116,404                         |
| - maximum amount outstanding during the year<br>from the Managing Director   | <u>116,404</u>                  | <u>116,404</u>                  |
| Amounts due from the companies under the same management<br>as defined under Section 370(1B) of the Companies Act, 1956              |                                 |                                 |
| - Solectron EMS India Limited (included in advances<br>recoverable in cash or in kind or for value to<br>be received) [refer note 1] | 3,459,253                       | 3,851,862                       |
| - Centum Industries Private Limited<br>(included in advance to suppliers)  | <u>2,014,321</u>                | <u>-</u>                        |
| Maximum amount outstanding during the year from companies<br>under same management:  |                                 |                                 |
| - Solectron EMS India Limited (included in advances<br>recoverable in cash or in kind or for value to be received)<br>[refer note 1] | 17,917,603                      | 12,633,000                      |
| - Centum Industries Private Limited<br>(included in advance to suppliers)  | <u>4,769,391</u>                | <u>-</u>                        |

1. Company under same management with effect from 13 May 2008

**Schedules to the Financial Statements (Contd...)**

|   | As at<br>31 March 2009<br>Rs. | As at<br>31 March 2008<br>Rs. |
|---|-------------------------------|-------------------------------|
| <b>13. CURRENT LIABILITIES</b>  |                               |                               |
| Book overdraft  | -                             | 1,032,181                     |
| Sundry creditors  |                               |                               |
| - dues to micro and small enterprises (refer schedule 20(p))  | 45,735                        | -                             |
| - dues to others  | 33,714,234                    | 29,346,063                    |
| Advances received from customers  | 51,222,861                    | 44,306,872                    |
| Unclaimed dividend  | 130,952                       | -                             |
| Other liabilities   | 4,962,912                     | 3,916,442                     |
|   | <u>90,076,694</u>             | <u>78,601,558</u>             |
| <b>14. PROVISIONS</b>   |                               |                               |
| Taxation [net of advance tax and tax deducted at sources of Rs. 39,842,966 (Previous year: Rs. 20,570,135)] | 9,158,439                     | 12,892,424                    |
| Gratuity  | 2,692,573                     | 2,149,554                     |
| Compensated absences  | 1,497,450                     | 1,261,980                     |
| Proposed final dividend   | 7,400,000                     | 7,400,000                     |
| Corporate dividend tax  | 1,257,630                     | 1,257,630                     |
|   | <u>22,006,092</u>             | <u>24,961,588</u>             |

|   | For the year ended<br>31 March 2009<br>Rs. | For the year ended<br>31 March 2008<br>Rs. |
|---|--|--|
| <b>15. OTHER INCOME</b>   |  |  |
| Interest income on:   |  |  |
| - bank deposits (tax deducted at source Rs 676,837<br>(previous year: Rs 668,981))          | 1,986,383                                  | 2,728,996                                  |
| - loan given to subsidiary (tax deducted at source<br>Rs 1,340,028 (previous year: Rs Nil)) | 5,913,600                                  | 469,848                                    |
| Value added tax incentive   | -  | 14,090,789                                 |
| Sale of scrap materials   | -  | 522,593                                    |
| Rental income   | 2,300,400                                  | 191,700                                    |
| Liabilities no longer required written back   | 1,744,893                                  | -  |
| Miscellaneous income  | 110,037                                    | -  |
|   | <u>12,055,313</u>                          | <u>18,003,926</u>                          |
| <b>16. MATERIAL COSTS</b>   |  |  |
| Raw materials, components and packing<br>materials consumed                                 | 55,262,772                                 | 200,694,042                                |
| Movement in work in progress  |  |  |
| Opening   |  |  |
| Work in progress  | 37,497,746                                 | 86,284,526                                 |
|   | <u>37,497,746</u>                          | <u>86,284,526</u>                          |
| Less: Deletions on account of sale of FCP business<br>(refer schedule 3)                    |  |  |
| Work in progress  | -  | 38,340,488                                 |
| Closing   |  |  |
| Work in progress  | 36,790,943                                 | 37,497,746                                 |
|   | <u>36,790,943</u>                          | <u>37,497,746</u>                          |
| Decrease in inventories of work-in-progress   | 706,803                                    | 10,446,292                                 |
|   | <u>55,969,575</u>                          | <u>211,140,334</u>                         |
| <b>17. PERSONNEL COSTS</b>  |  |  |
| Salaries, wages and allowances  | 59,584,423                                 | 65,135,401                                 |
| Contribution to provident and other funds   | 2,966,869                                  | 4,544,658                                  |
| Staff welfare expenses  | 7,464,638                                  | 7,026,619                                  |
|   | <u>70,015,930</u>                          | <u>76,706,678</u>                          |

**Schedules to the Financial Statements (Contd...)**

|  | For the year ended<br>31 March 2009<br>Rs. | For the year ended<br>31 March 2008<br>Rs. |
|--|--|--|
| <b>18. OTHER EXPENSES</b>                  |  |  |
| Purchase of services                       | 9,148,215                                  | 18,652,382                                 |
| Repairs and maintenance                    |  |  |
| - Building                                 | 1,742,728                                  | 846,457                                    |
| - Plant and machinery                      | 5,305,892                                  | 2,407,373                                  |
| Power and fuel                             | 6,085,200                                  | 9,314,926                                  |
| Postage, telephones and telegrams          | 3,070,238                                  | 2,426,983                                  |
| Travelling and conveyance                  | 8,130,932                                  | 13,787,719                                 |
| Entertainment expenses                     | 2,312,562                                  | 2,377,587                                  |
| Professional and consultancy               | 11,440,386                                 | 10,274,518                                 |
| Printing and stationery                    | 2,187,916                                  | 1,512,918                                  |
| Insurance                                  | 2,087,153                                  | 3,076,699                                  |
| Donation                                   | 1,644,700                                  | 124,268                                    |
| Advertisement and promotion                | 1,588,066                                  | 1,781,244                                  |
| Foreign exchange loss, net                 | 1,518,921                                  | 592,300                                    |
| Rent                                       | 1,362,998                                  | 1,041,289                                  |
| Rates and taxes                            | 1,217,653                                  | 3,258,940                                  |
| Provision for doubtful debts               | 1,101,483                                  | -  |
| Provision for doubtful advances            | -  | 1,361,015                                  |
| Recruitment and training                   | 630,631                                    | 1,663,575                                  |
| Commission paid to non executive directors | 600,000                                    | 800,000                                    |
| Security charges                           | 1,216,631                                  | 1,223,333                                  |
| Loss on sale of fixed asset                | 401,098                                    | -  |
| Directors sitting fees                     | 20,000                                     | 26,000                                     |
| Miscellaneous expenses                     | 1,737,602                                  | 5,425,307                                  |
|  | <b>64,551,005</b>                          | <b>81,974,833</b>                          |
| <b>19. FINANCE EXPENSES</b>                |  |  |
| Interest on cash credit facilities         | 7,716,080                                  | 10,342,668                                 |
| Other financial charges                    | 4,061,030                                  | 5,844,121                                  |
|  | <b>11,777,110</b>                          | <b>16,186,789</b>                          |

## 20. NOTES ON ACCOUNTS

| a) Capital commitment and contingent liabilities  | Rs                     |                        |
|---|------------------------|------------------------|
|   | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Capital commitment</b>   |                        |                        |
| Estimated amount of contracts remaining to be executed on capital account (net of advances) | 350,956                | 6,759,428              |
| <b>Contingent liabilities</b>   |                        |                        |
| Claims against the Company not acknowledged as debts in respect of:                         |                        |                        |
| Income tax  | 33,384,502             | -                      |
| Sales tax   | 6,968,273              | -                      |

- b) The Company has entered into contracts with Centum Industries Private Limited (CIPL) for purchase of services aggregating Rs. 3,693,950 and sale of goods and services aggregating Rs 11,268,500 during the period 1 April 2008 to 28 January 2009. Since the Company's paid-up share capital is more than Rs.1 crore and one of the directors of the Company was also a director / member of CIPL at the time of entering into the contracts, prior approval of the Central Government of India under Section 297 of the Companies Act, 1956 was required. The Company has inadvertently not obtained Central Government of India approval for the aforementioned transactions and has initiated steps to seek necessary approvals.

The Company has obtained an approval from the Central Government of India for sale and purchase transactions to be entered into with CIPL for a period of three years effective 29 January 2009.

- c) Auditors' remuneration excluding service tax (included under professional and consultancy)

|                                   | Rs.                         |                             |
|-----------------------------------|-----------------------------|-----------------------------|
|                                   | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Audit fees*                       | 700,000                     | 1,095,000                   |
| Other services                    | -                           | 30,000                      |
| Out of pocket expenses reimbursed | 24,528                      | 27,268                      |
| <b>Total</b>                      | <b>724,528</b>              | <b>1,152,268</b>            |

\* includes audit fees for previous year amounting to Rs Nil (previous year: Rs 250,000)

- d) Discontinued operations

**Frequency Control Products (FCP) business:**

During the previous year, the Board of Directors of the Company formalized a plan to sell the FCP business on 31 January 2008, which was a part of the component segment of the Company. The business was transferred to a wholly owned subsidiary Centum Rakon India Private Limited effective 29 February 2008 for a net consideration of Rs 127,011,427. The sale of FCP business to a new company was with the expectation to grow and consolidate the position by way of a strategic partnership with a global leader in the FCP business.

## Schedules to the Financial Statements (Contd...)

The following statement shows the revenue and expenses of continuing and discontinued operations as required under Accounting Standard 24 on Discontinuing Operations:

| Particulars                        | For the year ended 31 March 2009       |  | For the year ended 31 March 2008       |  |
|------------------------------------|--|--|--|--|
|                                    | Discontinued operations (FCP business) | Continuing operations (Modules business) | Discontinued operations (FCP business) | Continuing operations (Modules business) |
| <b>Income</b>                      |  |  |  |  |
| Sale of manufactured goods, net    | -                                      | 154,442,150                              | 175,109,790                            | 322,225,531                              |
| Service income                     | -                                      | 60,816,811                               | -                                      | 4,516,667                                |
| Other income                       | -                                      | 12,055,313                               | -                                      | 18,003,926                               |
| <b>Total</b>                       | -                                      | <b>227,314,274</b>                       | <b>175,109,790</b>                     | <b>344,746,124</b>                       |
| <b>Expenditure</b>                 |  |  |  |  |
| Material costs                     | -                                      | 55,969,575                               | 98,709,344                             | 112,430,991                              |
| Personnel costs                    | -                                      | 70,015,930                               | 19,368,488                             | 57,338,189                               |
| Other Expenses                     | -                                      | 64,551,005                               | 28,863,013                             | 53,111,820                               |
| Finance Expenses                   | -                                      | 11,777,110                               | 5,699,304                              | 10,487,485                               |
| Depreciation                       | -                                      | 19,328,752                               | 12,128,828                             | 18,125,434                               |
| Less: Release from capital reserve | -                                      | -  | (5,899,784)                            | -  |
| <b>Total</b>                       | -                                      | <b>221,642,373</b>                       | <b>158,869,193</b>                     | <b>251,493,919</b>                       |
| <b>Profit before taxation</b>      | -                                      | <b>5,671,901</b>                         | <b>16,240,597</b>                      | <b>93,252,205</b>                        |

- e) The Company had availed of a loan of USD 1,409,436 from C-Mac Industries Inc for purchase of fixed assets. Under the terms of the loan agreement dated 22 September 1999, interest was payable quarterly at LIBOR plus 1%. Further the agreement also set out that C-Mac Industries Inc. was committed to give certain annual business to the Company for a period of seven years as under

Year 1                      USD 1.5 million;  
Year 2                      USD 4.5 million; and  
Year 3 to 7                USD 7.5 million per annum.

The agreement stated that should C-Mac Industries Inc. fail to meet this commitment, it undertakes to negotiate, in good faith, with the Company to arrive at a mutually satisfactory solution.

The Company had accrued for the interest payable under the originally contracted terms, without prejudice, upto 31 March 2004. The total interest accrued upto 31 March 2004 was Rs 7,261,698. The rupee equivalent of the outstanding loan at 31 March 2004 was Rs 61,507,779. Additionally, C-Mac Industries Inc., had given an unsecured working capital loan amounting to Rs.10,910,000 which was outstanding as at 31 March 2004. The interest accrued upto 31 March 2004 amounted to Rs 518,225.

C-Mac Industries Inc. did not fulfill its sales obligation on a year on year basis since the inception of the loan agreement. Following discussions with C-Mac Industries during the quarter ended 30 June 2004 and in accordance with the loan agreement, the Company had obtained a waiver for repayment of principal and interest of loans aggregating Rs.80,197,702. Of this amount, accrued interest amounting

to Rs.7,779,923 as of 31 March 2004 had been credited to profit and loss account. The principal amount of working capital loan amounting to Rs.10,910,000 had been credited to other income. The principal amount of the secured loan availed for the purpose of fixed assets amounting to Rs.61,507,779 had been credited to capital reserve. Further, an amount of Rs.29,378,691 being accumulated depreciation upto 31 March 2005, including Rs.6,436,125 for the year ended 31 March 2005, had been released from the capital reserve and credited to the profit and loss account. During the year ended 31 March 2008 an amount of Rs 5,899,784 (previous year: Rs 6,436,128) had been released from capital reserve and credited to the profit and loss account.

Further, during the previous year, the Company transferred the FCP business to Centum Rakon India Private Limited (Centum Rakon) pursuant to a business transfer agreement (refer schedule 3). The above assets purchased from C-Mac industries have been transferred to Centum Rakon at their books values and consequently the capital reserve amounting to Rs 13,357,048 was transferred to the profit and loss account balance of the Company.

**f) Earnings per share (basic and diluted)**

The computation of earnings per share is set out below:

|  | Rs.                         |                             |
|--|-----------------------------|-----------------------------|
|  | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Profit for the year  | 3,694,466                   | 66,712,649                  |
| Weighted average number of equity shares outstanding during the year                             | 7,400,000                   | 7,400,000                   |
| Face value of equity shares  | 10                          | 10                          |
| Earnings per share - basic   | 0.50                        | 9.02                        |
| Weighted average number of equity shares outstanding during the year - basic                     | 7,400,000                   | 7,400,000                   |
| Add: Effect of dilutive issues of stock options  | -                           | 792                         |
| Weighted average number of equity shares and potential equity shares outstanding during the year | 7,400,000                   | 7,400,792                   |
| Earnings per share - dilutive  | 0.50                        | 9.01                        |

**g) Particulars of installed capacity**

|                                  | As at<br>31 March 2009 | As at<br>31 March 2008 |
|----------------------------------|------------------------|------------------------|
| Modules (square inches)          | -                      | -                      |
| Resistor Network (square inches) | -                      | -                      |

Note: The figures for installed capacity are as certified by the Management and not verified by the auditors, being a technical matter. Additionally, Management certifies that installed capacity of Modules and Resistor Network cannot be quantified.

**h) Particulars of production**

|                            | Production (in units)  |                        |
|----------------------------|------------------------|------------------------|
|                            | As at<br>31 March 2009 | As at<br>31 March 2008 |
| Modules                    | 311,707                | 1,470,571              |
| Frequency Control Products | -                      | 786,198                |

**Schedules to the Financial Statements (Contd...)**

**i) Finished goods**

There is no opening or closing stock of finished goods.

**j) Particulars of raw materials and components consumed**

| Components          | Year ended 31 March 2009 |                   | Year ended 31 March 2008 |                    |
|---------------------|--------------------------|-------------------|--------------------------|--------------------|
|                     | Quantity (Nos)           | Rs.               | Quantity (Nos)           | Rs.                |
| Integrated circuits | 189,849                  | 2,411,256         | 954,360                  | 11,158,576         |
| Others              | -                        | 10,204,210        | -                        | 77,939,859         |
| <b>Total</b>        |                          | <b>12,615,466</b> |                          | <b>89,098,435</b>  |
| Raw materials       | Year ended 31 March 2009 |                   | Year ended 31 March 2008 |                    |
|                     | Quantity (Nos)           | Rs.               | Quantity (Nos)           | Rs.                |
| PCB                 | 18,646                   | 823,101           | 722,934                  | 18,425,027         |
| Base and case       | 26,838                   | 10,470,571        | 1,521,101                | 21,821,714         |
| Blanks              | -                        | -                 | 719,213                  | 16,489,009         |
| Paste               | 59,429                   | 11,187,392        | -                        | -                  |
| Others              | -                        | 20,166,242        | -                        | 54,859,857         |
| <b>Total</b>        |                          | <b>42,647,306</b> |                          | <b>111,595,607</b> |

Note: No other individual item of raw materials and components consumed account for 10% or more of the total consumption during the year.

The excise duty related to the difference between the closing stock and opening stock is not shown as deduction from turnover since it is not included in the turnover (gross). The excise duty related to the difference between the closing stock and opening stock is recognized separately in the statement of profit and loss.

**k) Particulars of raw materials and components consumed**

| Components    | Year ended 31 March 2009 |                   | Year ended 31 March 2008 |                    |
|---------------|--------------------------|-------------------|--------------------------|--------------------|
|               | %                        | Rs.               | %                        | Rs.                |
| Imported      | 92.13                    | 11,623,199        | 90.37                    | 80,514,721         |
| Indigenous    | 7.87                     | 992,267           | 9.63                     | 8,583,714          |
| <b>Total</b>  | <b>100.00</b>            | <b>12,615,466</b> | <b>100.00</b>            | <b>89,098,435</b>  |
| Raw materials | Year ended 31 March 2009 |                   | Year ended 31 March 2008 |                    |
|               | %                        | Rs.               | %                        | Rs.                |
| Imported      | 67.39                    | 28,740,076        | 94.31                    | 105,245,761        |
| Indigenous    | 32.61                    | 13,907,230        | 5.69                     | 6,349,846          |
| <b>Total</b>  | <b>100.00</b>            | <b>42,647,306</b> | <b>100.00</b>            | <b>111,595,607</b> |

l) **Particulars in respect of sale of manufactured finished goods (including excise duty) and service income**

| Products                   | Year ended 31 March 2009 |                    | Year ended 31 March 2008 |                    |
|----------------------------|--------------------------|--------------------|--------------------------|--------------------|
|                            | Quantity<br>(Units)      | Value<br>Rs.       | Quantity<br>(Units)      | Value<br>Rs.       |
| Modules                    | 311,707                  | 157,087,294        | 1,470,571                | 325,239,270        |
| Frequency Control Products | -                        | -                  | 786,198                  | 178,575,681        |
| Services                   | -                        | 60,816,811         | -                        | 4,516,667          |
| <b>Total</b>               | <b>311,707</b>           | <b>217,904,105</b> | <b>2,256,769</b>         | <b>508,331,618</b> |

m) **CIF value of imports**

| Products                     | Rs                          |                             |
|------------------------------|-----------------------------|-----------------------------|
|                              | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Capital goods                | 3,814,245                   | 16,018,704                  |
| Raw materials and components | 41,738,663                  | 108,071,021                 |
| Stores and spares            | 2,040,707                   | 3,409,168                   |
| <b>Total</b>                 | <b>47,593,615</b>           | <b>127,498,893</b>          |

n) **Expenditure in foreign currency (on payment basis)**

| Products                  | Rs                          |                             |
|---------------------------|-----------------------------|-----------------------------|
|                           | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Travelling and conveyance | 1,584,463                   | 4,027,008                   |
| <b>Total</b>              | <b>1,584,463</b>            | <b>4,027,008</b>            |

o) **Earnings in foreign currency**

| Products                   | Rs                          |                             |
|----------------------------|-----------------------------|-----------------------------|
|                            | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Sale of manufactured goods | 10,527,441                  | 139,123,898                 |
| <b>Total</b>               | <b>10,527,441</b>           | <b>139,123,898</b>          |

**Schedules to the Financial Statements (Contd...)**

- p) The disclosure in respect of the amounts payable to Micro, Small and Medium Enterprises Development Act, 2006 as at 31 March 2009 has been made in the financials statements based on information received and available with the Company. The Company has not received any claim for interest from any supplier under the said Act.

|  | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
|--|-----------------------------|-----------------------------|
| The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;  | 45,735                      | -                           |
| The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the year;  | -                           | -                           |
| The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act; | -                           | -                           |
| The amount of interest accrued and remaining unpaid at the end of the year   | 2,372                       | -                           |
| The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise.                              | -                           | -                           |

- q) Gratuity plan

Effective 1 April, 2007 the Company adopted the revised accounting standard on employee benefits. Pursuant to the adoption, the transitional obligations of the Company amounted to Rs. 1,059,134 for gratuity and Rs 4,287,296 for compensated absences. As required by the standard, the obligation has been recorded with the transfer of Rs. 3,529,177 to the opening balance of the profit and loss account, which is net of deferred tax asset amounting to Rs 1,817,253.

The following table set out the status of the gratuity plan as required under AS 15 - Revised.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

| Particulars                                       | Rs                     |                        |
|---|------------------------|------------------------|
|   | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Obligations at year beginning 1 April 2008</b> | <b>2,149,554</b>       | <b>2,475,851</b>       |
| Service cost                                      | 351,372                | 413,160                |
| Interest cost                                     | 180,374                | 186,814                |
| Actuarial loss/ (gain)                            | 54,885                 | (828,967)              |
| Benefits paid                                     | (43,612)               | (97,304)               |
| <b>Obligations at year end</b>                    | <b>2,692,573</b>       | <b>2,149,554</b>       |
| <b>Change in plan assets</b>                      |                        |                        |
| Plans assets at year beginning, at fair value     | -                      | -                      |
| Expected return on plan assets                    | -                      | -                      |
| Actuarial gain / (loss)                           | -                      | -                      |
| Contributions                                     | 43,612                 | 97,304                 |
| Benefits paid                                     | (43,612)               | (97,304)               |
| <b>Plans assets at year end, at fair value</b>    | <b>-</b>               | <b>-</b>               |

| Particulars   | Rs                     |                        |
|---|------------------------|------------------------|
|   | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Reconciliation of present value of the obligation and the fair value of the plan assets:</b> |                        |                        |
| Fair value of plan assets at the end of the year  | -                      | -                      |
| Present value of the defined benefit obligations at the end of the year                         | 2,692,573              | 2,149,554              |
| <b>Net liability recognized in the balance sheet</b>  | <b>2,692,573</b>       | <b>2,149,553</b>       |
| <b>Gratuity cost for the year ended 31 March 2009</b>   |                        |                        |
| Service cost  | 351,372                | 413,160                |
| Interest cost   | 180,374                | 186,814                |
| Expected return on plan assets  | -                      | (97,304)               |
| Actuarial loss/ (gain)  | 54,885                 | (828,967)              |
| <b>Net gratuity cost</b>  | <b>586,631</b>         | <b>(326,297)</b>       |
| <b>Assumptions:</b>   |                        |                        |
| Discount rate   | 6.90%                  | 7.75%                  |
| Expected rate of return on plan assets  | Not applicable         | Not applicable         |

The estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

The Company does not have any planned assets.

r) **Segmental reporting**

The Board of Directors (“the Board”) of the Company review the performance of the Company at the enterprise level. The Board rely primarily on results at the enterprise level for assessing performance and making decisions about resource allocation and hence the Company operates in only one business segment i.e. Hybrid Micro Circuits (HMC) which primarily include manufacture of Advanced Microelectronics Modules and Resistor Networks.

Further, the Company also earns service income which mainly represent cross charge of certain common costs including salaries to its related entities as per management services agreements entered into with these companies. Management believes that these arrangements are in the nature of reimbursement of costs and do not represent a separate segment of business.

| <b>Geographic segments:</b> | Rs.                         |                             |
|-----------------------------|-----------------------------|-----------------------------|
|                             | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| <b>Segment revenues</b>     |                             |                             |
| India                       | 204,731,520                 | 362,728,090                 |
| Europe                      | 10,422,914                  | 138,873,355                 |
| Rest of the world           | 104,527                     | 250,543                     |
|                             | <b>215,258,961</b>          | <b>501,851,988</b>          |

**Schedules to the Financial Statements (Contd...)**

|                       | Rs.                         |                             |
|-----------------------|-----------------------------|-----------------------------|
|                       | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| <b>Segment assets</b> |                             |                             |
| India                 | 464,086,166                 | 482,868,171                 |
| Europe                | 2,271,160                   | 1,312,184                   |
| Rest of the world     | 843                         | 847                         |
|                       | <b>466,358,169</b>          | <b>484,181,202</b>          |

s) **Stock option plans**

**Employee stock option plan 2007 (Centum ESOP - 2007)**

The Centum ESOP - 2007 was approved by the board of directors of the Company in October 2007 and by the shareholders in December 2007. The 2007 plan provides for the issue of 250,000 shares to the employees. The plan is administered by a compensation committee. Options will be issued to employees of the Company and also its subsidiary at an exercise price, which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty eight months from the date of grant. The exercise period is ten years from the date of vesting.

| Number of options granted,<br>exercised and forfeited | Year ended<br>31 March 2009 | Weighted<br>average<br>exercise price | Year ended<br>31 March 2008 | Weighted<br>average<br>exercise price |
|---|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|
| Options outstanding at the<br>beginning of the year   | 87,400                      | 150.30                                | -                           | -                                     |
| Granted during the year                               | -                           | -                                     | 87,400                      | 150.30                                |
| Exercised during the year                             | -                           | -                                     | -                           | -                                     |
| Forfeited / lapsed during the year                    | 14,900                      | 150.30                                | -                           | -                                     |
| <b>Options outstanding at the end<br/>of the year</b> | <b>72,500</b>               | <b>150.30</b>                         | <b>87,400</b>               | <b>150.30</b>                         |
| <b>Exercisable at the end of the year</b>             | <b>19,075</b>               | -                                     | -                           | -                                     |

The weighted average share price of the options exercised as at the date of exercise was Rs Nil.

There were no options given during the current year. The options outstanding as at 31 March 2009 had an exercise price of Rs 150.30 and the weighted average remaining contractual life of 12.83 years.

**Pro forma accounting for stock option grants**

The Company applies the intrinsic value method of accounting for determining compensation cost for its stock based compensation plan. The Company has therefore adopted the pro forma disclosure provisions as required by the Guidance Note on "Accounting for Employee Share Based Payments" issued by the Institute of Chartered Accountants of India with effect from 1 April 2005.

Had the compensation been determined using the fair value approach described in the aforesaid Guidance Note, the Company's net profit and basic and diluted earnings per share as reported would have reduced to the pro forma amounts as indicated:

| Particulars   | Rs                          |                             |
|---|-----------------------------|-----------------------------|
|   | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Net profit as reported  | 3,694,466                   | 66,712,649                  |
| Add: Stock based compensation expense determined under the intrinsic value method | -                           | -                           |
| Less: Stock based compensation expense determines under the fair value method     | 3,473,726                   | 550,579                     |
| Adjusted net profit   | 220,740                     | 66,162,070                  |
| Basic earnings per share as reported  | 0.50                        | 9.02                        |
| Pro forma basic earnings per share  | 0.03                        | 8.94                        |
| Diluted earnings per share as reported  | 0.50                        | 9.01                        |
| Pro forma diluted earnings per share  | 0.03                        | 8.94                        |

The fair value of each option under the 2007 plan is estimated by management on the date of grant using the Black - Scholes model with the following assumptions:

| Particulars             | Rs                          |                             |
|-------------------------|-----------------------------|-----------------------------|
|                         | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Dividend yield %        | 10%                         | -                           |
| Expected life           | 1-4 years                   | 1-4 years                   |
| Risk free interest rate | 5.7-6.5%                    | 5.7-6.5%                    |
| Volatility              | 94.83%                      | 85.9%                       |

t) **Related party transactions**

A. Parties where control exists

Apparao V Mallavarapu

B. Other related parties where transactions have taken place during the year

*Subsidiary*

Centum Rakon India Private Limited

*Parties under common control*

Solectron EMS India Limited (since 13 May 2008)

Centum Industries Private Limited

C. Key executive management personnel represented on the Board

Mr. Apparao V Mallavarapu - Managing Director

D. Non executive / independent directors on the Board

Mr. S.Krishnan

Mr. Som Mittal

Dr. P. Rama Rao (since 18 August 2008)

**Schedules to the Financial Statements (Contd...)**

The following is a summary of significant transactions with related parties by the Company:

| Particulars  | Rs.                    |                        |
|--|------------------------|------------------------|
|  | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Sale of goods and services</b>                            |                        |                        |
| Parties under common control                                 | 29,376,500             | 5,439,359              |
| Solectron EMS India Limited                                  |                        |                        |
| - Service income   | 18,000,000             | -                      |
| Centum Industries Private Limited                            |                        |                        |
| - Sale of goods and services                                 | 11,376,500             | 5,439,359              |
| Subsidiary   |                        |                        |
| Centum Rakon India Private Limited                           | 39,508,420             | 2,266,667              |
| - Service income   | 36,914,529             | 2,266,667              |
| - Sale of goods  | 2,593,891              | -                      |
| <b>Other Income</b>  |                        |                        |
| Subsidiary   |                        |                        |
| Centum Rakon India Private Limited                           | 8,214,000              | 191,700                |
| - Interest income on loan                                    | 5,913,600              | -                      |
| - Rent received  | 2,300,400              | 191,700                |
| <b>Sale of fixed assets</b>                                  |                        |                        |
| Subsidiary   | -                      | 48,723,649             |
| Centum Rakon India Private Limited                           | -                      | 48,723,649             |
| <b>Purchase of goods and services</b>                        |                        |                        |
| Subsidiary   | 33,250                 | -                      |
| Centum Rakon India Private Limited                           | 33,250                 | -                      |
| <b>Services received</b>                                     |                        |                        |
| Common control   | 3,693,950              | 10,871,958             |
| Centum Industries Private Limited                            | 3,693,950              | 10,871,958             |
| <b>Investment</b>  |                        |                        |
| Subsidiary   | -                      | 28,560,000             |
| Subscription of shares in Centum Rakon India Private Limited | -                      | 28,560,000             |
| <b>Managerial remuneration including sitting fees</b>        |                        |                        |
| Key management personnel                                     | 10,025,600             | 10,231,600             |
| Managerial remuneration                                      | 9,405,600              | 9,405,600              |
| Sitting fees   | 620,000                | 826,000                |

The balances receivable from and payable to related parties are as follows:

| Particulars  | Rs.                         |                             |
|--|-----------------------------|-----------------------------|
|  | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| <b>Sundry debtors</b>  | <u>11,751,063</u>           | -                           |
| <i>Parties under common control</i>  |                             |                             |
| Solectron EMS India Limited  | 2,953,422                   | -                           |
| Centum Industries Private Limited  | 270,878                     | -                           |
| <i>Subsidiary</i>  |                             |                             |
| Centum Rakon India Private Limited   | 8,526,763                   | -                           |
| <b>Advance from customers</b>  | -                           | 2,388,888                   |
| Centum Industries Private Limited  | -                           | 2,388,888                   |
| <b>Sundry creditors</b>  | <u>34,580</u>               | 1,044,293                   |
| <i>Subsidiary</i>  |                             |                             |
| Centum Rakon India Private Limited   | 34,580                      | 517,186                     |
| <i>Parties under common control</i>  |                             |                             |
| Centum Industries Private Limited  | -                           | 527,107                     |
| <b>Advances recoverable in cash or in kind or for value to be received</b> | <u>3,459,253</u>            | 3,968,266                   |
| <i>Parties under common control</i>  |                             |                             |
| Solectron EMS India Limited  | 3,459,253                   | 3,851,862                   |
| <i>Dues from Managing Director</i>   | -                           | 116,404                     |
| <b>Advances to suppliers</b>   | <u>2,014,321</u>            | -                           |
| <i>Parties under common control</i>  |                             |                             |
| Centum Industries Private Limited  | 2,014,321                   | -                           |
| <b>Loan to subsidiary</b>  | <u>98,560,000</u>           | 98,560,000                  |
| <i>Subsidiary</i>  |                             |                             |
| Centum Rakon India Private Limited   | 98,560,000                  | 98,560,000                  |
| <b>Accrued interest</b>  | -                           | 469,848                     |
| <i>Subsidiary</i>  |                             |                             |
| Centum Rakon India Private Limited   | -                           | 469,848                     |
| <b>Investment</b>  |                             |                             |
| <i>Subsidiary</i>  |                             |                             |
| Centum Rakon India Private Limited   | 28,560,000                  | 28,560,000                  |
| <b>Equity share capital</b>  |                             |                             |
| Apparao V Mallavarapu  | 38,086,500                  | 24,026,500                  |
| <b>Managerial Remuneration payable</b>                                     |                             |                             |
| Key Management Personnel   | 751,389                     | 696,915                     |

u) Leases

The Company has taken office facilities under cancelable operating lease agreement. The Company intends to renew the agreement in the normal course of its business. Total lease rentals recognized in the profit and loss for the year in respect of the aforementioned lease is Rs.1,362,998 (previous year: Rs.1,041,289).

The Company has also given office facilities under cancelable operating lease agreement to its subsidiary. The Company intends to renew the agreement in the normal course of its business. Total lease rental income recognized in the profit and loss for the year with respect to the above is Rs.2,300,400 (previous year: Rs.191,700).

## Schedules to the Financial Statements (Contd...)

### v) Deferred taxes

The composition of net deferred tax assets and liabilities of the Company as at 31 March 2009 and 31 March 2008, respectively are as under:

|                                       | Rs.                 |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 31 March 2009       | 31 March 2008       |
| <b>Deferred tax asset/(liability)</b> |                     |                     |
| Fixed assets                          | (14,093,877)        | (13,601,419)        |
| Provision for doubtful debts          | 399,605             | 25,210              |
| Provision for doubtful advances       | 462,609             | -                   |
| Current liabilities and provisions    | 1,616,595           | 1,321,246           |
| <b>Net deferred tax liability</b>     | <b>(11,615,068)</b> | <b>(12,254,963)</b> |

### w) Managerial remuneration

|                            | Rs.                         |                             |
|----------------------------|-----------------------------|-----------------------------|
|                            | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Salaries and allowances    | 8,973,600                   | 8,973,600                   |
| Provident and other funds* | 432,000                     | 432,000                     |
|                            | <b>9,405,600</b>            | <b>9,405,600</b>            |

\*The above does not include compensated absences and gratuity calculated on actuarial basis, as separate figures for directors are not available.

Computation of net profit in accordance with Section 198, read with Section 349 of the Companies Act, 1956, and calculation of maximum managerial remuneration (including commission) payable to the Managing Director:

|   | Rs.                         |                             |
|---|-----------------------------|-----------------------------|
|   | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
| Profit before taxation                                      | 5,671,901                   | 109,492,801                 |
| <i>Add:</i>   |                             |                             |
| Director's remuneration                                     | 9,405,600                   | 9,405,600                   |
| Depreciation as per the accounts                            | 19,328,753                  | 30,254,263                  |
| Loss on sale of fixed assets                                | 401,098                     | -                           |
| <i>Less:</i>  |                             |                             |
| Depreciation as per section 350 of the Companies Act, 1956* | 19,328,753                  | 30,254,263                  |
| Net Profit on which commission is payable                   | 15,478,599                  | 118,898,401                 |
| Maximum managerial remuneration payable                     | 773,930                     | 5,944,920                   |
| Excess managerial remuneration accrued                      | 8,631,070                   | 3,460,680                   |

\*Depreciation computed based on useful lives which are lower lives as mentioned in Schedule XIV of the Companies Act, 1956.

The members of the Company on 21 September 2004 approved the remuneration payable to the managing director for a period of five years with effect from 1 August 2004 to 31 July 2009, which was in excess of the limits prescribed under section 198(4), 309(3) and Schedule XIII as amended by the Companies Act, 1956. The same has been approved by Central Government of India.

x) **Un-hedged foreign currency disclosures:**

The Company's foreign currency exposure on account of foreign currency denominated payables not hedged is as follows:

| Particulars  | Year ended 31 March 2009        |                   | Year ended 31 March 2008        |                  |
|--------------|---------------------------------|-------------------|---------------------------------|------------------|
|              | Amount<br>(foreign<br>currency) | Amount<br>(INR)   | Amount<br>(foreign<br>currency) | Amount<br>(INR)  |
| USD          | 174,181                         | 8,979,050         | -                               | -                |
| EUR          | 70,781                          | 4,852,735         | 16,472                          | 959,425          |
| GBP          | 10,240                          | 757,425           | 12,200                          | 897,839          |
| JPY          | 126,800                         | 66,887            | 34,902                          | 14,521           |
| SGD          | 19,600                          | 666,984           | -                               | -                |
| <b>Total</b> |                                 | <b>15,323,081</b> |                                 | <b>1,871,785</b> |

The Company's foreign currency exposure on account of foreign currency denominated receivables not hedged is as follows:

| Particulars  | Year ended 31 March 2009        |                  | Year ended 31 March 2008        |                  |
|--------------|---------------------------------|------------------|---------------------------------|------------------|
|              | Amount<br>(foreign<br>currency) | Amount<br>(INR)  | Amount<br>(foreign<br>currency) | Amount<br>(INR)  |
| USD          | 15,746                          | 788,402          | 9,931                           | 395,452          |
| EUR          | 23,624                          | 1,587,985        | 17,134                          | 1,074,626        |
| <b>Total</b> |                                 | <b>2,376,387</b> |                                 | <b>1,470,078</b> |

- y) Previous year's figures have been re-grouped/re-arranged wherever necessary to conform to current year's presentation. However, previous year's figures are not comparable as the profit and loss account contains results of Modules for the full year and FCP business for 11 months period ended 29 February 2008.

for Centum Electronics Limited

Apparao V. Mallavarapu  
Managing Director

S. Krishnan  
Director

Place : Bangalore  
Date : 4 June 2009

Ellroy Furtado  
Company Secretary

K.S. Desikan  
CFO

## Cash Flow Statement

|  | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|--|--------------------------------------|--------------------------------------|
| <b>Cash flow from operating activities</b>   |                                      |                                      |
| Profit before tax  | 5,671,901                            | 109,492,801                          |
| Adjustments  |                                      |                                      |
| Provision for doubtful debts   | 1,101,483                            | -                                    |
| Release from capital reserve   | -                                    | (5,899,784)                          |
| Loss on sale of assets   | 401,098                              | -                                    |
| Depreciation   | 19,328,753                           | 30,254,263                           |
| Interest income  | (7,899,983)                          | (3,198,844)                          |
| Provision for doubtful advances  | -                                    | 1,361,015                            |
| Interest expense   | 7,716,080                            | 16,186,789                           |
| <b>Operating cash flows before working capital changes</b>                             | <b>26,319,332</b>                    | <b>148,196,240</b>                   |
| (Increase) / decrease in sundry debtors  | (16,701,949)                         | 142,037,461                          |
| (Increase) / decrease in inventories   | (1,114,043)                          | 137,930,086                          |
| (Increase) / decrease in loans and advances  | 19,448,825                           | 8,859,636                            |
| Increase / (decrease) in current liabilities and provisions                            | 13,046,460                           | (194,075,277)                        |
| <b>Cash generated from operations</b>  | <b>40,998,625</b>                    | <b>242,948,146</b>                   |
| Income taxes   | (18,984,924)                         | (45,660,207)                         |
| <b>Net cash generated by operating activities</b>                                      | <b>22,013,701</b>                    | <b>197,287,939</b>                   |
| <b>Cash flow from investing activities</b>   |                                      |                                      |
| Proceeds from sale of fixed assets   | 600,001                              | 48,723,649                           |
| Interest received  | 10,588,080                           | 253,609                              |
| Purchase of fixed assets   | (20,661,882)                         | (33,301,760)                         |
| Investment in equity shares of subsidiary  | -                                    | (28,560,000)                         |
| <b>Net cash used in investing activities</b>   | <b>(9,473,801)</b>                   | <b>(12,884,502)</b>                  |
| <b>Cash flow from financing activities</b>   |                                      |                                      |
| Cash credit repaid   | (20,739,614)                         | (54,449,227)                         |
| Interest expense   | (7,716,080)                          | (16,186,789)                         |
| Dividend and dividend tax paid   | (8,526,678)                          | -                                    |
| Loan given to subsidiary   | -                                    | (98,560,000)                         |
| <b>Net cash used in financing activities</b>   | <b>(36,982,372)</b>                  | <b>(169,196,016)</b>                 |
| Net increase/(decrease) in cash and cash equivalents                                   | (24,442,472)                         | 15,207,421                           |
| Cash and cash equivalents at the beginning of the year                                 | 47,156,485                           | 31,949,064                           |
| <b>Cash and cash equivalents at the end of the year</b>                                | <b>22,714,013</b>                    | <b>47,156,485</b>                    |
| <i>Cash and cash equivalents at the end of the year comprise</i>                       |                                      |                                      |
| Cash and bank balances (refer schedule 11)   | 22,714,013                           | 48,188,666                           |
| Book overdraft (refer schedule 13)   | -                                    | (1,032,181)                          |
|  | <b>22,714,013</b>                    | <b>47,156,485</b>                    |
| <b>The above cash flows include cashflows from discontinued operations as follows:</b> |                                      |                                      |
| Net cash generated by operating activities   | -                                    | 47,824,939                           |
| Net cash used in investing activities  | -                                    | (5,952,757)                          |
| Net cash used in financing activities  | -                                    | (41,389,943)                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                            | <b>-</b>                             | <b>482,239</b>                       |

This is the Cash Flow statement referred to in our report attached

As Per our report attached

for **BSR & Co.**  
Chartered Accountants  
Zubin Shekary  
Partner  
Membership No. 48814

Place : Bangalore  
Date : 4 June 2009

for **Centum Electronics Limited**

Apparao V. Mallavarapu  
Managing Director

S. Krishnan  
Director

Ellroy Furtado  
Company Secretary

K.S. Desikan  
CFO

## Balance Sheet Abstract and Company's General Profile

### Registration details

|                    |               |
|--------------------|---------------|
| Registration No    | 13869         |
| State Code         | 08            |
| Balance Sheet Date | 31 March 2009 |

### Capital raised during the year

|                   |     |
|-------------------|-----|
| Public issue      | Nil |
| Rights issue      | Nil |
| Private placement | Nil |

### Position of mobilization and deployment of funds

|                   |             |
|-------------------|-------------|
|                   | (in Rs.)    |
| Total liabilities | 354,275,383 |
| Total assets      | 354,275,383 |

### Sources of funds

|                        |             |
|------------------------|-------------|
| Paid-up capital        | 74,000,000  |
| Reserves and surplus   | 248,682,088 |
| Secured loans          | 19,978,227  |
| Deffered tax liability | 11,615,068  |

### Application of funds

|                           |             |
|---------------------------|-------------|
| Net fixed assets          | 151,530,254 |
| Investments               | 28,560,000  |
| Net current assets        | 174,185,129 |
| Miscellaneous expenditure | -           |
| Accumulated losses        | -           |

### Performance of Company

|                          |             |
|--------------------------|-------------|
|                          | (In Rs.)    |
| Turnover                 | 229,081,769 |
| Total expenditure        | 223,409,868 |
| Profit / loss before tax | 5,671,901   |
| Extraordinary income     | -           |
| Profit / loss after tax  | 3,694,466   |
| Earnings per share       | 0.50        |
| Dividend rate (%)        | 10%         |

### Generic name of the principal products / services of the Company

|                         |  |
|-------------------------|--|
| Item code no (ITC code) | 85424000                                   |
| Product description     | Hybrid Micro Circuits - Active and Passive |

for Centum Electronics Limited

Apparao V Mallavarapu  
Managing Director

S. Krishnan  
Director

Ellroy Furtado  
Company Secretary

K.S. Desikan  
CFO

Bangalore  
4 June 2009

## Section 212 of the Companies Act, 1956

### Statement on subsidiary company pursuant to Section 212 of the Companies Act, 1956

|   |   |  |
|---|---|--|
| 1 | Name of the subsidiary  | Centum Rakon India Private Limited   |
| 2 | Financial period  | April 1, 2008 to March 31, 2009  |
| 3 | Holding Company's interest  | 51% in equity share capital  |
| 4 | Shares held by the holding company in the subsidiary  | 28,56,000 equity shares of Rs. 10/- each fully paid up amounting to Rs. 2.856 crores |
| 5 | The net aggregate of the profits & losses of the subsidiary for the current period so far as it concerns the members of the holding company       |  |
|   | a. dealt with or provided for in the accounts of the holding company  | NIL  |
|   | b. not dealt with or provided for in the accounts of the holding company  | Loss of Rs. 13,096,456   |
| 6 | The net aggregate of the profits & losses of the subsidiary for previous financial years so far as it concerns the members of the holding company |  |
|   | a. dealt with or provided for in the accounts of the holding company  | NA   |
|   | b. not dealt with or provided for in the accounts of the holding company  | Profit of Rs. 1,938,252  |

**Centum Rakon India Private Limited**  
*(formerly Centum Frequency Products Private Limited)*

**Board of Directors**

Apparao V Mallavarapu, *Director*

S. Krishnan, *Director*

Brent John Robinson, *Director*

Darren Paul Robinson, *Director*

**Manager**

P M Unnikrishnan, GM - Operations

**Statutory Auditors**

BSR & Co.

**Internal Auditors**

Ernst & Young Pvt. Ltd.

**Bankers**

State Bank of India -SSI Branch  
Kumara Park, Bangalore.

**Registered office**

No. 44, KHB Industrial area,  
Yelahanka New Township,  
Bangalore- 560 106.

## Directors' Report

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Your Directors have pleasure in presenting their Second Annual Report on the business and Operations of your Company and the audited Statement of Accounts for the year ended 31<sup>st</sup> March 2009.

### FINANCIAL HIGHLIGHTS

| Particulars                             | Rs.Millions   |               |
|---|---------------|---------------|
|   | March 31 2009 | March 31 2008 |
| Turnover                                | 289.87        | 27.08         |
| Profit before Depreciation and Interest | 22.63         | 3.83          |
| Depreciation                            | 25.96         | 1.08          |
| Interest                                | 8.35          | 0.57          |
| Profit before tax                       | -11.68        | 2.18          |
| Provision for tax                       | 1.42          | 0.25          |
| Profit after tax                        | -13.10        | 1.94          |

### PERFORMANCE

During the first full year of the operations, the Company posted a turnover of Rs. 289.87 million and Loss Before Tax of Rs. 11.68 million.

Rakon Limited of New Zealand through its subsidiary, Rakon (Mauritius) Limited has acquired a 49% stake in the equity. To reflect the partnership, the name of the Company was changed from Centum Frequency Products Private Limited to Centum Rakon India Private Limited.

### EMPLOYEES

The human capital has been recognized as a vital factor in achieving the goals and objectives of the organization. Emphasis is placed to build a network of dedicated and experienced professionals who would strive for organizational growth by maximizing the effectiveness while the policies and practices would foster employees' satisfaction, retention and productivity.

The employees of the parent company, Centum Electronics Limited who were engaged in the FCP Business were transferred to the Company.

There are no employees whose details are required to be mentioned under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975.

### DIRECTORS

There were no changes that had occurred in the composition of the Board of Directors.

Mr. S Krishnan, an independent director of Centum Electronics Limited who has been appointed in line with clause 49 of the Listing Agreement applicable to the parent Company, Centum Electronics Limited shall retire by rotation and being eligible, offers himself for re-appointment.

The required resolution for re-appointment of the aforesaid director has been included in the notice convening ensuing Annual General Meeting.

### DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of Companies Act, 1956, the Directors confirm that:

- in the preparation of annual accounts for the year ended 31<sup>st</sup> March 2009 all the applicable Accounting Standards had been followed along with the proper explanations relating to material departures, if any;

## Directors' Report (contd...)

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- ii. accounting policies were adopted and applied consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31<sup>st</sup> March 2009 and of the profit or loss of the Company for year ended on that date;
- iii. proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- iv. the Directors had prepared the annual accounts on a going concern basis.

### AUDITORS

M/s BSR & Co., Chartered Accountants, Statutory Auditors of the company were appointed as the statutory auditors at the 1<sup>st</sup> Annual General Meeting held on October 23, 2008 and will retire at the forthcoming annual general meeting and they are eligible for re-appointment. Your Directors recommend the re-appointment of the above Statutory Auditors and resolution in this regard forms part of the agenda for the forthcoming Annual General Meeting, requiring approval of the shareholders..

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, RESEARCH & DEVELOPMENT AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

The particulars prescribed under subsection (1) (e) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are given in the annexure included in this report.

### ACKNOWLEDGEMENTS

Your Directors thank the customers for their continued patronage and the investors, bankers and vendors for their continued support.

Your Directors acknowledge and thank the invaluable contributions of all the employees, who have demonstrated their skill, teamwork and commitment through their competence, hard work, cooperation and support.

Your Directors would also like to place on record the support received from, the Electronic Hardware Technology Park, the Customs and Excise Departments, the Reserve Bank of India, and all the other Central and State Governmental agencies.

For and on behalf of the Board

Place: Bangalore  
Date: 3 June 2009

**Apparao V Mallavarapu**  
Director

**S Krishnan**  
Director

## Annexure to the Directors' Report

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### INFORMATION PURSUANT TO THE SECTION 217(1)(e) OF THE COMPANIES ACT, 1956.

#### 1. CONSERVATION OF ENERGY

The Company has started a Small Group activity (Focus Team) to conserve energy. The team identified several energy saving projects & implemented them which resulted in energy cost savings of more than 30%

Some of the energy conservation measures, your company had undertaken during the period under report are:

- Improved Power Factor (from 0.9 to 0.97) by connecting APFC panel
- Transformer Compensation capacitor was connected
- All employees were made aware of the power saving they can do & encouraged them to switch off lights /AC when not required
- Chiller & AC temperature were kept at Optimum level
- Auto Timer control for the Office lightings
- Localised Controls for Air Handling Units given in all departments
- Enabled Auto save for all computers
- Everyday, energy costs are monitored & suitable corrective actions are taken.

#### 2. TECHNOLOGY ABSORPTION, RESEARCH AND DEVELOPMENT

- The company has developed several complex products.
- A number of employees were sent for technology development, assessment of the technology trends and training to the facility of Rakon Limited based at France
- A team of 4 design, process and maintenance engineers are currently in Rakon, New Zealand developing the design & process for a new SMD VCXO product line
- Technology Development team exclusively works on the latest technologies and future oscillators in the area of Frequency Controlled Products.

#### 3. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange Earnings and Outgo are reported in Notes to Accounts No. 19 - 11 & 12 and forming part of the Balance Sheet and Profit and Loss Account for the year ended 31st March, 2009.

For and on behalf of the Board

Place: Bangalore  
Date: 3 June 2009

**Apparao V Mallavarapu**  
Director

**S Krishnan**  
Director

## Auditors' Report

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### To the Members of Centum Rakon India Private Limited (formerly Centum Frequency Products Private Limited)

We have audited the attached balance sheet of Centum Rakon India Private Limited (formerly Centum Frequency Products Private Limited) ("the Company") as at 31 March 2009 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

- (a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- (e) on the basis of written representations received from the directors, as at 31 March 2009 and taken on record by the Board of Directors, we report that none of the directors are disqualified as at 31 March 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 on the said date;
- (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (i) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2009;
  - (ii) in the case of the profit and loss account, of the loss of the Company for the year ended on that date; and
  - (iii) in the case of the cash flow statement, of the cash flows of the Company for the year ended on that date.

*for* BSR & Co.  
Chartered Accountants

Zubin Shekary  
Partner  
Membership No. 48814

Bangalore  
Date: 3 June 2009

## Annexure to the Auditors' Report

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Annexure referred to in our report to the members of Centum Rakon India Private Limited (formerly Centum Frequency Products Private Limited) ("the Company") for the year ended 31 March 2009. We report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) No fixed assets were disposed off during the year. Thus, paragraph 4(i)(c) of the Order is not applicable to the Company.
- (ii) (a) The inventory, except goods-in-transit, has been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures for the physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) (a) The Company has taken loan from two companies covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount outstanding during the year and the year end balance of such loan aggregated Rs 185,841,122. The Company has not taken loan from any other firm / other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (b) In our opinion, the rate of interest and other terms and conditions on which loans have been taken from the Companies listed in the register maintained under Section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
- (c) In the case of loans taken from companies listed in the register maintained under Section 301 of the Companies Act, 1956, the Company has been regular in repaying the interest amounts as stipulated and there was no stipulation as to repayment of principal amount during the year under audit.
- (e) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and similarly certain goods sold are for the specialised requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system with regard to purchase of inventories and fixed assets and with regard to the sale of goods. The Company's operations does not involve sale of services. We have not observed any major weakness in the internal control system during the course of the audit.

## Annexure to the Auditors' Report (Contd...)

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- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that Section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rs 5 lakhs with each party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government of India has not prescribed the maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 for any of the products manufactured by the Company.
- (ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Customs duty, Excise duty and other material statutory dues have been regularly deposited during the period by the Company with the appropriate authorities. As informed to us, the Company did not have any dues on account of Investor Education and Protection Fund, Service tax and Wealth tax.
- There are no dues on account of Cess under section 441A of the Companies Act, 1956 since the date from which the aforesaid Section comes into force has not yet been notified by the Central Government of India.
- According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Customs duty, Excise duty and other material statutory dues were in arrears as at 31 March 2009 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues of Income tax, Sales tax, Custom duty and Excise duty which have not been deposited with the appropriate authorities on account of any dispute.
- (x) The Company is registered for a period of less than five years and accordingly clause 4(x) of the Order is not applicable.
- (xi) In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of its dues to any banks during the year. The Company did not have any outstanding dues to any financial institution or debenture holders during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund /nidhi/ mutual benefit fund/ society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purposes for which they have been raised.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issues during the year.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

*for BSR & Co.*  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Bangalore  
Date: 3 June 2009

## Balance Sheet

|   | SCHEDULE | As at<br>31 March 2009<br>Rs. | As at<br>31 March 2008<br>Rs. |
|---|----------|-------------------------------|-------------------------------|
| <b>SOURCES OF FUNDS</b>                         |          |                               |                               |
| <b>SHAREHOLDERS' FUNDS</b>                      |          |                               |                               |
| Share capital                                   | 3        | 56,000,000                    | 56,000,000                    |
| Reserves and surplus                            | 4        | 235,482,400                   | 237,420,652                   |
|   |          | <u>291,482,400</u>            | <u>293,420,652</u>            |
| <b>Loan funds</b>                               |          |                               |                               |
| Secured loan                                    | 5        | 20,107,828                    | 19,194,197                    |
| Unsecured loans                                 | 6        | 185,841,122                   | 98,560,000                    |
|   |          | <u>205,948,950</u>            | <u>117,754,197</u>            |
|   |          | <u>497,431,350</u>            | <u>411,174,849</u>            |
| <b>APPLICATION OF FUNDS</b>                     |          |                               |                               |
| <b>Fixed assets</b>                             |          |                               |                               |
| Gross block                                     | 7        | 489,280,112                   | 129,897,910                   |
| Accumulated depreciation                        |          | (107,120,127)                 | (81,162,313)                  |
| Net block                                       |          | 382,159,985                   | 48,735,597                    |
| Capital work-in-progress                        |          | 27,722,242                    | 217,671,482                   |
|   |          | <u>409,882,227</u>            | <u>266,407,079</u>            |
| <b>Deferred tax asset, net</b>                  | 19(18)   | -                             | 1,264,893                     |
| <b>Current assets, loans and advances</b>       |          |                               |                               |
| Inventories                                     | 8        | 68,714,161                    | 63,629,960                    |
| Sundry debtors                                  | 9        | 91,678,062                    | 50,034,905                    |
| Cash and bank balances                          | 10       | 21,411,148                    | 269,207,875                   |
| Loans and advances                              | 11       | 10,270,802                    | 18,439,861                    |
|   |          | <u>192,074,173</u>            | <u>401,312,601</u>            |
| <b>Current liabilities and provisions</b>       |          |                               |                               |
| Current liabilities                             | 12       | 113,535,009                   | 254,727,439                   |
| Provisions                                      | 13       | 2,148,245                     | 3,082,285                     |
|   |          | <u>115,683,254</u>            | <u>257,809,724</u>            |
| <b>Net current assets</b>                       |          | <u>76,390,919</u>             | <u>143,502,877</u>            |
| <b>Debit balance in profit and loss account</b> |          | <u>11,158,204</u>             | -                             |
|   |          | <u>497,431,350</u>            | <u>411,174,849</u>            |
| <b>Significant accounting policies</b>          | 2        |                               |                               |
| <b>Notes on the accounts</b>                    | 19       |                               |                               |

The schedules referred to above form an integral part of the Balance Sheet

As per our report attached

for **BSR & Co.**  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Place : Bangalore  
Date : 3 June 2009

for **Centum Rakon India Private Limited**

**Apparao V. Mallavarapu**      **S Krishnan**  
Director                                      Director

**P M Unnikrishnan**  
GM - Operations (Manager)

## Profit and Loss Account

|  | Schedule | Rs.<br>For the<br>year ended<br>31 March 2009 | Rs.<br>For the period from<br>7 December 2007<br>to 31 March 2008 |
|--|----------|---|---|
| <b>INCOME</b>                                      |          |   |   |
| Sale of manufactured goods                         |          | 281,367,374                                   | 26,630,034  |
| Less: Excise duty                                  |          | (1,773,436)                                   | (536,077)   |
| Sale of manufactured goods, net                    |          | 279,593,938                                   | 26,093,957  |
| Other income                                       | 14       | 10,274,883                                    | 983,012   |
|  |          | <u>289,868,821</u>                            | <u>27,076,969</u>   |
| <b>EXPENDITURE</b>                                 |          |   |   |
| Material costs                                     | 15       | 177,849,611                                   | 14,448,852  |
| Personnel costs                                    | 16       | 25,490,104                                    | 2,208,855   |
| Other expenses                                     | 17       | 61,765,598                                    | 6,521,880   |
| Financial expenses                                 | 18       | 10,481,163                                    | 632,587   |
| Depreciation                                       | 7        | 25,957,814                                    | 1,080,729   |
|  |          | <u>301,544,290</u>                            | <u>24,892,903</u>   |
| <b>Profit/(loss) before taxation</b>               |          | <b>(11,675,469)</b>                           | <b>2,184,066</b>  |
| Income taxes                                       |          |   |   |
| - Current  |          | -   | 1,500,000   |
| - Deferred   |          | 1,264,893                                     | (1,264,893)   |
| - Fringe benefit tax                               |          | 156,094                                       | 10,707  |
| <b>Profit/(loss) after taxation</b>                |          | <b>(13,096,456)</b>                           | <b>1,938,252</b>  |
| Balance in profit and loss account brought forward |          | 1,938,252                                     | -   |
| <b>Balance carried to the balance sheet</b>        |          | <b>(11,158,204)</b>                           | <b>1,938,252</b>  |
| <b>Earnings per share (par value Rs 10 each)</b>   |          |   |   |
| Basic and diluted                                  | 19(4)    | (2.34)  | 1.87  |
| <b>Weighted average number of equity shares</b>    |          |   |   |
| Basic and diluted                                  |          | 5,600,000                                     | 1,034,810   |
| <b>Significant accounting policies</b>             | 2        |   |   |
| <b>Notes on the accounts</b>                       | 19       |   |   |

The schedules referred to above form an integral part of the profit and loss account.

As per our report attached

for **BSR & Co.**  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Place : Bangalore  
Date : 3 June 2009

for **Centum Rakon India Private Limited**

**Apparao V. Mallavarapu**      **S Krishnan**  
Director                                      Director

**P M Unnikrishnan**  
GM - Operations (Manager)

## Schedules to the Financial Statements

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### 1. Background

Centum Rakon India Private Limited (formerly Centum Frequency Products Private Limited) (“the Company”) was incorporated as a private limited company on 7 December 2007 under the Companies Act, 1956. Centum Electronics Limited (“CEL”) acquired 100% equity interest in the Company on 1 February 2008 and also agreed to transfer its assets and liabilities pertaining to the Frequency Control Products (“FCP”) division through a Business Transfer Agreement effective 29 February 2008 for a consideration of Rs. 127,011,427.

The Company entered into a share subscription agreement on 13 February 2008 with Rakon Limited, New Zealand (“Rakon”) and consequently shareholding in the Company is in the ratio of 51:49 between CEL and Rakon (Mauritius) Limited, subsidiary of Rakon as at 31 March 2009.

The Company has been formed principally for the manufacture and supply of electronic products including frequency control products and resistor networks catering to the communications, military, aerospace and industrial electronics markets.

The Company was originally incorporated as Centum Frequency Products Private Limited and subsequently has changed its name to Centum Rakon India Private Limited effective 22 May 2008. The Company has its registered office in Bangalore.

### 2. Significant accounting policies

#### a) Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards (“AS”) prescribed in the Companies (Accounting Standards) Rules 2006, as amended, and the relevant provisions of the Companies Act, 1956, to the extent applicable.

#### b) Cash flow statement

Cash flow statement is reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows arising from operating, investing and financing activities of the Company are segregated.

#### c) Use of estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP) in India, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

#### d) Fixed assets

Fixed assets are carried at cost of acquisition less accumulated depreciation. The cost of fixed assets includes freight, duties, taxes and other incidental expenses related to the acquisition or construction of the respective assets. Intangible assets are recorded at their acquisition cost. Machinery spares which are specific to a particular item of fixed asset are capitalized at the time of their purchase.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date, are disclosed as capital work-in-progress.

#### e) Depreciation

Depreciation is provided on the straight-line method from the date the asset is ready for use.

The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. However, where management’s estimate of the useful life of a fixed asset at the time of acquisition of the fixed asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on management’s estimate of the useful life/ remaining useful life.

## Schedules to the Financial Statements (Contd...)

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Depreciation on assets has been provided at the rates based on the following estimated useful lives of fixed assets:

| <b>Asset categories</b> | <b>Years</b>  |
|-------------------------|---|
| Plant and machinery     | 8 - 9 years   |
| Computers               | 5 - 6 years   |
| Software                | 5 - 6 years   |
| All other assets        | On straight line basis at the rates prescribed under Schedule XIV to the Companies Act, 1956. |

For assets acquired/disposed during the period/year, depreciation is provided from/ upto the date the assets are acquired/disposed. Assets individually costing Rs 5,000 or less are depreciated at the rate of 100%.

Machinery spares are depreciated on a systematic basis over the period of the remaining useful life of the fixed asset for which they are utilized.

### f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises purchase price and all incidental expenses (other than those subsequently recoverable by the enterprise from the tax authorities) incurred in bringing the inventory to its present location and condition. The basis of determining cost is set out below:

|                                     |  |
|-------------------------------------|--|
| Stores and spares                   | Weighted average cost method                         |
| Raw materials and components        | Weighted average cost method                         |
| Raw materials in transit            | At actual cost                                       |
| Work-in-progress and finished goods | Weighted average cost including costs of conversion. |

Fixed production overheads are allocated on the basis of normal capacity of production facilities.

### g) Revenue recognition

Revenue from the sale of finished goods is recognized on transfer of all significant risks and rewards of ownership to the buyer. Sales are accounted inclusive of excise duty and exclude sales tax and trade and quantity discounts and are net of sales returns. Revenue from sale of manufactured goods has been presented both gross and net of excise duty.

Interest on deployment of surplus funds is recognized using the time proportionate method, based on the underlying interest rates.

### h) Foreign currency transactions

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the period are recognized in the profit and loss account for the period.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date, the resultant exchange differences are recognized in the profit and loss account.

### i) Employee benefits

Contributions payable to the recognised provident fund, which is a defined contribution scheme, are charged to the profit and loss account on accrual basis.

Gratuity and compensated absence costs, which are defined benefit scheme, are accrued based on actuarial valuation at the balance sheet date, carried out by independent actuary.

### j) Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The Company did not have any potentially dilutive equity shares outstanding during the period/year.

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**k) Provisions and contingent liabilities**

The Company recognizes a provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.

**l) Taxation**

Income-tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets / liabilities are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Assets and liabilities representing current and deferred tax are disclosed on a net basis when there is a legally enforceable right to set off and management intends to settle the asset and liability on a net basis.

The Company provides for and discloses the Fringe Benefit Tax ("FBT") in accordance with the provisions of Section 115 WC of the Income-tax Act, 1961 and the guidance note on FBT issued by the Institute of Chartered Accountants of India.

**m) Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset or a group of assets comprising a cash generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. For an asset or group of assets that does not generate largely independent cash in flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined; if no impairment loss had been recognised.

**n) Stock compensation expense**

The Company accounts for stock based compensation expense based on the intrinsic value method as prescribed by the Guidance Note on Accounting for Employee Share-based Payments issued by Institute of Chartered Accountants of India.

**o) Borrowing costs**

Borrowing costs directly attributable to the acquisition/ construction of the qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

**Schedules to the Financial Statements (Contd...)**

|  | Rs<br>As at<br>31 March 2009 | Rs<br>As at<br>31 March 2008 |
|--|------------------------------|------------------------------|
| <b>3. Share capital</b>  |                              |                              |
| <b>Authorised</b>  |                              |                              |
| 7,000,000 (previous period:7,000,000) equity shares of Rs 10 each  | <u>70,000,000</u>            | <u>70,000,000</u>            |
| <b>Issued, subscribed and paid-up</b>  |                              |                              |
| 5,600,000 (previous period: 5,600,000) shares of Rs 10 each fully paid up  | <u>56,000,000</u>            | <u>56,000,000</u>            |
| Out of the above 2,855,999 (previous period: 2,855,999) equity shares of Rs 10 each are held by Centum Electronics Limited, the holding company, 2,744,000 (previous period: 2,744,000) equity shares of Rs 10 each are held by Rakon (Mauritius) Limited and the balance 1 (previous period: 1) equity share is held by Mr. Apparao V. Mallavarapu as a beneficial owner on behalf of Centum Electronics Limited. |                              |                              |
| <b>4. Reserves and surplus</b>   |                              |                              |
| Securities premium account [refer schedule 19(2)]  | 235,482,400                  | 235,482,400                  |
| Profit and loss account  | -                            | 1,938,252                    |
|  | <u>235,482,400</u>           | <u>237,420,652</u>           |
| <b>5. Secured loan</b>   |                              |                              |
| Short term packing credit - bank   | <u>20,107,828</u>            | 19,194,197                   |
|  | <u>20,107,828</u>            | <u>19,194,197</u>            |
| Packing credit has been obtained from State Bank of India by way of hypothecation of inventories and book debts of the Company. Additionally, it is secured by way of collateral charge on plant and machinery. The loan is repayable within the year.   |                              |                              |
| <b>6. Unsecured loans</b>  |                              |                              |
| Long term loan from Centum Electronics Limited, the holding company*   | 98,560,000                   | 98,560,000                   |
| Long term loan from Rakon (Mauritius) Limited**  | <u>87,281,122</u>            | -                            |
|  | <u>185,841,122</u>           | <u>98,560,000</u>            |

\* The above loan is repayable on 29 August 2013.

\*\* The above loan is repayable in two instalments on 2 April 2014 and 5 August 2014.

## SCHEDULE : 7 FIXED ASSETS

(Amount in Rs.)

| Particulars                     | GROSS BLOCK           |  |                                 |                        | ACCUMULATED DEPRECIATION |  |                           |                        | NET BLOCK              |                        |
|---------------------------------|-----------------------|--|---------------------------------|------------------------|--------------------------|--|---------------------------|------------------------|------------------------|------------------------|
|                                 | As at<br>1 April 2008 | Additions<br>pursuant to<br>Business<br>Transfer<br>Agreement* | Additions<br>during<br>the year | As at<br>31 March 2009 | As at<br>1 April 2008    | Additions<br>pursuant to<br>Business<br>Transfer<br>Agreement* | Charge<br>for the<br>year | As at<br>31 March 2009 | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Tangible assets, owned</b>   |                       |  |                                 |                        |                          |  |                           |                        |                        |                        |
| Lease hold improvements         | -                     | -  | 1,103,723                       | 1,103,723              | -                        | -  | 91,392                    | 91,392                 | 1,012,331              | -                      |
| Plant and machinery **          | 105,552,322           | -  | 241,658,330                     | 347,210,652            | 71,494,482               | -  | 19,103,197                | 90,597,679             | 256,612,973            | 34,057,840             |
| Electrical installations        | 14,963,697            | -  | 3,334,986                       | 18,298,683             | 4,992,164                | -  | 849,656                   | 5,841,820              | 12,456,863             | 9,971,533              |
| Computers                       | 4,104,900             | -  | 171,447                         | 4,276,347              | 2,786,476                | -  | 514,553                   | 3,301,029              | 975,318                | 1,318,424              |
| Office equipment                | 912,903               | -  | 11,314                          | 924,217                | 334,177                  | -  | 39,769                    | 373,946                | 550,271                | 578,726                |
| Furniture                       | 2,750,183             | -  | 745,250                         | 3,495,433              | 1,121,675                | -  | 237,482                   | 1,359,157              | 2,136,276              | 1,628,508              |
| <b>Total (A)</b>                | <b>128,284,005</b>    | <b>-</b>   | <b>247,025,050</b>              | <b>375,309,055</b>     | <b>80,728,974</b>        | <b>-</b>   | <b>20,836,049</b>         | <b>101,565,023</b>     | <b>273,744,032</b>     | <b>47,555,031</b>      |
| <b>Intangible assets, owned</b> |                       |  |                                 |                        |                          |  |                           |                        |                        |                        |
| Intellectual property           | -                     | -  | 112,357,152                     | 112,357,152            | -                        | -  | 4,860,152                 | 4,860,152              | 107,497,000            | -                      |
| Computer software               | 1,613,905             | -  | -                               | 1,613,905              | 433,339                  | -  | 261,613                   | 694,952                | 918,953                | 1,180,566              |
| <b>Total (B)</b>                | <b>1,613,905</b>      | <b>-</b>   | <b>112,357,152</b>              | <b>113,971,057</b>     | <b>433,339</b>           | <b>-</b>   | <b>5,121,765</b>          | <b>5,555,104</b>       | <b>108,415,953</b>     | <b>1,180,566</b>       |
| <b>Total (A) + (B)</b>          | <b>129,897,910</b>    | <b>-</b>   | <b>359,382,202</b>              | <b>489,280,112</b>     | <b>81,162,313</b>        | <b>-</b>   | <b>25,957,814</b>         | <b>107,120,127</b>     | <b>382,159,985</b>     | <b>48,735,597</b>      |
| Previous period                 | -                     | 128,805,233  | 1,092,677                       | 129,897,910            | -                        | 80,081,584   | 1,080,729                 | 81,162,313             | 48,735,597             | -                      |

\* Refer schedule 1

\*\*\* includes interest capitalised of Rs 1,891,545 (previous period: Rs Nil)

**Schedules to the Financial Statements (Contd...)**

|   | Rs                     | Rs                     |
|---|------------------------|------------------------|
|   | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>8. Inventories</b>   |                        |                        |
| Stores and spares   | 543,719                | 5,178,135              |
| Raw materials and components  | 27,161,925             | 19,711,033             |
| Raw materials in transit  | 2,920,999              | 688,857                |
| Work-in-progress  | 38,087,518             | 38,051,935             |
|   | <u>68,714,161</u>      | <u>63,629,960</u>      |
| <b>9. Sundry debtors</b>  |                        |                        |
| <i>Unsecured</i>  |                        |                        |
| Debts outstanding for a period exceeding six months   |                        |                        |
| - considered good   | -                      | -                      |
| - considered doubtful   | 460,852                | 40,888                 |
|   | <u>460,852</u>         | <u>40,888</u>          |
| Other debts (considered good) *   | 91,678,062             | 50,034,905             |
|   | <u>92,138,914</u>      | <u>50,075,793</u>      |
| Less: provision for doubtful debts  | (460,852)              | (40,888)               |
|   | <u>91,678,062</u>      | <u>50,034,905</u>      |
| * Includes amounts due from the companies under the same management as defined under Section 370(1B) of the Companies Act, 1956 |                        |                        |
| - Solectron EMS India Limited   | 42,433                 | -                      |
| * Maximum amount outstanding during the year from companies under same management:  |                        |                        |
| - Solectron EMS India Limited   | 914,696                | -                      |
|   | <u>914,696</u>         | <u>-</u>               |
| <b>10. Cash and bank balances</b>   |                        |                        |
| Cash on hand  | 20,590                 | -                      |
| Cheques in hand   | -                      | 2,900,650              |
| Balances with scheduled banks   |                        |                        |
| - in current accounts   | 10,577,620             | -                      |
| - in EEFC accounts  | 9,945,938              | 266,307,225            |
| - in margin money accounts  | 867,000                | -                      |
|   | <u>21,411,148</u>      | <u>269,207,875</u>     |
| <b>11. Loans and advances</b>   |                        |                        |
| <i>Unsecured, considered good</i>   |                        |                        |
| Advances recoverable in cash or in kind or for value to be received*  | 1,279,187              | 775,631                |
| Advance to suppliers  | 3,238,947              | 16,810,607             |
| Deposits  | 10,000                 | 30,000                 |
| Prepaid expenses  | 539,784                | 510,082                |
| Advance tax and tax deducted at source [net of provision Rs. 156,094 (previous period: Rs Nil)]                                 | 13,907                 | -                      |
| Balances with government authorities  | 5,188,977              | 313,541                |
|   | <u>10,270,802</u>      | <u>18,439,861</u>      |

|   | Rs                     | Rs                     |
|---|------------------------|------------------------|
|   | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <i>Unsecured, considered doubtful</i>   |                        |                        |
| Advance to suppliers  | 1,368,779              | -                      |
|   | <u>11,639,581</u>      | <u>18,439,861</u>      |
| Less: provision for doubtful advances   | (1,368,779)            | -                      |
|   | <u>10,270,802</u>      | <u>18,439,861</u>      |
| * Includes amounts due from the companies under the same management as defined under Section 370(1B) of the Companies Act, 1956 |                        |                        |
| - Solectron EMS India Limited   | 92,650                 | -                      |
| - Centum Electronics Limited  | -                      | 517,186                |
| * Maximum amount outstanding during the year/period from companies under same management:                                       |                        |                        |
| - Solectron EMS India Limited   | 92,650                 | -                      |
| - Centum Electronics Limited  | -                      | 517,186                |
| <b>12. Current liabilities</b>  |                        |                        |
| Book overdraft  | -                      | 134,093                |
| Trade creditors   |                        |                        |
| - dues to micro and small enterprises   | 48,305                 | -                      |
| - dues to others  | 110,632,919            | 245,757,054            |
| Advances received from customers  | 427,594                | 4,869,270              |
| Interest accrued but not due  | 121,990                | 469,848                |
| Other liabilities   | 2,304,201              | 3,497,174              |
|   | <u>113,535,009</u>     | <u>254,727,439</u>     |
| <b>13. Provisions</b>   |                        |                        |
| Provision for tax (net of advance tax and tax deducted at source of Rs. 1,462,376 (previous period Rs. Nil))                    | 48,331                 | 1,510,707              |
| Gratuity  | 1,417,326              | 1,002,040              |
| Compensated absences  | 682,588                | 569,538                |
|   | <u>2,148,245</u>       | <u>3,082,285</u>       |

**Schedules to the Financial Statements (Contd...)**

|  | Rs                                     | Rs   |
|--|--|--|
|  | For the<br>year ended<br>31 March 2009 | For the period from<br>7 December 2007<br>to 31 March 2008 |
| <b>14. Other income</b>  |  |  |
| Foreign exchange gain, net   | 10,082,487                             | 983,012  |
| Miscellaneous income   | 192,396                                | -  |
|  | <u>10,274,883</u>                      | <u>983,012</u>   |
| <b>15. Material costs</b>  |  |  |
| Raw materials, components and packing materials consumed                                 | 177,885,194                            | 14,160,299   |
| Movement in manufactured finished goods and work in progress                             |  |  |
| Opening  |  |  |
| Finished goods   | -                                      | -  |
| Work in progress   | 38,051,935                             | 38,340,488   |
|  | <u>38,051,935</u>                      | <u>38,340,488</u>  |
| Closing  |  |  |
| Finished goods   | -                                      | -  |
| Work in progress   | 38,087,518                             | 38,051,935   |
|  | <u>38,087,518</u>                      | <u>38,051,935</u>  |
| (Increase) / decrease in inventories of manufactured finished goods and work-in-progress | (35,583)                               | 288,553  |
|  | <u>177,849,611</u>                     | <u>14,448,852</u>  |
| <b>16. Personnel costs</b>   |  |  |
| Salaries, wages and allowances   | 23,842,708                             | 1,925,498  |
| Contribution to provident and other funds  | 1,613,374                              | 113,505  |
| Staff welfare expenses   | 34,022                                 | 169,852  |
|  | <u>25,490,104</u>                      | <u>2,208,855</u>   |
| <b>17. Other expenses</b>  |  |  |
| Professional and consultancy   | 45,941,795                             | 4,489,620  |
| Power and fuel   | 3,864,836                              | 443,904  |
| Rent   | 2,826,569                              | 211,142  |
| Travelling and conveyance  | 2,160,200                              | 397,493  |
| Rates and taxes  | 386,602                                | 673,330  |
| Repairs and maintenance  |  |  |
| - Plant and machinery  | 2,338,458                              | 130,323  |
| - Building   | 139,523                                | -  |
| Insurance  | 1,354,410                              | 108,047  |
| Freight outwards   | 881,970                                | -  |
| Provision for doubtful advances  | 1,368,779                              | -  |
| Provision for doubtful debts   | 419,964                                | -  |
| Miscellaneous expenses   | 82,492                                 | 68,021   |
|  | <u>61,765,598</u>                      | <u>6,521,880</u>   |
| <b>18. Finance expenses</b>  |  |  |
| Interest on packing credit facilities  | 2,249,029                              | 96,638   |
| Interest on long term loans  | 6,102,986                              | 469,848  |
| Other financial charges  | 2,129,148                              | 66,101   |
|  | <u>10,481,163</u>                      | <u>632,587</u>   |

## 19. Notes to the accounts

### 1) Capital commitments and contingent liabilities

| Particulars   | As at<br>31 March 2009 | As at<br>31 March 2008 |
|---|------------------------|------------------------|
| Estimated amount of contracts remaining to be executed on capital account (net of advances) | 23,317,000             | 164,794,550            |

- 2) Centum Electronics Limited (“CEL”) took over 100% equity interest in the Company and also agreed to transfer its assets and liabilities pertaining to the Frequency Control Products (“FCP”) division through a Business Transfer Agreement effective 29 February 2008 for a consideration of Rs. 127,011,427. The Company issued 2,846,000 equity shares to Centum Electronics Limited on 3 March 2008 as a part consideration for the transfer of the FCP business.

The Company entered into a share subscription agreement on 13 February 2008 with Rakon Limited, New Zealand (“Rakon”) whereby Rakon agreed to subscribe to 2,744,000 equity shares of Rs 10 each at a premium of Rs 85.82 per share in the Company. These shares have been allotted on 25 March 2008 to Rakon (Mauritius) Limited (Rakon Mauritius), subsidiary of Rakon. Pursuant to this transaction the shareholding in the Company is in the ratio of 51:49 between CEL and Rakon Mauritius.

### 3) Auditors’ remuneration excluding service tax (included under professional and consultancy)

| Particulars                       | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
|-----------------------------------|-----------------------------|-----------------------------|
| Audit fees                        | 820,000                     | 400,000                     |
| Out of pocket expenses reimbursed | 14,189                      | 6,899                       |
| <b>Total</b>                      | <b>834,189</b>              | <b>406,899</b>              |

### 4) Earnings / (loss) per share

The computation of earnings per share is set out below:

| Particulars  | Year ended<br>31 March 2009<br>Rs | Year ended<br>31 March 2008<br>Rs |
|--|-----------------------------------|-----------------------------------|
| Profit for the year/period   | (13,096,456)                      | 1,938,252                         |
| Weighted average number of equity shares outstanding during the year/period (in numbers) | 5,600,000                         | 1,034,810                         |
| Face value of equity shares  | 10                                | 10                                |
| <b>Earnings / (loss) per share - basic and dilutive</b>                                  | <b>(2.34)</b>                     | <b>1.87</b>                       |

### 5) Capacity and production :

#### a) Particulars of installed capacity

| Products                   | 31 March 2009<br>Units | 31 March 2008<br>Units |
|----------------------------|------------------------|------------------------|
| Frequency control products | -                      | -                      |

Note: The figures for installed capacity are as certified by the Management and not verified by the auditors, being a technical matter. Further, we are informed by management that the installed capacity cannot be quantified.

**Schedules to the Financial Statements (Contd...)**

**b) Particulars of production**

| Products                   | 31 March 2009<br>Units | 31 March 2008<br>Units |
|----------------------------|------------------------|------------------------|
| Frequency control products | 1,034,093              | 96,619                 |

**6) Details of opening & closing inventories of manufactured items :**

**Finished goods** - There is no opening or closing stock of finished goods.

**7) Particulars of raw materials and components consumed**

| Components    | For the year ended<br>31 March 2009 |             | For the period ended<br>31 March 2008 |             |
|---------------|-------------------------------------|-------------|---------------------------------------|-------------|
|               | Quantity<br>Units                   | Value<br>Rs | Quantity<br>Units                     | Value<br>Rs |
| Crystals      | 541,029                             | 54,519,490  | -                                     | -           |
| PCBA assembly | 48,055                              | 17,621,066  | 9,411                                 | 1,433,617   |
| Others        | -                                   | 30,055,954  | -                                     | 4,248,720   |
| <b>Total</b>  | <b>102,196,510</b>                  |             | <b>5,682,337</b>                      |             |

| Raw materials | For the year ended<br>31 March 2009 |                   | For the period ended<br>31 March 2008 |                  |
|---------------|-------------------------------------|-------------------|---------------------------------------|------------------|
|               | Quantity<br>Units                   | Value<br>Rs       | Quantity<br>Units                     | Value<br>Rs      |
| Blanks        | 535,750                             | 8,986,913         | 113,919                               | 3,156,844        |
| Base          | 606,249                             | 21,316,644        | 85,406                                | 1,678,685        |
| PCB           | 443,758                             | 10,556,842        | 94,904                                | 1,585,040        |
| Others        | -                                   | 34,828,285        | -                                     | 2,057,393        |
| <b>Total</b>  | <b>1,585,757</b>                    | <b>75,688,684</b> | <b>294,229</b>                        | <b>8,477,962</b> |

Note: No other individual item of raw materials and components consumed account for 10% or more of the total consumption during the year/period.

The excise duty related to the difference between the closing stock and opening stock is not shown as deduction from turnover since it is not included in the turnover (gross). The excise duty related to the difference between the closing stock and opening stock is recognized separately in the statement of profit and loss.

**8) Particulars of raw materials and components consumed**

| Components   | For the year ended<br>31 March 2009 |                    | For the period ended<br>31 March 2008 |                  |
|--------------|-------------------------------------|--------------------|---------------------------------------|------------------|
|              | %                                   | Rs                 | %                                     | Rs               |
| Imported     | 71.39                               | 72,955,973         | 94.88                                 | 5,391,400        |
| Indigenous   | 28.61                               | 29,240,537         | 5.12                                  | 290,937          |
| <b>Total</b> | <b>100.00</b>                       | <b>102,196,510</b> | <b>100.00</b>                         | <b>5,682,337</b> |

**Raw materials**

| Raw Materials | For the year ended<br>31 March 2009 |                   | For the period ended<br>31 March 2008 |                  |
|---------------|-------------------------------------|-------------------|---------------------------------------|------------------|
|               | %                                   | Rs                | %                                     | Rs               |
| Imported      | 40.44                               | 30,607,651        | 83.58                                 | 7,086,721        |
| Indigenous    | 59.56                               | 45,081,033        | 16.42                                 | 1,391,241        |
| <b>Total</b>  | <b>100.00</b>                       | <b>75,688,684</b> | <b>100.00</b>                         | <b>8,477,962</b> |

**9) Particulars in respect of sale of manufactured products (including excise duty)**

| Products                   | For the year ended<br>31 March 2009 |                    | For the period ended<br>31 March 2008 |                   |
|----------------------------|-------------------------------------|--------------------|---------------------------------------|-------------------|
|                            | Quantity<br>Nos.                    | Value<br>Rs        | Quantity<br>Nos.                      | Value<br>Rs       |
| Frequency control products | 1,034,093                           | 281,367,374        | 96,619                                | 26,630,034        |
| <b>Total</b>               | <b>1,034,093</b>                    | <b>281,367,374</b> | <b>96,619</b>                         | <b>26,630,034</b> |

**10) CIF value of imports**

| Products  | For the year ended<br>31 March 2009<br>Rs | For the period ended<br>31 March 2008<br>Rs |
|---|---|---|
| Capital goods   | 147,786,919                               | 217,741,028                                 |
| Raw materials and components (including goods in transit) | 171,480,858                               | 8,166,336                                   |
| <b>Total</b>  | <b>319,267,777</b>                        | <b>225,907,364</b>                          |

**11) Expenditure in foreign currency (on payment basis)**

| Products                     | For the year ended<br>31 March 2009<br>Rs | For the period ended<br>31 March 2008<br>Rs |
|------------------------------|---|---|
| Travel                       | 1,929,570                                 | -   |
| Professional and consultancy | 4,852,973                                 | -   |
| <b>Total</b>                 | <b>6,782,543</b>                          | <b>-</b>                                    |

**12) Earnings in foreign currency**

| Products                    | For the year ended<br>31 March 2009<br>Rs | For the period ended<br>31 March 2008<br>Rs |
|-----------------------------|---|---|
| Sales of manufactured goods | 219,861,497                               | 17,457,335                                  |
| <b>Total</b>                | <b>219,861,497</b>                        | <b>17,457,335</b>                           |

## Schedules to the Financial Statements (Contd...)

13) The disclosure in respect of the amounts payable to Micro, Small and Medium Enterprises Development Act, 2006 as at 31 March 2009 has been made in the financials statements based on information received and available with the Company. The Company has not received any claim for interest from any supplier under the said Act.

| Products   | For the year ended<br>31 March 2009<br>Rs | For the period ended<br>31 March 2008<br>Rs |
|--|---|---|
| The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting period;  | 48,305                                    | -   |
| The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the period;  | -   | -   |
| The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the period) but without adding the interest specified under this Act; | -   | -   |
| The amount of interest accrued and remaining unpaid at the end of the period   | 2,981                                     | -   |
| The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise.                                | -   | -   |

### 14) Related Party

**A. Parties where control exists:**

- Centum Electronics Limited - Holding Company ('CEL')
- Rakon Limited - (ultimate holding company of Rakon (Mauritius) Limited which holds 49% equity shares in the Company)

**B. Other related parties where transactions have taken place during the year/period:**

*Parties under common control*

- Rakon (Mauritius) Limited
- Rakon France SAS
- Rakon UK Limited
- Rakon Limited
- Solelectron EMS India Limited

**C. Key management personnel**

| Name of the Director       | Representing               | Nature of directorship | Date of appointment |
|----------------------------|----------------------------|------------------------|---------------------|
| Mr. Apparao V Mallavarappu | Centum Electronics Limited | Non-Executive          | 30 January 2008     |
| Mr. S. Krishnan            | Centum Electronics Limited | Non-Executive          | 30 January 2008     |
| Mr. Darren Robinson        | Rakon Mauritius Limited    | Non-Executive          | 25 March 2008       |
| Mr. Brent Robinson         | Rakon Mauritius Limited    | Non-Executive          | 25 March 2008       |

| D. The following is a summary of transactions with related parties by the Company: |                                     |                                       | Rs |
|--|-------------------------------------|---------------------------------------|----|
| Particulars  | For the year ended<br>31 March 2009 | For the period ended<br>31 March 2008 |    |
| <b>Issue of equity shares</b>  |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | -                                   | 28,560,000                            |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon (Mauritius) Limited  | -                                   | 27,440,000                            |    |
| <b>Premium on issue of equity shares</b>   |                                     |                                       |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon (Mauritius) Limited  | -                                   | 235,482,400                           |    |
| <b>Unsecured loan</b>  |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | -                                   | 98,560,000                            |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon (Mauritius) Limited  | 87,281,122                          | -                                     |    |
| <b>Professional and consultancy</b>  |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | 35,000,004                          | 2,266,667                             |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon France SAS   | 7,407,223                           | -                                     |    |
| <b>Rent</b>  |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | 2,300,400                           | 191,700                               |    |
| <b>Interest expense</b>  |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | 5,913,600                           | 469,848                               |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon (Mauritius) Limited  | 189,386                             | -                                     |    |
| <b>Sales of goods and services</b>   |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | 33,250                              | -                                     |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon France SAS   | 102,343,233                         | -                                     |    |
| Rakon UK Limited   | 114,926,493                         | 9,216,974                             |    |
| Rakon Limited  | 5,594                               | -                                     |    |
| Solectron EMS India Limited  | 1,805,241                           | -                                     |    |
| <b>Purchases of goods and services</b>   |                                     |                                       |    |
| <i>Holding Company</i>   |                                     |                                       |    |
| Centum Electronics Limited   | 4,501,416                           | -                                     |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon France SAS   | 63,020,805                          | -                                     |    |
| Rakon UK Limited   | 4,697,746                           | 450,283                               |    |
| Rakon Limited  | 7,060,564                           | -                                     |    |
| <b>Purchases of fixed assets</b>   |                                     |                                       |    |
| <i>Parties under common control</i>  |                                     |                                       |    |
| Rakon France SAS   | 139,554,031                         | 217,243,266                           |    |
| Rakon UK Limited   | 4,542,043                           | -                                     |    |
| Rakon (Mauritius) Limited  | 1,891,545                           | -                                     |    |

**Schedules to the Financial Statements (Contd...)**

E. The balances receivable from and payable to related parties are as follows: Rs

| Particulars  | As at<br>31 March 2009 | As at<br>31 March 2008 |
|--|------------------------|------------------------|
| <b>Investment in equity shares</b>   |                        |                        |
| <i> Holding Company</i>  |                        |                        |
| Centum Electronics Limited   | 28,560,000             | 28,560,000             |
| <i> Companies under common control</i>                                     |                        |                        |
| Rakon (Mauritius) Limited  | 27,440,000             | 27,440,000             |
| <b>Unsecured loan</b>  |                        |                        |
| <i> Holding Company</i>  |                        |                        |
| Centum Electronics Limited   | 98,560,000             | 98,560,000             |
| <i> Companies under common control</i>                                     |                        |                        |
| Rakon (Mauritius) Limited  | 87,250,625             | -                      |
| <b>Interest accrued but not due</b>  |                        |                        |
| <i> Holding Company</i>  |                        |                        |
| Centum Electronics Limited   | -                      | 469,848                |
| <i> Companies under common control</i>                                     |                        |                        |
| Rakon (Mauritius) Limited  | 121,990                | -                      |
| <b>Advances recoverable in cash or in kind or for value to be received</b> |                        |                        |
| <i> Holding Company</i>  |                        |                        |
| Centum Electronics Limited   | -                      | 517,186                |
| <i> Companies under common control</i>                                     |                        |                        |
| Solectron EMS India Limited  | 92,650                 | -                      |
| <b>Sundry debtors</b>  |                        |                        |
| <i> Companies under common control</i>                                     |                        |                        |
| Rakon France SAS   | 52,342,711             | 52,174                 |
| Rakon UK Limited   | 23,499,732             | 17,128,569             |
| Rakon Limited  | 5,952                  | 104,200                |
| Solectron EMS India Limited  | 42,433                 | -                      |
| <b>Sundry creditors</b>  |                        |                        |
| <i> Holding Company</i>  |                        |                        |
| Centum Electronics Limited   | 8,526,763              | -                      |
| <i> Companies under common control</i>                                     |                        |                        |
| Rakon France SAS   | 70,823,389             | 217,243,266            |
| Rakon UK Limited   | 6,952,260              | 39,093                 |
| Rakon Limited  | 1,565,244              | -                      |

No remuneration is paid to key management personnel.

**15) Segment reporting**

The Company operates in only one segment i.e. Components business (Frequency Control Products). Hence, no primary segment disclosures have been given.

| Geographic segment      | Year ended<br>31 March 2009<br>Rs. | Period ended<br>31 March 2008<br>Rs. |
|-------------------------|------------------------------------|--------------------------------------|
| <b>Segment revenues</b> |                                    |                                      |
| India                   | 59,732,441                         | 8,636,622                            |
| Europe                  | 218,635,402                        | 17,128,647                           |
| Rest of the world       | 1,226,095                          | 328,688                              |
|                         | <b>279,593,938</b>                 | <b>26,093,957</b>                    |
| <b>Segment assets</b>   |                                    |                                      |
| India                   | 523,798,452                        | 633,024,501                          |
| Europe                  | 63,591,001                         | 34,447,027                           |
| Rest of the world       | 14,566,947                         | 248,152                              |
|                         | <b>601,956,400</b>                 | <b>667,719,680</b>                   |

**16) Leases**

The Company has taken warehouse premises under cancellable operating lease. The Company intends to renew such leases in the normal course of business. Total lease rentals recognised in the profit and loss account for the year ended 31 March 2009 in respect of the aforementioned lease aggregates Rs 2,693,228 (previous period: Rs 211,142).

**17) The following table sets out the status of the gratuity plan as required under revised AS 15.**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation.

|  | As at<br>31 March 2009 | Rs.<br>As at<br>31 March 2008 |
|--|------------------------|-------------------------------|
| <b>Change in Projected Benefit Obligations</b>                                       |                        |                               |
| Obligations at period beginning  | 1,002,040              | -                             |
| Transferred from Centum Electronics Limited, pursuant to business transfer agreement | -                      | 975,040                       |
| Service cost   | 145,979                | 27,000                        |
| Interest cost  | 85,409                 | -                             |
| Benefits paid  | -                      | -                             |
| Actuarial loss / (gain)  | 183,898                | -                             |
| Obligations at period end  | 1,417,326              | 1,002,040                     |
| <b>Change in Plan Assets</b>   |                        |                               |
| Plan assets at period beginning, at fair value                                       | -                      | -                             |
| Expected return on plan assets   | -                      | -                             |
| Actuarial gain/ (loss)   | -                      | -                             |
| Contributions  | -                      | -                             |
| Benefits paid  | -                      | -                             |
| Plan assets at period end, at fair value   | -                      | -                             |
| <b>Reconciliation of present value of obligation and fair value of plans assets</b>  |                        |                               |
| Fair value of the plan assets at the end of the period                               | -                      | -                             |
| Present value of defined benefit obligation at the end of the period                 | 1,417,326              | 1,002,040                     |
| Asset/ (liability) recognised in the balance sheet                                   | (1,417,326)            | (1,002,040)                   |

**Schedules to the Financial Statements (Contd...)**

|  | Year ended<br>31 March 2009 | Period ended<br>31 March 2008 |
|--|-----------------------------|-------------------------------|
| <b>Rs.</b>                             |                             |                               |
| <b>Gratuity cost for the period</b>    |                             |                               |
| Service cost                           | 145,979                     | 27,000                        |
| Interest cost                          | 85,409                      | -                             |
| Expected return on plan assets         | -                           | -                             |
| Actuarial loss / (gain)                | 183,898                     | -                             |
| Net gratuity cost                      | 415,286                     | 27,000                        |
| <b>Assumptions</b>                     |                             |                               |
| Interest rate                          | 6.70%                       | 7.60%                         |
| Expected rate of return on plan assets | Not applicable              | Not applicable                |

The estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

**18) Deferred taxes**

The composition of net deferred tax assets and liabilities of the Company are as under:

|  | As at<br>31 March 2009 | As at<br>31 March 2008 |
|--|------------------------|------------------------|
|  | Rs.                    | Rs.                    |
| <b>Deferred tax asset/ (liability)</b>     |                        |                        |
| Fixed assets                               | (26,674,760)           | 37,589                 |
| Provision for doubtful debts               | 156,644                | 13,898                 |
| Current liabilities and provisions         | 713,761                | 534,179                |
| Preliminary expenses                       | 509,420                | 679,227                |
| Accumulated loss                           | 25,294,935             |                        |
| <b>Net deferred tax asset/ (liability)</b> | -                      | 1,264,893              |

In view of the accumulated losses and in accordance with AS 22 on "Accounting for taxes on income" prescribed by the Companies (Accounting Standards) Rules, 2006, deferred tax assets on unabsorbed depreciation and carry forward losses have been recognized only to the extent of those timing differences, the reversal of which will result in sufficient taxable income in future against which these losses will be realized.

**19) Employee stock options:**

**Centum Employee Stock Option Plan 2007**

Certain employees of the Company are entitled to the shares of Centum Electronics Limited (parent company) under the Centum ESOP plan 2007. Options will be issued to employees of the Company at an exercise

price, which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty eight months from the date of grant. The exercise period is ten years from the date of vesting.

| <b>Number of options granted, exercised and forfeited</b> | <b>Year ended<br/>31 March 2009</b> | <b>Weighted<br/>average<br/>exercise price</b> | <b>Period ended<br/>31 March 2008</b> | <b>Weighted<br/>average<br/>exercise price</b> |
|---|-------------------------------------|--|---------------------------------------|--|
| Options outstanding at the beginning of the year/period   | 27,400                              | 150.3  | -                                     | -  |
| Granted during the period                                 | -                                   | -  | 27,400                                | 150.3  |
| Exercised during the period                               | -                                   | -  | -                                     | -  |
| Forfeited / lapsed during the period                      | -                                   | -  | -                                     | -  |
| <b>Options outstanding at the end of the year/period</b>  | <b>27,400</b>                       | <b>150.3</b>                                   | <b>27,400</b>                         | <b>150.3</b>                                   |
| <b>Exercisable at the end of the year/period</b>          | <b>6,050</b>                        | <b>-</b>                                       | <b>-</b>                              | <b>-</b>                                       |

The weighted average share price of the options exercised as at the date of exercise was Rs Nil. There were no options given during the current year. The options outstanding as at 31 March 2009 had an exercise price of Rs 150.30 and the weighted average remaining contractual life of 12.83 years.

#### Pro forma accounting for stock option grants

The Company applies the intrinsic value method of accounting for determining compensation cost for its stock based compensation plan. The Company has therefore adopted the pro forma disclosure provisions as required by the Guidance Note on "Accounting for Employee Share Based Payments" issued by the Institute of Chartered Accountants of India with effect from 1 April 2005.

Had the compensation been determined using the fair value approach described in the aforesaid Guidance Note, the Company's net profit and basic and diluted earnings per share as reported would have reduced to the pro forma amounts as indicated:

| <b>Particulars</b>  | <b>Period ended<br/>31 March 2009</b> | <b>Rs<br/>Period ended<br/>31 March 2008</b> |
|---|---------------------------------------|--|
| Net profit / (loss) as reported   | (13,096,456)                          | 1,938,252                                    |
| Add: Stock based compensation expense determined under the intrinsic value method | -                                     | -  |
| Less: Stock based compensation expense determines under the fair value method     | 1,177,478                             | 172,607                                      |
| Adjusted net profit/(loss)  | (14,273,934)                          | 1,765,645                                    |
| Basic and diluted earnings/(loss) per share as reported                           | (2.34)                                | 1.87   |
| Pro forma basic and diluted earnings/(loss) per share                             | (2.55)                                | 1.71   |

The fair value of each option under the 2007 plan is estimated by management on the date of grant using the Black - Scholes model with the following assumptions:

| <b>Particulars</b>      | <b>Year ended<br/>31 March 2009</b> | <b>Period ended<br/>31 March 2008</b> |
|-------------------------|-------------------------------------|---------------------------------------|
| Dividend yield %        | -                                   | -                                     |
| Expected life           | 1-4 years                           | 1-4 years                             |
| Risk free interest rate | 5.7-6.5%                            | 5.7-6.5%                              |
| Volatility              | 94.8%                               | 85.9%                                 |

**Schedules to the Financial Statements (Contd...)**

20) The Company's foreign currency exposure on account of foreign currency denominated payables not hedged as on 31 March 2009:

| Particulars  | As at 31 March 2009          |                    | As at 31 March 2008          |                    |
|--------------|------------------------------|--------------------|------------------------------|--------------------|
|              | Amount<br>(foreign currency) | Amount<br>(INR)    | Amount<br>(foreign currency) | Amount<br>(INR)    |
| USD          | 120,314                      | 6,202,184          | 47,812                       | 1,892,492          |
| EUR          | 2,576,830                    | 176,667,473        | 3,747,807                    | 239,503,889        |
| GBP          | 75,303                       | 5,570,162          | 6,786                        | 543,699            |
| JPY          | 918,495                      | 486,802            | -                            | -                  |
| <b>Total</b> |                              | <b>188,926,621</b> |                              | <b>241,940,080</b> |

The Company's foreign currency exposure on account of foreign currency denominated receivables not hedged as on 31 March 2009:

| Particulars  | As at 31 March 2009          |                   | As at 31 March 2008          |                   |
|--------------|------------------------------|-------------------|------------------------------|-------------------|
|              | Amount<br>(foreign currency) | Amount<br>(INR)   | Amount<br>(foreign currency) | Amount<br>(INR)   |
| USD          | 238,512                      | 11,837,376        | 436,009                      | 17,231,092        |
| EUR          | 954,095                      | 61,352,694        | 242,289                      | 15,006,041        |
| GBP          | 8                            | 691               | 8                            | 639               |
| <b>Total</b> |                              | <b>73,190,761</b> |                              | <b>32,237,772</b> |

21) Transfer pricing:

The Company has established a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under sections 92-92F of the Income-tax Act, 1961. Since the law requires existence of such information and documentation to be contemporaneous in nature, the Company is in the process of updating the documentation for the international transactions entered into with the associated enterprises during the financial year and expects such records to be in existence latest by September 2009 as required under law. The management is of the opinion that its international transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

22) Previous period's figures have been re-grouped/re-arranged wherever necessary to conform to current year's presentation. However, the previous period comparative relates to period 7 December 2007 to 31 March 2008 and accordingly, are not strictly comparable.

for Centum Rakon India Private Limited

Place : Bangalore  
Date : 3 June 2009

Apparao V.Mallavarapu  
Director

S. Krishnan  
Director

P M Unnikrishnan  
GM - Operations (Manager)

## Cash Flow Statement

|  | Rs.<br>For the<br>year ended<br>31 March 2009 | Rs.<br>For the period from<br>7 December 2007<br>to 31 March 2008 |
|--|---|---|
| <b>Cash flow from operating activities</b>                         |   |   |
| Profit/(loss) before tax   | (11,675,469)                                  | 2,184,066   |
| <i>Adjustments</i>   |   |   |
| Depreciation   | 25,957,814                                    | 1,080,729   |
| Provision for doubtful debts                                       | 419,964                                       | -   |
| Provision for doubtful advances                                    | 1,368,779                                     | -   |
| Interest and other financial charges                               | 10,481,163                                    | 632,587   |
| <b>Operating cash flows before working capital changes</b>         | <b>26,552,251</b>                             | <b>3,897,382</b>  |
| (Increase)/Decrease in sundry debtors                              | (42,063,121)                                  | (50,034,905)  |
| (Increase)/Decrease in inventories                                 | (5,084,201)                                   | (63,629,960)  |
| (Increase)/Decrease in loans and advances                          | 6,814,187                                     | (18,439,861)  |
| Increase/(Decrease) in current liabilities and provisions          | 76,983,558                                    | 256,164,924   |
| <b>Cash generated from operations</b>                              | <b>63,202,674</b>                             | <b>127,957,580</b>  |
| Income taxes   | (1,632,376)                                   | -   |
| <b>Net cash generated from operating activities</b>                | <b>61,570,298</b>                             | <b>127,957,580</b>  |
| <b>Cash flow from investing activities</b>                         |   |   |
| Purchase of fixed assets   | (386,598,664)                                 | (267,487,808)   |
| <b>Net cash used in investing activities</b>                       | <b>(386,598,664)</b>                          | <b>(267,487,808)</b>  |
| <b>Cash flow from financing activities</b>                         |   |   |
| Cash credit from bank, net   | 913,630                                       | 19,194,197  |
| Interest and finance charges                                       | (9,247,898)                                   | (632,587)   |
| Unsecured loan from other company                                  | 85,700,000                                    | 98,560,000  |
| Issue of equity share capital                                      | -   | 291,482,400   |
| <b>Net cash provided by financing activities</b>                   | <b>77,365,732</b>                             | <b>408,604,010</b>  |
| Net increase in cash and cash equivalents                          | (247,662,634)                                 | 269,073,782   |
| Cash and cash equivalents at the beginning of the period           | 269,073,782                                   | -   |
| <b>Cash and cash equivalents at the end of the period</b>          | <b>21,411,148</b>                             | <b>269,073,782</b>  |
| <i>Cash and cash equivalents at the end of the period comprise</i> |   |   |
| Cash and bank balances   | 21,411,148                                    | 269,207,875   |
| Book overdraft   | -   | (134,093)   |
|  | <b>21,411,148</b>                             | <b>269,073,782</b>  |

This is the cash flow statement referred to in our report attached

As per our report attached

for **BSR & Co.**  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Place : Bangalore  
Date : 3 June 2009

for **Centum Rakon India Private Limited**

**Apparao V. Mallavarapu**      **S Krishnan**  
Director                                      Director

**P M Unnikrishnan**  
GM - Operations (Manager)

## Balance Sheet Abstract and Company's General Profile

### REGISTRATION DETAILS

|                    |                |
|--------------------|----------------|
| Registration No    | 44692          |
| State Code         | 08             |
| Balance Sheet date | 31 March, 2009 |

### CAPITAL RAISED DURING THE YEAR

|                   |     |
|-------------------|-----|
| Public Issue      | Nil |
| Rights Issue      | Nil |
| Private placement | Nil |

### POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

(in Rs.)

|                   |             |
|-------------------|-------------|
| Total liabilities | 497,431,350 |
| Total Assets      | 497,431,350 |

### SOURCES OF FUNDS

(in Rs.)

|                      |             |
|----------------------|-------------|
| Paid up capital      | 56,000,000  |
| Reserves and Surplus | 235,482,400 |
| Secured loans        | 20,107,828  |
| Unsecured loans      | 185,841,122 |

### APPLICATION OF FUNDS

|                    |             |
|--------------------|-------------|
| Net Fixed Assets   | 409,882,227 |
| Investments        | -           |
| Net Current Assets | 76,390,919  |
| Deferred Tax Asset | -           |
| Accumulated Losses | 11,158,204  |

### PERFORMANCE OF THE COMPANY

(in Rs.)

|                        |              |
|------------------------|--------------|
| Turnover               | 289,868,821  |
| Total expenditure      | 301,544,290  |
| Profit/Loss before tax | (11,675,469) |
| Extraordinary income   | -            |
| Profit/Loss after tax  | 13,096,456   |
| Earnings per share     | (2.34)       |
| Dividend rate(%)       | NIL          |

### GENERIC NAME OF THE PRINCIPAL PRODUCTS/SERVICES OF THE COMPANY

|                         |                               |
|-------------------------|-------------------------------|
| Item code no (ITC code) | 85416000                      |
| Product description     | Frequency Controlled Products |

for Centum Rakon India Private Limited

Apparao V Mallavarapu  
Director

S. Krishnan  
Director

Bangalore  
3 June 2009

P M Unnikrishnan  
GM - Operations (Manager)

**Consolidated**  
**Centum Electronics Limited**  
*(formerly Solectron Centum Electronics Limited)*

## Auditors' Report

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To the Board of Directors of Centum Electronics Limited (formerly Solectron Centum Electronics Limited)

We have audited the attached consolidated balance sheet of Centum Electronics Limited (formerly Solectron Centum Electronics Limited) (the Company) and its subsidiary Centum Rakon India Private Limited (formerly Centum Frequency Products Private Limited) (collectively referred to as the 'Centum Group') as at 31 March 2009, the consolidated profit and loss account and the consolidated cash flow statement of the Centum Group for the year ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We report that the consolidated financial statements have been prepared by the Company's Management in accordance with the requirements of Accounting Standard (AS 21), Consolidated Financial Statements prescribed by Companies (Accounting Standards) Rules, 2006.

*As stated in note (b) of schedule 19 of the financial statements, the Company has entered into contracts with Centum Industries Private Limited (CIPL) for purchase of services aggregating Rs. 3,693,950 and sale of goods and services aggregating Rs 11,268,500 during the period 1 April 2008 to 28 January 2009. Since the Company's paid-up share capital is more than Rs. 1 crore and one of the directors of the Company was also a director / member of CIPL at the time of entering into the contracts, prior approval of the Central Government of India under Section 297 of the Companies Act, 1956 was required. The Company has not obtained Central Government of India approval for the aforementioned transactions and hence we are unable to quantify the impact of this non-compliance on the consolidated loss for the year and the accumulated balance of consolidated profit and loss account of the Centum Group as at 31 March 2009. The Company has obtained an approval from the Central Government of India for transactions to be entered into with CIPL for a period of three years effective 29 January 2009. Subject to the aforesaid, in our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:*

- a) in the case of the consolidated balance sheet, of the state of affairs of the Centum Group as at March 31, 2009;
- b) in the case of the consolidated profit and loss account, of the loss of the Centum Group for the year ended on that date; and
- c) in the case of the consolidated cash flow statement, of the cash flows of the Centum Group for the year ended on that date.

for **BSR & Co.**  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Bangalore  
Date: 4 June 2009

## Consolidated Balance Sheet

|   | SCHEDULE | As at<br>31 March 2009<br>Rs. | As at<br>31 March 2008<br>Rs. |
|---|----------|-------------------------------|-------------------------------|
| <b>SOURCES OF FUNDS</b>                   |          |                               |                               |
| <b>SHAREHOLDERS' FUNDS</b>                |          |                               |                               |
| Share capital                             | 3        | 74,000,000                    | 74,000,000                    |
| Reserves and surplus                      | 4        | 363,759,469                   | 375,679,528                   |
|   |          | <u>437,759,469</u>            | <u>449,679,528</u>            |
| <b>LOAN FUNDS</b>                         |          |                               |                               |
| Secured loans                             | 5        | 40,086,055                    | 59,912,038                    |
| Unsecured loans                           | 6        | 87,281,122                    | -                             |
|   |          | <u>127,367,177</u>            | <u>59,912,038</u>             |
| <b>MINORITY INTEREST</b>                  |          |                               |                               |
| <b>DEFERRED TAX LIABILITY, NET</b>        |          |                               |                               |
|   | 19(m)    | <u>11,615,068</u>             | <u>10,990,069</u>             |
|   |          | <u>712,884,012</u>            | <u>663,408,011</u>            |
| <b>APPLICATION OF FUNDS</b>               |          |                               |                               |
| <b>FIXED ASSETS</b>                       |          |                               |                               |
| Gross block                               | 7        | 851,707,776                   | 473,626,212                   |
| Accumulated depreciation                  |          | (318,091,246)                 | (273,800,783)                 |
| Net block                                 |          | <u>533,616,530</u>            | <u>199,825,429</u>            |
| Capital work-in-progress                  |          | 27,795,951                    | 217,671,479                   |
|   |          | <u>561,412,481</u>            | <u>417,496,908</u>            |
| <b>CURRENT ASSETS, LOANS AND ADVANCES</b> |          |                               |                               |
| Inventories                               | 8        | 142,459,620                   | 136,805,895                   |
| Sundry debtors                            | 9        | 107,111,240                   | 58,428,959                    |
| Cash and bank balances                    | 10       | 44,125,161                    | 317,396,541                   |
| Loans and advances                        | 11       | 76,980,208                    | 93,665,542                    |
|   |          | <u>370,676,229</u>            | <u>606,296,937</u>            |
| <b>CURRENT LIABILITIES AND PROVISIONS</b> |          |                               |                               |
| Current liabilities                       | 12       | 195,050,361                   | 332,341,961                   |
| Provisions                                | 13       | 24,154,337                    | 28,043,873                    |
|   |          | <u>219,204,698</u>            | <u>360,385,834</u>            |
| <b>NET CURRENT ASSETS</b>                 |          |                               |                               |
|   |          | <u>151,471,531</u>            | <u>245,911,103</u>            |
|   |          | <u>712,884,012</u>            | <u>663,408,011</u>            |
| <b>SIGNIFICANT ACCOUNTING POLICIES</b>    |          |                               |                               |
| <b>NOTES TO THE ACCOUNTS</b>              |          |                               |                               |
|   | 2        |                               |                               |
|   | 19       |                               |                               |

The schedules referred to above form an integral part of the consolidated balance sheet.

As per our report attached.

for **BSR & Co.**  
Chartered Accountants

**Zubin Shekary**  
Partner  
Membership No. 48814

Bangalore  
Date: 4 June 2009

for **Centum Electronics Limited**

**Apparao V. Mallavarapu**  
Managing Director

**S. Krishnan**  
Director

**Ellroy Furtado**  
Company Secretary

**K.S. Desikan**  
CFO

## Consolidated Profit and Loss Account

|   |          | Rs.                                 |
|---|----------|-------------------------------------|
|   | SCHEDULE | For the year ended<br>31 March 2009 |
|   |          | For the year ended<br>31 March 2008 |
| <b>INCOME</b>   |          |                                     |
| Sale of manufactured goods  |          | 435,827,527                         |
| Less: Excise duty   |          | (4,418,580)                         |
| Sale of manufactured goods, net   |          | <u>431,408,947</u>                  |
| Service income  |          | 23,902,282                          |
| Other income  | 14       | <u>12,597,275</u>                   |
|   |          | <u><b>467,908,504</b></u>           |
| <b>EXPENDITURE</b>  |          |                                     |
| Materials cost  | 15       | 229,822,039                         |
| Personnel costs   | 16       | 95,506,034                          |
| Other expenses  | 17       | 87,497,277                          |
| Finance expenses  | 18       | 16,344,673                          |
| Depreciation  | 7        | 45,286,566                          |
| Less: Release from capital reserve  | 19(c)    | -                                   |
|   |          | <u><b>474,456,589</b></u>           |
|   |          | <u><b>(6,548,085)</b></u>           |
| <b>Profit/(loss) before taxation and minority interest</b>  |          | <b>111,676,867</b>                  |
| Income taxes  |          |                                     |
| - Current   |          | 43,357,567                          |
| - Prior year  |          | 1,077,709                           |
| - Deferred  |          | (2,204,806)                         |
| - Fringe benefit tax  |          | 795,496                             |
| <b>Profit/(loss) after taxation, before minority interest</b>   |          | <u><b>68,650,901</b></u>            |
| Share of minority interest in the loss of subsidiary  | 19(f)    | (6,684,078)                         |
| <b>Profit/ (loss) after taxation and minority interest</b>  |          | <u><b>(3,262,429)</b></u>           |
| Balance in profit and loss account brought forward  |          | 255,583,504                         |
| Less: Transitional adjustment in accordance with revised AS 15 "Employee benefits"                        | 19(h)    | -                                   |
| Add: Balance in capital reserve transferred pursuant to sale of Frequency Control Products (FCP) business | 19(c)    | -                                   |
| <b>Balance available for appropriation</b>  |          | <u><b>252,321,075</b></u>           |
| <b>Appropriation during the year</b>  |          |                                     |
| - proposed final dividend   |          | 7,400,000                           |
| - tax on dividend   |          | 1,257,630                           |
| <b>Balance carried to the balance sheet</b>   |          | <u><b>243,663,445</b></u>           |
| <b>Earnings per share (par value Rs 10 each)</b>  |          |                                     |
| Basic   |          | (0.44)                              |
| Diluted   |          | (0.44)                              |
| <b>Weighted average number of equity shares</b>   | 19(e)    |                                     |
| Basic   |          | 7,400,000                           |
| Diluted   |          | 7,400,792                           |
| <b>SIGNIFICANT ACCOUNTING POLICIES</b>  | 2        |                                     |
| <b>NOTES TO THE ACCOUNTS</b>  | 19       |                                     |

The schedules referred to above form an integral part of the consolidated profit and loss account.

As per our report attached.

for **BSR & Co.**

Chartered Accountants

**Zubin Shekary**

Partner

Membership No. 48814

Bangalore

Date: 4 June 2009

for **Centum Electronics Limited**

**Apparao V. Mallavarapu**

Managing Director

**Ellroy Furtado**

Company Secretary

**S. Krishnan**

Director

**K.S. Desikan**

CFO

## Schedules to the Consolidated Financial Statements

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### 1. BACKGROUND

Centum Electronics Limited (formerly Solectron Centum Electronics Limited) (“the Company”) along with its majority owned and controlled subsidiary, Centum Rakon India Private Limited (formerly Centum Frequency Products Private Limited) (together referred to as “Centum” or “Group”) primarily involved in the manufacture of Advanced Microelectronics Modules, Frequency Control Products and Resistor Networks catering to the communications, military, aerospace and industrial electronics markets. Centum Rakon India Private limited was incorporated on 7 December 2007. Centum is headquartered in Bangalore, India.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of preparation of consolidated financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards (“AS”) prescribed in the Companies (Accounting Standards) Rules 2006, the relevant provisions of the Companies Act, 1956 and the guidelines issued by the Securities and Exchange Board of India, to the extent applicable.

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 standard on Consolidated Financial Statements as specified in the Companies (Accounting Standards) Rules, 2006. The financial statements of Centum Electronics Limited - the parent Company and Centum Rakon India Private Limited have been combined 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 unrealized gain /loss. The consolidated financial statements are prepared by applying uniform accounting policies in use at the Group. Minority interests have been excluded. Minority interests represent that part of the net profit or loss and net assets of subsidiaries that are not, directly or indirectly, owned or controlled by the Company.

#### b) Cash flow statement

Cash flow statement is reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows arising from operating, investing and financing activities of the Group are segregated

#### c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in India requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

#### d) Fixed assets

Fixed assets are carried at cost of acquisition less accumulated depreciation. The cost of fixed assets includes freight, duties, taxes and other incidental expenses related to the acquisition or construction of the respective assets. Intangible assets are recorded at their acquisition cost. Machinery spares which are specific to a particular item of fixed asset are capitalized at the time of their purchase.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date, are disclosed as capital work-in-progress.

#### e) Depreciation

Depreciation is provided on the straight-line method from the date the asset is ready for use.

The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. However, where management’s estimate of the useful life of a fixed asset at the time of

## Schedules to the Consolidated Financial Statements (Contd...)

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acquisition of the fixed asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on management's estimate of the useful life/ remaining useful life.

Depreciation on assets has been provided at the rates based on the following estimated useful lives of fixed assets:

| <b>Asset categories</b> | <b>Years</b>  |
|-------------------------|---|
| Plant and machinery     | 8 - 9 years   |
| Leasehold improvements  | 5 years   |
| Computers               | 5 - 6 years   |
| Software                | 5 - 6 years   |
| All other assets        | On straight line basis at the rates prescribed under Schedule XIV to the Companies Act, 1956. |

Freehold land is not depreciated.

For assets acquired/ disposed during the year, depreciation is provided for from/upto the date the assets are acquired/ disposed. Assets individually costing Rs 5,000 or less are depreciated at the rate of 100%.

Machinery spares are depreciated on a systematic basis over the period of the remaining useful life of the fixed asset for which they are utilized.

### f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises purchase price and all incidental expenses (other than those subsequently recoverable by the Group from the tax authorities) incurred in bringing the inventory to its present location and condition. The basis of determining cost is set out below:

|                                     |  |
|-------------------------------------|--|
| Stores and spares                   | Weighted average cost method                         |
| Raw materials and components        | Weighted average cost method                         |
| Work-in-progress and finished goods | Weighted average cost including costs of conversion. |
| Goods in transit                    | At actual cost                                       |

Fixed production overheads are allocated on the basis of normal capacity of production facilities.

### g) Revenue recognition

Revenue from the sale of products and materials is recognized on transfer of all significant risks and rewards of ownership to the buyer. Sales are accounted inclusive of excise duty and exclude sales tax and trade and quantity discounts and are net of sales returns. Revenue from sale of manufactured goods has been presented both gross and net of excise duty.

Revenue from services is recognized as and when services are rendered as per the terms of the contract.

Interest on deployment of surplus funds is recognized using the time proportionate method, based on underlying interest rates.

### h) Foreign currency transactions

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the consolidated profit and loss account of the year.

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Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date, the resultant exchange differences are recognized in the consolidated profit and loss account.

**i) Employee benefits**

Contributions payable to the recognised provident fund, which is a defined contribution scheme, are charged to the consolidated profit and loss account on accrual basis.

Gratuity and leave encashment costs, which are defined benefit scheme, are accrued based on actuarial valuation at the balance sheet date, carried out by independent actuary.

**j) Earnings per share**

In determining earnings per share, the Group considers the net profit after tax and includes the post tax effect of any extra ordinary/exceptional item. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The diluted potential equity shares are adjusted for the proceeds receivable, had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares). Dilutive potential equity shares are deemed converted as of the beginning of the period, unless issued at a later date.

**k) Provisions and contingent liabilities**

The Group recognizes a provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.

**l) Taxation**

Income-tax expense comprises current tax (i.e. amount of tax for the year determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the year). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets / liabilities are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Assets and liabilities representing current and deferred tax are disclosed on a net basis when there is a legally enforceable right to set off and management intends to settle the asset and liability on a net basis.

## Schedules to the Consolidated Financial Statements (Contd...)

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The Group provides for and discloses the Fringe Benefit Tax (“FBT”) in accordance with the provisions of Section 115 WC of the Income-tax Act, 1961 and the guidance note on FBT issued by ICAI. The Finance Act, 2007 levied FBT on Employees Stock Option Plan. Such FBT liability crystallises on the date of exercise of stock option and is accounted for accordingly.

### **m) Impairment of assets**

The Group assesses at each balance sheet date whether there is any indication that an asset or a group of assets comprising a cash generating unit may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. For an asset or group of assets that does not generate largely independent cash in flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the consolidated profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined; if no impairment loss had been recognised.

### **n) Government Grants**

Grants related to revenue are presented as a credit in the consolidated profit and loss account statement, either separately or under a general heading as “Other income”.

### **o) Borrowing costs**

Borrowing costs directly attributable to the acquisition/ construction of the qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the year in which they are incurred.

### **p) Stock compensation expense**

The Group accounts for stock based compensation expense based on the intrinsic value method as prescribed by the by the Guidance Note on Accounting for Employee Share-based Payments issued by Institute of Chartered Accountants of India (ICAI).

|  | As at<br>31 March 2009<br>Rs. | As at<br>31 March 2008<br>Rs. |
|--|-------------------------------|-------------------------------|
| <b>3. SHARE CAPITAL</b>  |                               |                               |
| <b>Authorised</b>  |                               |                               |
| 15,500,000 (Previous year: 15,500,000)<br>equity shares of Rs 10 each  | <u>155,000,000</u>            | <u>155,000,000</u>            |
| <b>Issued, subscribed and paid-up</b>  |                               |                               |
| 7,400,000 (Previous year: 7,400,000) equity shares<br>of Rs 10 each, fully paid  | <u>74,000,000</u>             | <u>74,000,000</u>             |
| <b>4. RESERVES AND SURPLUS</b>   |                               |                               |
| Capital reserve  |                               |                               |
| Opening balance  | -                             | 19,256,832                    |
| <i>Less:</i> Amount released from capital reserve and credited to profit<br>and loss account (refer schedule 19(c))  | -                             | (5,899,784)                   |
| <i>Less:</i> Amount released from capital reserve and credited to profit<br>and loss account pursuant to the sale of FCP business<br>(refer schedule 19(c))  | -                             | (13,357,048)                  |
|  | <u>-</u>                      | <u>-</u>                      |
| Securities premium account   | 120,096,024                   | 120,096,024                   |
| Profit and loss account balance  | <u>243,663,445</u>            | <u>255,583,504</u>            |
|  | <u>363,759,469</u>            | <u>375,679,528</u>            |
| <b>5. SECURED LOANS</b>  |                               |                               |
| Cash credit - bank   | 19,978,227                    | 40,717,841                    |
| Short term packing credit - bank   | <u>20,107,828</u>             | <u>19,194,197</u>             |
|  | <u>40,086,055</u>             | <u>59,912,038</u>             |
| Cash credit and packing credit obtained from State Bank of India secured by way of hypothecation on the inventories, book debts and other current assets of the Group. Additionally, it is secured by way of a collateral charge on plant and machinery and an equitable mortgage of land. |                               |                               |
| <b>6. UNSECURED LOANS</b>  |                               |                               |
| Long term loan from Rakon (Mauritius) Limited**  | <u>87,281,122</u>             | -                             |
|  | <u>87,281,122</u>             | -                             |

\*\*The above loan is repayable in two instalments on 2 April 2014 and 5 August 2014.

**Schedules to the Consolidated Financial Statements (Contd...)**

**SCHEDULE : 7 FIXED ASSETS**

(Amount in Rs.)

| Particulars                     | GROSS BLOCK           |                                 |                                 | ACCUMULATED DEPRECIATION |                       |                        | NET BLOCK                       |                        |                        |
|---------------------------------|-----------------------|---------------------------------|---------------------------------|--------------------------|-----------------------|------------------------|---------------------------------|------------------------|------------------------|
|                                 | As at<br>1 April 2008 | Additions<br>during the<br>year | Deletions<br>during<br>the year | As at<br>31 March 2009   | As at<br>1 April 2008 | Charge for<br>the year | Deletions<br>during<br>the year | As at<br>31 March 2009 | As at<br>31 March 2008 |
| <b>Tangible assets, owned</b>   |                       |                                 |                                 |                          |                       |                        |                                 |                        |                        |
| Freehold land                   | 4,409,383             | -                               | -                               | 4,409,383                | -                     | -                      | -                               | 4,409,383              | 4,409,383              |
| Lease hold improvements         | -                     | 1,103,724                       | -                               | 1,103,724                | -                     | 91,391                 | -                               | 1,012,333              | -                      |
| Building                        | 56,061,716            | 2,429,913                       | -                               | 58,491,629               | 9,715,286             | 1,948,793              | -                               | 46,827,550             | 46,346,430             |
| Plant and machinery*            | 331,027,695           | 249,441,021                     | -                               | 580,468,716              | 238,739,374           | 32,027,582             | -                               | 309,701,760            | 92,288,321             |
| Electrical installations        | 33,761,507            | 6,138,332                       | -                               | 39,899,839               | 10,596,885            | 1,827,843              | -                               | 27,475,111             | 23,164,622             |
| Computers                       | 10,844,704            | 1,759,743                       | -                               | 12,604,447               | 5,227,760             | 1,393,980              | -                               | 6,621,740              | 5,616,944              |
| Office equipment                | 14,377,321            | 58,257                          | -                               | 14,435,578               | 2,082,082             | 672,185                | -                               | 11,681,311             | 12,295,239             |
| Furniture                       | 16,220,038            | 889,548                         | -                               | 17,109,586               | 4,804,883             | 1,005,218              | -                               | 11,299,485             | 11,415,155             |
| Vehicles                        | 3,355,389             | 2,075,293                       | 1,997,202                       | 3,433,480                | 1,552,363             | 327,948                | 996,103                         | 2,549,272              | 1,803,026              |
| <b>Total -(A)</b>               | <b>470,057,753</b>    | <b>263,895,831</b>              | <b>1,997,202</b>                | <b>731,956,382</b>       | <b>272,718,633</b>    | <b>39,294,940</b>      | <b>996,103</b>                  | <b>311,017,470</b>     | <b>197,339,120</b>     |
| <b>Intangible assets, owned</b> |                       |                                 |                                 |                          |                       |                        |                                 |                        |                        |
| Intellectual property           | -                     | 112,357,153                     | -                               | 112,357,153              | -                     | 4,860,152              | -                               | 107,497,001            | -                      |
| Computer software               | 3,568,459             | 3,825,782                       | -                               | 7,394,241                | 1,082,150             | 1,131,474              | -                               | 5,180,617              | 2,486,309              |
| <b>Total -(B)</b>               | <b>3,568,459</b>      | <b>116,182,935</b>              | <b>-</b>                        | <b>119,751,394</b>       | <b>1,082,150</b>      | <b>5,991,626</b>       | <b>-</b>                        | <b>112,677,618</b>     | <b>2,486,309</b>       |
| <b>Total (A) + (B)</b>          | <b>473,626,212</b>    | <b>380,078,766</b>              | <b>1,997,202</b>                | <b>851,707,776</b>       | <b>273,800,783</b>    | <b>45,286,566</b>      | <b>996,103</b>                  | <b>318,091,246</b>     | <b>199,825,429</b>     |
| Previous year                   | 433,495,244           | 40,130,968                      | -                               | 473,626,212              | 242,465,791           | 31,334,992             | -                               | 273,800,783            | 199,825,429            |

\* includes interest capitalised of Rs 1,891,545 (previous period: Rs Nil)

|   | As at<br>31 March 2009<br>Rs. | As at<br>31 March 2008<br>Rs. |
|---|-------------------------------|-------------------------------|
| <b>8. INVENTORIES</b>   |                               |                               |
| Stores and spares   | 630,811                       | 7,727,337                     |
| Raw materials and components  | 62,977,224                    | 52,840,020                    |
| Raw materials in transit  | 3,973,124                     | 688,857                       |
| Work-in-progress  | 74,878,461                    | 75,549,681                    |
|   | <u>142,459,620</u>            | <u>136,805,895</u>            |
| <b>9. SUNDRY DEBTORS*</b>   |                               |                               |
| <i>Unsecured</i>  |                               |                               |
| Debts outstanding for a period exceeding six months   |                               |                               |
| - considered good   | 441,792                       | 209,034                       |
| - considered doubtful   | 1,350,658                     | 115,061                       |
|   | <u>1,792,450</u>              | <u>324,095</u>                |
| Other debts   |                               |                               |
| - considered good   | 106,669,448                   | 58,219,925                    |
| - considered doubtful   | 285,850                       | -                             |
|   | <u>108,747,748</u>            | <u>58,544,020</u>             |
| Less: Provision for doubtful debts  | <u>(1,636,508)</u>            | <u>(115,061)</u>              |
|   | <u>107,111,240</u>            | <u>58,428,959</u>             |
| *Includes amounts due from the companies under the same management as defined under Section 370(1B) of the Companies Act, 1956                |                               |                               |
| - Solectron EMS India Limited (refer note 1)  | <u>2,995,855</u>              | -                             |
| * Maximum amount outstanding during the year from companies under same management as defined under Section 370(1B) of the Companies Act, 1956 |                               |                               |
| - Solectron EMS India Limited (refer note 1)  | <u>5,970,896</u>              | -                             |
| 1. Company under same management with effect from 13 May 2008   |                               |                               |
| <b>10. CASH AND BANK BALANCES</b>   |                               |                               |
| Cash in hand  | 46,336                        | 32,683                        |
| Cheques in hand   | 4,144,633                     | 16,473,876                    |
| Balances with scheduled banks   |                               |                               |
| - in current accounts   | 11,374,482                    | 148,140                       |
| - in EEFC accounts  | 9,945,938                     | 266,307,225                   |
| - in margin money accounts  | 18,613,772                    | 34,434,617                    |
|   | <u>44,125,161</u>             | <u>317,396,541</u>            |
| <b>11. LOANS AND ADVANCES</b>   |                               |                               |
| <i>Unsecured, considered good</i>   |                               |                               |
| Advances recoverable in cash or in kind or for value to be received *   | 36,829,212                    | 73,172,476                    |
| Advance to suppliers  | 7,314,684                     | -                             |
| Deposits  | 3,689,957                     | 4,723,101                     |
| Prepaid expenses  | 3,378,369                     | 3,870,854                     |
| Accrued interest  | 733,734                       | 2,951,983                     |

**Schedules to the Consolidated Financial Statements (Contd...)**

|  | As at<br>31 March 2009<br>Rs. | As at<br>31 March 2008<br>Rs. |
|--|-------------------------------|-------------------------------|
| Balances with government authorities   | 8,579,947                     | 5,140,073                     |
| Advance tax and tax deducted at source [net of provision for tax of Rs 50,430,166 (previous year: Rs 54,013,400)]                        | 16,454,305                    | 3,807,055                     |
|  | <b>76,980,208</b>             | <b>93,665,542</b>             |
| <i>Unsecured, considered doubtful</i>  |                               |                               |
| Advances recoverable in cash or in kind or for value to be received  | 2,729,794                     | 1,361,015                     |
|  | <b>79,710,002</b>             | <b>95,026,557</b>             |
| Less: Provision for doubtful advances  | (2,729,794)                   | (1,361,015)                   |
|  | <b>76,980,208</b>             | <b>93,665,542</b>             |
| * Includes   | -                             | 116,404                       |
| - advances recoverable from the Managing Director  | 116,404                       | 116,404                       |
| - maximum amount outstanding during the year from the Managing Director  |                               |                               |
| Amounts due from the companies under the same management as defined under Section 370(1B) of the Companies Act, 1956                     |                               |                               |
| - Solectron EMS India Limited (included in advances recoverable in cash or in kind or for value to be received) [refer note 1]           | 3,459,253                     | 3,851,862                     |
| - Centum Industries Private Limited (included in advance to suppliers)   | 2,014,321                     | -                             |
| Maximum amount outstanding during the year from companies under same management defined under Section 370(1B) of the Companies Act, 1956 |                               |                               |
| - Solectron EMS India Limited (included in advances recoverable in cash or in kind or for value to be received) [refer note 1]           | 17,917,603                    | 12,633,000                    |
| - Centum Industries Private Limited (included in advance to suppliers)   | 4,769,391                     | -                             |
| 1. Company under same management with effect from 13 May 2008  |                               |                               |
| <b>12. CURRENT LIABILITIES</b>   |                               |                               |
| Sundry creditors   |                               |                               |
| - dues to micro and small enterprises (refer schedule 19 (g))  | 94,040                        | -                             |
| - due to others  | 135,785,811                   | 274,585,928                   |
| Book overdraft   | -                             | 1,166,274                     |
| Advances received from customers   | 51,650,455                    | 49,176,142                    |
| Interest accrued but not due   | 121,990                       | -                             |
| Other liabilities  | 7,267,113                     | 7,413,617                     |
| Unclaimed dividend   | 130,952                       | -                             |
|  | <b>195,050,361</b>            | <b>332,341,961</b>            |
| <b>13. PROVISIONS</b>  |                               |                               |
| Taxation [net of advance tax of Rs 41,305,342 (previous year: Rs 20,570,135)]  | 9,206,770                     | 14,403,131                    |
| Gratuity   | 4,109,899                     | 3,151,594                     |
| Leave encashment   | 2,180,038                     | 1,831,518                     |
| Proposed final dividend  | 7,400,000                     | 7,400,000                     |
| Corporate dividend tax   | 1,257,630                     | 1,257,630                     |
|  | <b>24,154,337</b>             | <b>28,043,873</b>             |

|   | For the year ended<br>31 March 2009<br>(Rs.) | For the year ended<br>31 March 2008<br>(Rs.) |
|---|--|--|
| <b>14. OTHER INCOME</b>   |  |  |
| Interest on bank deposits and others                            |  |  |
| [Tax deducted at source Rs 676,837 (previous year: Rs 668,981)] | 1,986,383                                    | 2,728,996                                    |
| Sale of scrap materials   | -  | 522,593                                      |
| Value added taxes incentive                                     | -  | 14,090,789                                   |
| Foreign exchange gain, net                                      | 8,563,566                                    | 390,712                                      |
| Other revenue   | 302,433                                      | -  |
| Liabilities no longer required written back                     | 1,744,893                                    | -  |
|   | <u>12,597,275</u>                            | <u>17,733,090</u>                            |
| <b>15. MATERIALS COST</b>                                       |  |  |
| Raw materials, components & packing materials consumed          | 229,150,819                                  | 214,854,341                                  |
| Movement in manufactured finished goods and work in progress    |  |  |
| Opening   |  |  |
| Finished goods  | -  | -  |
| Work in progress  | 75,549,681                                   | 86,284,526                                   |
|   | <u>75,549,681</u>                            | <u>86,284,526</u>                            |
| Closing   |  |  |
| Finished goods  | -  | -  |
| Work in progress  | 74,878,461                                   | 75,549,681                                   |
|   | <u>74,878,461</u>                            | <u>75,549,681</u>                            |
| Decrease in inventories of manufactured finished goods and      | 671,220                                      | 10,734,845                                   |
|   | <u>229,822,039</u>                           | <u>225,589,186</u>                           |
| <b>16. PERSONNEL COSTS</b>                                      |  |  |
| Salaries and wages  | 83,427,131                                   | 67,060,899                                   |
| Contribution to provident and other funds                       | 4,580,243                                    | 4,658,163                                    |
| Staff welfare expenses  | 7,498,660                                    | 7,196,471                                    |
|   | <u>95,506,034</u>                            | <u>78,915,533</u>                            |

**Schedules to the Consolidated Financial Statements (Contd...)**

|  | For the year ended<br>31 March 2009<br>(Rs.) | For the year ended<br>31 March 2008<br>(Rs.) |
|--|--|--|
| <b>17. OTHER EXPENSES</b>                  |  |  |
| Purchase of services                       | 9,148,215                                    | 18,652,382                                   |
| Travelling and conveyance                  | 10,291,132                                   | 14,185,212                                   |
| Professional and consultancy               | 22,382,177                                   | 12,497,471                                   |
| Power and fuel                             | 9,950,036                                    | 9,758,830                                    |
| Rates and taxes                            | 1,604,255                                    | 3,932,270                                    |
| Insurance                                  | 3,441,563                                    | 3,184,746                                    |
| Repairs and maintenance                    |  |  |
| - Building                                 | 1,882,251                                    | 846,457                                      |
| - Plant and machinery                      | 7,644,350                                    | 2,537,696                                    |
| Postage, telephones and telegrams          | 3,070,238                                    | 2,426,983                                    |
| Advertisement and promotion                | 1,588,066                                    | 1,781,244                                    |
| Donation                                   | 1,644,700                                    | 124,268                                      |
| Entertainment expenses                     | 2,312,562                                    | 2,377,587                                    |
| Recruitment and training                   | 630,631                                      | 1,663,575                                    |
| Printing and stationery                    | 2,187,916                                    | 1,512,918                                    |
| Provision for doubtful debts               | 1,521,447                                    | 1,361,015                                    |
| Provision for doubtful advances            | 1,368,779                                    | -  |
| Rent                                       | 1,889,167                                    | 1,060,731                                    |
| Security charges                           | 1,216,631                                    | 1,223,333                                    |
| Commission paid to non executive directors | 600,000                                      | 800,000                                      |
| Directors sitting fees                     | 20,000                                       | 26,000                                       |
| Loss on sale of fixed asset                | 401,098                                      | -  |
| Miscellaneous expenses                     | 2,702,063                                    | 5,493,328                                    |
|  | <b><u>87,497,277</u></b>                     | <b><u>85,446,046</u></b>                     |
| <b>18. FINANCE EXPENSES</b>                |  |  |
| Interest on cash credit facilities         | 8,804,731                                    | 10,342,668                                   |
| Interest on packing credit facilities      | 1,160,378                                    | 96,638                                       |
| Interest on long term loans                | 189,386                                      | -  |
| Other financial charges                    | 6,190,178                                    | 5,910,222                                    |
|  | <b><u>16,344,673</u></b>                     | <b><u>16,349,528</u></b>                     |

## 19. NOTES ON ACCOUNTS

## a) Capital commitment and contingent liabilities

|   | At at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|---|---------------------------------|---------------------------------|
| Estimated amount of contracts remaining to be executed on capital account (net of advances) | 23,667,956                      | 171,553,978                     |
| <b>Contingent liabilities</b>   |                                 |                                 |
| Claims against the Company not acknowledged as debts in respect of:                         |                                 |                                 |
| Income tax  | 33,384,502                      | -                               |
| Sales tax   | 6,968,273                       | -                               |

- b) The Company has entered into contracts with Centum Industries Private Limited (CIPL) for purchase of services aggregating Rs. 3,693,950 and sale of goods and services aggregating Rs 11,268,500 during the period 1 April 2008 to 28 January 2009. Since the Company's paid-up share capital is more than Rs. 1 crore and one of the directors of the Company was also a director / member of CIPL at the time of entering into the contracts, prior approval of the Central Government of India under Section 297 of the Companies Act, 1956 was required. The Company has inadvertently not obtained Central Government of India approval for the aforementioned transactions and has initiated steps to seek necessary approvals.

The Company has obtained an approval from the Central Government of India for sale and purchase transactions to be entered into with CIPL for a period of three years effective 29 January 2009.

- c) The Company had availed of a loan of USD 1,409,436 from C-Mac Industries Inc for purchase of fixed assets. Under the terms of the loan agreement dated 22 September 1999, interest was payable quarterly at LIBOR plus 1%. Further the agreement also set out that C-Mac Industries Inc. was committed to give certain annual business to the Company for a period of seven years as under

|             |                            |
|-------------|----------------------------|
| Year 1      | USD 1.5 million;           |
| Year 2      | USD 4.5 million; and       |
| Year 3 to 7 | USD 7.5 million per annum. |

The agreement stated that should C-Mac Industries Inc. fail to meet this commitment, it undertakes to negotiate, in good faith, with the Company to arrive at a mutually satisfactory solution.

The Company had accrued for the interest payable under the originally contracted terms, without prejudice, upto 31 March 2004. The total interest accrued upto 31 March 2004 was Rs 7,261,698. The rupee equivalent of the outstanding loan at 31 March 2004 was Rs 61,507,779. Additionally, C-Mac Industries Inc., had given an unsecured working capital loan amounting to Rs.10,910,000 which was outstanding as at 31 March 2004. The interest accrued upto 31 March 2004 amounted to Rs 518,225.

C-Mac Industries Inc. did not fulfill its sales obligation on a year on year basis since the inception of the loan agreement. Following discussions with C-Mac Industries during the quarter ended 30 June 2004 and in accordance with the loan agreement, the Company had obtained a waiver for repayment of principal and interest of loans aggregating Rs.80,197,702. Of this amount, accrued interest amounting to Rs.7,779,923 as of 31 March 2004 had been credited to profit and loss account. The principal amount of working capital loan amounting to Rs.10,910,000 had been credited to other income. The principal amount of the secured loan availed for the purpose of fixed assets amounting to Rs.61,507,779 had been credited to capital reserve. Further, an amount of Rs.29,378,691 being accumulated depreciation upto 31 March 2005, including Rs.6,436,125 for the year ended 31 March 2005, had been released from the capital reserve and credited to the profit and loss account. During the year ended 31 March 2008 an amount of Rs 5,899,784 (previous year: Rs 6,436,128) had been released from capital reserve and credited to the profit and loss account.

## Schedules to the Consolidated Financial Statements (Contd...)

Further, during the previous year, the Company transferred the FCP business to Centum Rakon India Private Limited (Centum Rakon) pursuant to a business transfer agreement (refer schedule 3). The above assets purchased from C-Mac industries have been transferred to Centum Rakon at their books values and consequently the capital reserve amounting to Rs 13,357,048 was transferred to the profit and loss account balance of the Company.

**d) Auditors' remuneration excluding service tax (included under professional and consultancy)**

|                                   | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Audit fees *                      | 1,520,000                            | 1,495,000                            |
| Other services                    | -                                    | 30,000                               |
| Out of pocket expenses reimbursed | 38,717                               | 34,167                               |
| <b>Total</b>                      | <b>1,558,717</b>                     | <b>1,559,167</b>                     |

\* includes audit fees for previous year amounting to Rs Nil (previous year: Rs.250,000).

**e) Earnings / (loss) per share**

The computation of earnings per share is set out below:

|  | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|--|--------------------------------------|--------------------------------------|
| Profit/(loss) for the year   | (3,262,429)                          | 68,650,901                           |
| Weighted average number of equity shares outstanding during the year - basic                     | 7,400,000                            | 7,400,000                            |
| Face value of equity shares  | 10                                   | 10                                   |
| Earnings/(loss) per share - basic  | <b>(0.44)</b>                        | <b>9.28</b>                          |
| Weighted average number of equity shares outstanding during the year - basic                     | 7,400,000                            | 7,400,000                            |
| Add: Effect of dilutive issues of stock options  | -                                    | 792                                  |
| Weighted average number of equity shares and potential equity shares outstanding during the year | 7,400,000                            | 7,400,792                            |
| Earnings/(loss) per share - dilutive   | <b>(0.44)</b>                        | <b>9.28</b>                          |

**f) Holding of Centum Electronics Limited in its subsidiary:**

| Name of the subsidiary             | Country of<br>incorporation | Holding as at<br>31 March 2009 |
|------------------------------------|-----------------------------|--------------------------------|
| Centum Rakon India Private Limited | India                       | 51%                            |

On 3 March 2008, the Company acquired 100% stake in Centum Rakon India Private Limited (Centum Rakon) by subscribing to 2,856,000 equity shares of Rs 10 each at par in Centum Rakon. Subsequently, on 25 March 2008, Rakon Limited, New Zealand (Rakon Limited / minority holder) acquired 49% stake in Centum Rakon through its wholly owned subsidiary Rakon (Mauritius) Limited. The Company and Rakon Limited have entered into an agreement, whereby the minority holder has agreed to share profits in Centum Rakon only from 1 April 2008 onwards.

**g) The disclosure in respect of the amounts payable to Micro, Small and Medium Enterprises Development Act, 2006 as at 31 March 2009 has been made in the financials statements based on information received and available with the Group. The Group has not received any claim for interest from any supplier under the said Act.**

|  | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|--|--------------------------------------|--------------------------------------|
| The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;  | 94,040                               | -                                    |
| The amount of interest paid by the Group along with the amounts of the payment made to the supplier beyond the appointed day during the year;  | -                                    | -                                    |
| The amount of interest due and payable for the year of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act; | -                                    | -                                    |
| The amount of interest accrued and remaining unpaid at the end of the year   | 5,353                                | -                                    |
| The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise.                            | -                                    | -                                    |

#### h) Gratuity plan

Effective 1 April 2007 the Group adopted the revised accounting standard on employee benefits. Pursuant to the adoption, the transitional obligations of the Group amounted to Rs. 1,059,134 for gratuity and Rs 4,287,296 for compensated absence. As required by the standard, the obligation has been recorded with the transfer of Rs. 3,529,177 to opening consolidated profit and loss account balance, which is net of deferred tax asset amounting to Rs 1,817,253.

The following table set out the status of the gratuity plan as required under AS 15 - Revised.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

|   | As at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|---|---------------------------------|---------------------------------|
| <b>Obligations at the year beginning</b>                    | <b>3,151,594</b>                | <b>2,475,851</b>                |
| Transfers from Centum Electronics Limited to its subsidiary | -                               | 975,040                         |
| Service cost  | 497,351                         | 440,160                         |
| Interest cost   | 265,783                         | 186,814                         |
| Actuarial loss/ (gain)                                      | 238,782                         | (828,967)                       |
| Benefits paid   | (43,611)                        | (97,304)                        |
| <b>Obligations at year end</b>                              | <b>4,109,899</b>                | <b>3,151,594</b>                |
| <b>Change in plan assets</b>                                |                                 |                                 |
| Plans assets at year beginning, at fair value               | -                               | -                               |
| Expected return on plan assets                              | -                               | -                               |
| Actuarial gain / (loss)                                     | -                               | -                               |

**Schedules to the Consolidated Financial Statements (Contd...)**

|   |                    |                    |
|---|--------------------|--------------------|
| Contributions by employer   | 43,611             | 97,304             |
| Benefits paid   | (43,611)           | (97,304)           |
| <b>Plans assets at year end, at fair value</b>  | <u>-</u>           | <u>-</u>           |
| <b>Reconciliation of present value of the obligation and the fair value of the plan assets:</b> |                    |                    |
| Fair value of plan assets at the end of the year  | -                  | -                  |
| Present value of the defined benefit obligations at the end of the year                         | 4,109,899          | 3,151,594          |
| <b>Net liability recognized in the balance sheet</b>  | <u>(4,109,899)</u> | <u>(3,151,594)</u> |
| <b>Gratuity cost for the year</b>   |                    |                    |
| Service cost  | 497,351            | 440,160            |
| Interest cost   | 265,783            | 186,814            |
| Expected return on plan assets  | -                  | (97,304)           |
| Actuarial loss/ (gain)  | 238,782            | (828,967)          |
| <b>Net gratuity cost</b>  | <u>1,001,916</u>   | <u>299,297</u>     |
| <b>Assumptions:</b>   |                    |                    |
| Interest rate   | 6.70% - 6.90%      | 7.75%              |
| Expected rate of return on plan assets  | Not applicable     | Not applicable     |

The estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market. The Company does not have any planned assets.

**i) Segment reporting**

The Company operates in only segment i.e. Components [comprising Modules and Frequency Control Products (FCP)] and hence no primary segment disclosures are given.

| <b>Geographic segment</b>                                  | <b>Year ended<br/>31 March 2009<br/>(Rs.)</b> | <b>Year ended<br/>31 March 2008<br/>(Rs.)</b> |
|--|---|---|
| <b>Revenues (including excise duty and service income)</b> |   |   |
| India  | 224,922,291                                   | 369,098,045                                   |
| Europe   | 229,058,316                                   | 156,002,002                                   |
| Rest of the world  | 1,330,622                                     | 579,231                                       |
|  | <u>455,311,229</u>                            | <u>525,679,278</u>                            |
| <b>Segment assets</b>                                      |   |   |
| India  | 851,658,756                                   | 987,785,639                                   |
| Europe   | 65,862,161                                    | 35,759,211                                    |
| Rest of the world  | 14,567,793                                    | 248,995                                       |
|  | <u>932,088,710</u>                            | <u>1,023,793,845</u>                          |

**j) Stock option plans**

**Employee stock option plan 2007 (2007 plan)**

The Centum ESOP-2007 was approved by the board of directors of the Company in October 2007 and by the shareholders in December 2007. The 2007 plan provides for the issue of 250,000 shares to the employees. The plan is administered by a compensation committee. Options will be issued to employees of the Company and also its subsidiary at an exercise price, which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty eight months from the date of grant. The exercise period is ten years from the date of vesting.

| Number of options granted,<br>exercised and forfeited | Year<br>ended<br>31 March<br>2009 | Weighted<br>average<br>exercise<br>price | Year<br>ended<br>31 March<br>2008 | Weighted<br>average<br>exercise<br>price |
|---|-----------------------------------|--|-----------------------------------|--|
| Options outstanding at the beginning of the year      | 87,400                            | 150.30                                   | -                                 | -  |
| Granted during the year                               | -                                 | -  | 87,400                            | 150.30                                   |
| Exercised during the year                             | -                                 | -  | -                                 | -  |
| Forfeited / lapsed during the year                    | 14,900                            | 150.30                                   | -                                 | -  |
| <b>Options outstanding at the end of the year</b>     | <b>72,500</b>                     | <b>150.30</b>                            | <b>87,400</b>                     | <b>150.30</b>                            |
| <b>Exercisable at the end of the year</b>             | <b>19,075</b>                     | <b>-</b>                                 | <b>-</b>                          | <b>-</b>                                 |

The weighted average share price of the options exercised as at the date of exercise was Rs Nil. There were no option granted during the current year. The options outstanding as at 31 March 2009 had an exercise price of Rs 150.30 and the weighted average remaining contractual life of 12.83 years.

#### Pro forma accounting for stock option grants

The Company applies the intrinsic value method of accounting for determining compensation cost for its stock based compensation plan. The Company has therefore adopted the pro forma disclosure provisions as required by the Guidance Note on “Accounting for Employee Share Based Payments” issued by the Institute of Chartered Accountants of India (“ICAI”) with effect from 1 April 2005.

Had the compensation been determined using the fair value approach described in the aforesaid Guidance Note, the Company’s net profit and basic and diluted earnings per share as reported would have reduced to the pro forma amounts as indicated:

| Particulars   | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|---|--------------------------------------|--------------------------------------|
| Net profit /(loss) as reported  | (3,262,429)                          | 68,650,901                           |
| Add: Stock based compensation expense determined under the intrinsic value method | -                                    | -                                    |
| Less: Stock based compensation expense determines under the fair value method     | 3,473,726                            | 550,579                              |
| Adjusted net profit   | (6,736,155)                          | 68,100,322                           |
| Basic earnings per share as reported  | (0.44)                               | 9.28                                 |
| Pro forma basic earnings per share  | (0.91)                               | 9.20                                 |
| Diluted earnings per share as reported  | (0.44)                               | 9.28                                 |
| Pro forma dilutive earnings per share   | (0.91)                               | 9.20                                 |

The fair value of each option under the 2007 plan is estimated by management on the date of grant using the Black - Scholes model with the following assumptions:

| Particulars             | Year ended<br>31 March 2009 | Year ended<br>31 March 2008 |
|-------------------------|-----------------------------|-----------------------------|
| Dividend yield %        | 10%                         | -                           |
| Expected life           | 1-4 years                   | 1-4 years                   |
| Risk free interest rate | 5.7-6.5%                    | 5.7-6.5%                    |
| Volatility              | 94.83%                      | 85.9%                       |

**Schedules to the Consolidated Financial Statements (Contd...)**

**k) Related party transactions**

- A. Parties where control exists  
Mr. Apparao V Mallavarapu
- B. Other related parties where transactions have taken place during the year  
*Companies under common control*
- Centum Industries Private Limited
  - Solectron EMS India Limited (since 13 May 2008)
  - Rakon (Mauritius) Limited
  - Rakon France SAS
  - Rakon UK Limited
  - Rakon Limited
- C. Key executive management personnel represented on the Board  
Mr. Apparao V Mallavarapu - Managing Director
- D. Non executive / independent directors on the Board  
Mr. Mr. S.Krishnan  
Mr. Som Mittal  
Mr. S. Krishnan  
Mr. Darren Robinson  
Mr. Brent Robinson  
Dr. P. Rama Rao (since 18 August 2008)

The following is a summary of significant transactions with related parties by the Company:

| Particulars                            | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|--|--------------------------------------|--------------------------------------|
| <b>Sale of goods and services</b>      |                                      |                                      |
| <i>Companies under common control</i>  | <u>248,457,061</u>                   | <u>21,976,209</u>                    |
| Solectron EMS India Ltd                | 19,805,241                           | 7,319,876                            |
| Centum Industries Private Limited      | 11,376,500                           | 5,439,359                            |
| Rakon France SAS                       | 102,343,233                          | -                                    |
| Rakon UK Limited                       | 114,926,493                          | 9,216,974                            |
| Rakon Limited                          | 5,594                                | -                                    |
| <b>Purchases of goods and services</b> |                                      |                                      |
| <i>Companies under common control</i>  | <u>74,779,115</u>                    | <u>450,283</u>                       |
| Rakon France SAS                       | 63,020,805                           | -                                    |
| Rakon UK Limited                       | 4,697,746                            | 450,283                              |
| Rakon Limited                          | 7,060,564                            | -                                    |
| <b>Purchases of fixed assets</b>       |                                      |                                      |
| <i>Companies under common control</i>  | <u>145,987,619</u>                   | <u>217,243,266</u>                   |
| Rakon France SAS                       | 139,554,031                          | 217,243,266                          |
| Rakon UK Limited                       | 4,542,043                            | -                                    |
| Rakon (Mauritius) Limited              | 1,891,545                            | -                                    |
| <b>Services received</b>               |                                      |                                      |
| <i>Companies under common control</i>  | <u>11,101,173</u>                    | <u>10,871,958</u>                    |
| Centum Industries Private Limited      | 3,693,950                            | 10,871,958                           |
| Rakon France SAS                       | 7,407,223                            | -                                    |

| Particulars  | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|--|--------------------------------------|--------------------------------------|
| <b>Issue of equity shares of subsidiary company</b>            |                                      |                                      |
| <i>Companies under common control</i>                          |                                      |                                      |
| Rakon (Mauritius) Limited                                      | -                                    | 27,440,000                           |
| <b>Premium on issue of equity shares of subsidiary company</b> |                                      |                                      |
| <i>Companies under common control</i>                          |                                      |                                      |
| Rakon (Mauritius) Limited                                      | -                                    | 235,482,400                          |
| <b>Unsecured loan</b>  |                                      |                                      |
| <i>Companies under common control</i>                          |                                      |                                      |
| Rakon (Mauritius) Limited                                      | 87,250,625                           | -                                    |
| <b>Interest expense</b>  |                                      |                                      |
| <i>Companies under common control</i>                          |                                      |                                      |
| Rakon (Mauritius) Limited                                      | 189,386                              | -                                    |
| <b>Managerial Remuneration including sitting fees</b>          |                                      |                                      |
| Key Management Personnel                                       | 10,025,600                           | 10,231,600                           |
| Managerial remuneration  | 9,405,600                            | 9,405,600                            |
| Sitting fees   | 620,000                              | 826,000                              |

The balances receivable from and payable to related parties are as follows:

| Particulars  | As at<br>31 March 2009<br>(Rs.) | As at<br>31 March 2008<br>(Rs.) |
|--|---------------------------------|---------------------------------|
| <b>Minority interest in consolidated share capital</b>                     |                                 |                                 |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Rakon (Mauritius) Limited  | 27,440,000                      | 27,440,000                      |
| <b>Unsecured loan</b>  |                                 |                                 |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Rakon (Mauritius) Limited  | 87,250,625                      | -                               |
| <b>Interest accrued but not due</b>  |                                 |                                 |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Rakon (Mauritius) Limited  | 121,990                         | -                               |
| <b>Sundry debtors</b>  |                                 |                                 |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Solectron EMS India Limited  | 79,114,958                      | 17,375,483                      |
| Rakon France SAS   | 2,995,855                       | -                               |
| Rakon UK Limited   | 52,342,711                      | 52,714                          |
| Rakon Limited  | 23,499,732                      | 17,218,569                      |
| Centum Industries Private Limited  | 5,952                           | 104,200                         |
|  | 270,708                         | -                               |
| <b>Advance from customers</b>  |                                 |                                 |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Centum Industries Private Limited  | -                               | 2,388,888                       |
| <b>Advance to suppliers</b>  |                                 |                                 |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Centum Industries Private Limited  | 2,014,321                       | -                               |
| <b>Advances recoverable in cash or in kind or for value to be received</b> |                                 |                                 |
| <i>Dues from Managing Director</i>   |                                 |                                 |
|  | -                               | 116,404                         |
| <i>Companies under common control</i>                                      |                                 |                                 |
| Solectron EMS India Limited  | 3,551,903                       | -                               |
| Centum Industries Private Limited  | -                               | 527,107                         |

**Schedules to the Consolidated Financial Statements (Contd...)**

|  |            |             |
|--|------------|-------------|
| <b>Sundry Creditors</b>                |            |             |
| Companies under common control         | 79,340,893 | 217,273,359 |
| Rakon France SAS                       | 70,823,389 | 217,243,266 |
| Rakon UK Limited                       | 6,952,260  | 30,093      |
| Rakon Limited                          | 1,565,244  | -           |
| <b>Equity share capital</b>            |            |             |
| Apparao V Mallavarapu                  | 38,086,500 | 24,026,500  |
| <b>Managerial remuneration payable</b> |            |             |
| Key Management Personnel               | 751,389    | 696,915     |

**l) Leases**

The Group has taken office facilities under cancelable operating lease agreement. The Group intends to renew the agreement in the normal course of its business. Total lease rentals recognized in the consolidated profit and loss for the year with respect to the above is Rs 1,889,167 (previous year: Rs 1,060,731)

**m) Deferred taxes**

The composition of net deferred tax assets and liabilities of the Group as at 31 March 2009 and 31 March 2008, respectively are as under:

|   | 31 March 2009<br>(Rs.) | 31 March 2008<br>(Rs.) |
|---|------------------------|------------------------|
| <b>Deferred tax asset/(liability)</b>     |                        |                        |
| Fixed assets                              | (40,768,637)           | (13,563,830)           |
| Provision for doubtful debts              | 556,249                | 39,109                 |
| Provision for doubtful advances           | 462,609                | -                      |
| Current liabilities and provisions        | 2,330,357              | 1,855,425              |
| Preliminary expenses                      | 509,420                | 679,227                |
| Unabsorbed depreciation and business loss | 25,294,934             | -                      |
| <b>Net deferred tax liability</b>         | <b>(11,615,068)</b>    | <b>(10,990,069)</b>    |

**n) Managerial remuneration**

|                            | Year ended<br>31 March 2008<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|----------------------------|--------------------------------------|--------------------------------------|
| Salaries and allowances    | 8,973,600                            | 8,973,600                            |
| Provident and other funds* | 432,000                              | 432,000                              |
|                            | <b>9,405,600</b>                     | <b>9,405,600</b>                     |

\*The above does not include leave encashment and gratuity calculated on actuarial basis, as separate figures for directors are not available.

o) **Un-hedged foreign currency disclosure:**

The group's foreign currency exposure on account of foreign currency denominated payables not hedged is as follows:

| Particulars  | As at 31 March 2009          |                    | As at 31 March 2008          |                    |
|--------------|------------------------------|--------------------|------------------------------|--------------------|
|              | Amount<br>(foreign currency) | Amount<br>(INR)    | Amount<br>(foreign currency) | Amount<br>(INR)    |
| USD          | 294,495                      | 15,181,234         | 47,812                       | 1,892,492          |
| EUR          | 2,647,611                    | 181,520,208        | 3,764,279                    | 240,463,314        |
| GBP          | 85,543                       | 6,327,587          | 18,986                       | 1,441,538          |
| JPY          | 1,045,295                    | 553,689            | 34,902                       | 14,521             |
| SGD          | 19,600                       | 666,984            | -                            | -                  |
| <b>Total</b> |                              | <b>204,249,702</b> |                              | <b>243,811,865</b> |

The group's foreign currency wesposure on account of foreign currency denominated payables not hedged is as follows:

| Particulars  | As at 31 March 2009          |                   | As at 31 March 2008          |                   |
|--------------|------------------------------|-------------------|------------------------------|-------------------|
|              | Amount<br>(foreign currency) | Amount<br>(INR)   | Amount<br>(foreign currency) | Amount<br>(INR)   |
| USD          | 254,258                      | 12,625,778        | 445,940                      | 17,626,544        |
| EUR          | 977,719                      | 62,940,679        | 259,423                      | 16,080,667        |
| GBP          | 8                            | 691               | 8                            | 639               |
| <b>Total</b> |                              | <b>75,567,148</b> |                              | <b>33,707,850</b> |

p) Previous year's figures have been re-grouped/re-classed wherever necessary to conform to current year's presentation.

for Centum Electronics Limited

**Apparao V. Mallavarapu**  
*Managing Director*

**S. Krishnan**  
*Director*

Place : Bangalore  
Date : 4 June 2009

**Ellroy Furtado**  
*Company Secretary*

**K.S. Desikan**  
*CFO*

## Consolidated Cash Flow Statement

|  | Year ended<br>31 March 2009<br>(Rs.) | Year ended<br>31 March 2008<br>(Rs.) |
|--|--------------------------------------|--------------------------------------|
| <b>Cash flow from operating activities</b>                       |                                      |                                      |
| Profit/(loss) before tax   | (6,548,085)                          | 111,676,869                          |
| Adjustments  |                                      |                                      |
| Provision for doubtful debts                                     | 1,521,447                            | -                                    |
| Release from capital reserve                                     | -                                    | (5,899,784)                          |
| Loss on sale of assets   | 401,098                              | -                                    |
| Depreciation   | 45,286,566                           | 31,334,992                           |
| Interest income  | (1,986,383)                          | (2,728,996)                          |
| Provision for doubtful advances                                  | 1,368,779                            | 1,361,015                            |
| Interest and other financial charges                             | 12,283,643                           | 16,349,528                           |
| Operating cash flows before working capital changes              | 52,327,065                           | 152,093,624                          |
| (Increase)/Decrease in sundry debtors                            | (50,203,728)                         | 92,002,557                           |
| (Increase)/Decrease in inventories                               | (5,653,725)                          | 74,300,126                           |
| (Increase) /Decrease in loans and advances                       | 26,263,012                           | (9,580,226)                          |
| Increase / (Decrease) in current liabilities and provisions      | 81,468,676                           | 62,089,646                           |
| Cash generated from operations                                   | 104,201,300                          | 370,905,727                          |
| Income taxes   | (20,617,304)                         | (45,660,210)                         |
| <b>Net cash generated by operating activities</b>                | <b>83,583,996</b>                    | <b>325,245,517</b>                   |
| <b>Cash flow from investing activities</b>                       |                                      |                                      |
| Proceeds from sale of fixed assets                               | 600,001                              | -                                    |
| Interest received  | 4,674,480                            | 253,609                              |
| Purchase of fixed assets   | (407,260,543)                        | (252,065,917)                        |
| <b>Net cash used in investing activities</b>                     | <b>(401,986,062)</b>                 | <b>(251,812,308)</b>                 |
| <b>Cash flow from financing activities</b>                       |                                      |                                      |
| Cash credit from bank, net                                       | (19,825,984)                         | (35,255,030)                         |
| Interest and finance charges                                     | (11,050,378)                         | (16,819,376)                         |
| Unsecured loans from others                                      | 85,700,000                           | -                                    |
| Dividend and dividend tax paid                                   | (8,526,678)                          | -                                    |
| Issue of share capital by the subsidiary company                 | -                                    | 262,922,400                          |
| <b>Net cash provided by financing activities</b>                 | <b>46,296,960</b>                    | <b>210,847,994</b>                   |
| Net increase/(decrease) in cash and cash equivalents             | (272,105,106)                        | 284,281,203                          |
| Cash and cash equivalents at the beginning of the year           | 316,230,267                          | 31,949,064                           |
| <b>Cash and cash equivalents at the end of the year</b>          | <b>44,125,161</b>                    | <b>316,230,267</b>                   |
| <i>Cash and cash equivalents at the end of the year comprise</i> |                                      |                                      |
| Cash and bank balances (refer schedule 9)                        | 44,125,161                           | 317,396,541                          |
| Book overdraft (refer schedule 12)                               | -                                    | (1,166,274)                          |
|  | <b>44,125,161</b>                    | <b>316,230,267</b>                   |

This is the Cash Flow statement referred to in our report attached

As per our report attached.

for BSR & Co.  
Chartered Accountants

Zubin Shekary  
Partner  
Membership No. 48814

Bangalore  
Date: 4 June 2009

for Centum Electronics Limited

Apparao V. Mallavarapu  
Director

Ellroy Furtado  
Company Secretary

S. Krishnan  
Director

K.S. Desikan  
CFO

**Centum Electronics Ltd**

Regd. Office: No. 44 KHB Industrial Area, Yelahanka New Township, Bangalore- 560 106

**PROXY FORM**

I/We ..... of .....  
being a Member/(s) of Centum Electronics Limited hereby appoint ..... of .....or  
failing him/her ..... of .....or  
failing him/her ..... of .....  
as my/our proxy to vote for me/us on my/our behalf at the SIXTEENTH ANNUAL GENERAL MEETING of the Company,  
to be held on Thursday, July 30, 2009 at 11.00 A M at No. 4, 12th K.M. Bellary Road, Opp. Government Flying School,  
Jakkur, Bangalore - 560 064. and at any adjournment thereof.

Reg. Folio No. .... No. of shares .....

For Office Use Only:

Proxy No. ....

Affix Re.1  
Revenue  
Stamp

Notes :

- 1. This Proxy Form should be signed across the stamp as per specimen signature registered with the Company.
- 2. The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the Meeting.
- 3. A Proxy need not be a member.



**Centum Electronics Ltd**

Regd. Office: No. 44 KHB Industrial Area, Yelahanka New Township, Bangalore- 560 106

**ATTENDANCE SLIP**

**Sixteenth Annual General Meeting Thursday, July 30, 2009 at 11.00 a.m.**

Name of Member ( IN BLOCK LETTERS) .....

Name of Proxy (IN BLOCK LETTERS) .....  
(Name of the Proxy to be filled in if the proxy attends instead of the Member)

No. of shares held .....

I /We hereby record my/our presence at the Sixteenth Annual General Meeting of the Company held at No. 4, 12th K.M. Bellary Road, Opp. Government Flying School, Jakkur, Bangalore - 560 064.

Member's/Proxy's Signature

Note:

- 1. Shareholder/Proxy holder wishing to attend the meeting must bring the Attendance Slip to the meeting and handover at the entrance duly signed.
- 2. Transportation facilities will be provided to the shareholders for attending the AGM as per details given below Pick up at 10.00 am Near Shantala silks in Majestic, Barton Centre in MG Road, Druvadesh Honda in Mehkri Circle





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Regd. & Corporate Office  
Centum Electronics Limited  
No. 44, KHB Industrial Area  
Yelahanka New Township  
Bangalore - 560 106. India