



FORNEY ACCOUNTANCY

Independent Auditor's Report

To the Stockholders of MosChip Semiconductor Technology, USA

I have audited the accompanying financial statements of MosChip Semiconductor Technology, USA (a California corporation), which comprise the balance sheet as of March 31, 2018 and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MosChip Semiconductor Technology, USA as of March 31, 2018 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Forney Accountancy

Bryce Forney, CPA (CA License #76310)

Pleasant Hill, California

May 25, 2018

1973 FAYE CT
PLEASANT HILL CA 94523-3307
PHONE/TEXT 925-323-2892

FORNEYCPA.COM
BRYCEFORNEY@GMAIL.COM
FAX 925-887-6490

MosChip Semiconductor Technology, USA

Balance Sheet

March 31, 2018

Assets	
Current assets	
Cash	\$ 99,193
Accounts receivable	1,199,443
Related party receivable	240,783
Inventory	219,423
Deposits	825,317
Total current assets	<u>2,584,159</u>
Property and equipment	
Furniture & Fixtures	8,107
Equipment	4,456
	<u>12,563</u>
Accumulated depreciation	<u>(8,270)</u>
	4,293
Total assets	<u><u>\$ 2,588,452</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 111,984
Related party payable	2,441,031
Accrued liabilities	18,267
Total current liabilities	<u>2,571,282</u>
Stockholders' equity	
Common Stock, no par value, 20,212,813 shares authorized 19,192,404 shares issued and outstanding	1,724,000
Additional paid-in capital	1,320,000
Accumulated deficit	<u>(3,026,830)</u>
Total stockholders' equity	<u>17,170</u>
	<u><u>\$ 2,588,452</u></u>

See accompanying notes

MosChip Semiconductor Technology, USA
Statement of Net Income and Accumulated Deficit
For the year ended March 31, 2018

Revenue	
Product sales	\$ 703,955
Design service revenue	2,070,332
Production services revenue	1,569,111
	<u>4,343,398</u>
Cost of sales	
Cost of goods sold	573,369
Design service cost	1,804,726
Production service cost	1,058,736
	<u>3,436,831</u>
Gross profit	<u>906,567</u>
Expenses	
Selling, general, and administrative	456,448
Depreciation	528
Total operating expenses	<u>456,976</u>
Operating income/(loss)	449,591
Other income/(expense)	
Interest income	2
Current income tax	<u>(800)</u>
Net income/(loss)	448,793
Accumulated deficit, beginning	<u>(3,475,623)</u>
Accumulated deficit, ending	<u><u>\$ (3,026,830)</u></u>

See accompanying notes

MosChip Semiconductor Technology, USA
Statement of Cash Flows
For the year ended March 31, 2018

Cash flows from operating activities	
Net income/(loss)	\$ 448,798
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	528
(Increase) decrease in:	
Accounts receivable	374,431
Related-party receivable	(196,320)
Inventory	5,580
Related party deposit	1,485,663
Prepaid foreign tax	109,690
Deposit	(823,025)
Increase (decrease) in:	
Accounts payable	(884,918)
Accrued liabilities	994
Related party unearned revenue	(1,096,905)
Net cash provided by (used by) operating activities	<u>(575,484)</u>
Cash flows from financing activities	
Increase (decrease) in:	
Related party note payable (long-term)	<u>597,867</u>
Net cash provided by (used by) financing activities	<u>597,867</u>
Net increase/(decrease) in cash	22,383
Cash, beginning	<u>76,810</u>
Cash, ending	<u>\$ 99,193</u>
Supplemental disclosures of cash flow information	
Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ 800</u>

See accompanying notes

Summary of significant accounting policies:

- Nature of operations – MosChip Semiconductor Technology, USA (the Corporation), a California corporation, provides comprehensive design services, and essential silicon and systems services for its customers worldwide.
- Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.
- Concentrations of cash – The Company has concentrated its credit risk for cash by maintaining deposits in a bank located principally in one geographic region that have, in the past, exceeded amounts that would have been covered by federal deposit insurance. The Company believes it is not exposed to any significant concentration of credit risk on cash and cash equivalents.
- Accounts receivable – The Corporation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.
- Inventories – Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method and market represents the lower of replacement cost or estimated net realizable value. Inventory consists of finished goods.
- Property and equipment/Depreciation – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over estimated useful lives of five and seven years. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.

- Income taxes – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of current and deferred taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

- Subsequent events – Subsequent events were considered through May 25, 2018 which is the date the financial statements were available to be issued.

A. Operating lease – The Corporation leases its Milpitas facilities, under an operating lease agreement with an unrelated party for \$4,011 per month. The Corporation subleases a portion of its Milpitas facilities to a related party for \$2,005 per month. The related party is the majority shareholder in MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. Rent expense, net of sublease proceeds, for the year totaled \$24,066.

B. Related party receivable – The Corporation carried an amount receivable from MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The receivable represents amounts due for products and fees sold to MosChip Semiconductor Technology Limited, India. The amount due does not bear interest and is due on demand. The balance of the amount receivable is \$240,783.

D. Deposits – The Corporation maintains the following deposits, totaling \$825,317.

- Operating lease deposit on Milpitas office facilities. The balance of the deposit is \$2,292.
- Trade advance deposit with a printed circuit board manufacturer. The balance of the deposit is \$680,000.
- Income tax deposit/prepayment with the Government of India Income Tax Department. The balance of the deposit is \$143,025.

E. Related party payable – The Corporation maintains amounts payable with related parties as follows, totaling \$2,441,031.

- The Corporation maintains an amount payable to MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The payable represents amounts due for products and fees for design services provided by MosChip Semiconductor Technology Limited, India. The amount due does not bear interest and is payable on demand. The balance of the amount payable at year end is \$2,191,010.
- The Corporation maintains an amount payable to the majority shareholder in MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The amount due does not bear interest and is payable on demand. The balance of the amount payable at year end is \$250,021.

F. Related party transactions – The Corporation conducts business with MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The Corporation contracts with its parent company for engineering, management, product, and design service fees.

Transactions are as follows:

Revenue due to related party transactions	\$ 1,642,820
Expenses due to related party transactions	\$ 681,466

G. Income taxes – The total deferred tax asset due to taxable temporary differences is as follows. This calculation was last performed as of March 31, 2009. However, management believes that any change to deferred tax from the results of operations after that date, will change the valuation allowance by the same amount. Consequently, the deferred tax amounts remain as follows:

Federal deferred tax asset	\$ 713,453
State deferred tax asset	170,876
Federal deferred tax liability	-
State deferred tax liability	-
Valuation allowance	(884,329)
Net deferred tax asset	<u><u>\$ -</u></u>

H. Going concern – These financial statements are presented on the basis that the Corporation is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The accompanying financial statements show that operations have resulted in an accumulated deficit. The Corporation anticipates increase in the revenues as it grows its comprehensive design services line of business. This is expected to increase revenue in the periods after these financial statements.