C O N T E N T S

BOARD OF DIRECTORS

Mr. K. Ramachandra Reddy	-	Chairman & CEO
Mr. C. Dayakar Reddy	-	Managing Director
Mr. A. Ramesh	-	Director
Prof. Vijaya Chandru	-	Director
Mr. G. Prasad	-	Director
Dr. M. Rammohan Rao	-	Director

COMMITTEES OF THE BOARD

Audit

Mr. G. Prasad	-	Chairman
Mr. A. Ramesh	-	Member
Dr. M. Rammohan Rao	-	Member
Prof. Vijaya Chandru	-	Member

Remuneration

Mr. G. Prasad	-	Chairman
Mr. A. Ramesh	-	Member
Mr. M. Rammohan Rao	-	Member
Prof. Vijaya Chandru	-	Member

Shareholders / Investor Grievance

Mr. A. Ramesh	-	Chairman
Mr. G. Prasad	-	Member
Dr. M. Rammohan Rao	-	Member
Prof. Vijaya Chandru	-	Member

Raj Kumar Singh
Company Secretary

REGISTERED OFFICE
H. No: 8-2-685/1/1, Road No.12,
Banjara Hills, Hyderabad - 500 034
Tel : 040-2337-9440
Fax : 040-2337-9439

BANKERS
IndusInd Bank Limited
Corporation Bank
HDFC Bank Limited
ICICI Bank Limited

BRANCH
3335, Kifer Road, Santa Clara, CA - 95051 USA

AUDITORS
M/s Gokhale & Co.
Chartered Accountants
3-6-322, Office No. 306, Mahavir House
Basheerbagh, Hyderabad - 500 029

REGISTRAR AND SHARE TRANSFER AGENTS
Sathguru Management Consultants Pvt. Limited
Plot No.15, Hindi Nagar, Behind Saibaba Temple
Panjagutta, Hyderabad - 500 034
Tel : 040-2335-0586 / 040-2335-6507
Fax : 040-2335-4042

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Eighth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on **Saturday, the 29 September 2007** at 10.30 hrs at the Registered Office of the Company situated at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad - 500 034 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Report of Directors, Profit and Loss Account for the financial year ended 31 March 2007 and the Balance Sheet as on that date and the report of Auditors thereon.
2. To appoint a Director in place of Mr. A. Ramesh, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Prof. Vijaya Chandru, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint M/s Gokhale & Co., Chartered Accountants, Hyderabad as Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorize Board of Directors or any of its Committee(s) to fix their remuneration.

By Order of the Board of Directors

Hyderabad — **Raj Kumar Singh**
24 August 2007 — Company Secretary

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of him and such proxy need not be a member of the company. Proxies in order to be effective must be received by the Company not less than 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 22-09-2007 to 29-09-2007 (both days inclusive).
3. To avoid inconvenience to members and to facilitate smooth conduct of the meeting, entry to the place of meeting will be only for members / proxies and is regulated by the attendance slip appended to the proxy form. Members are requested to affix their signature on it and hand it over at the entrance.
4. Members, who hold shares in de-materialized form, are requested to bring their Client ID and DP Id No's for easier identification of attendance at the meeting.
5. A member desirous of getting any information on the accounts or operations of the company is requested to forward his/her queries to the company at least seven working days prior to the meting, so that the required information can be made available at the meeting.
6. Members are requested to notify immediately any change in their address to the Company or to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed onto their respective Depository Participants without any delay.
7. In all correspondence with the Company, members are requested to quote their folio numbers and in case their shares are held in dematerialized form they must quote their Client ID Number and their DP ID Number.
8. Members are requested to carry their copies of Annual Report as these will not be supplied at the meeting.
9. Trading in the equity shares of the Company is in the compulsory demat form. Those members who have not demated their shares are requested to open the demat accounts with the depositories and get the shares demated at the earliest.

BRIEF PROFILE OF DIRECTORS SEEKING RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING

A. Ramesh - Director

Mr. Alur Ramesh has B.Tech. in Chemical Engineering from REC, Warangal and Master in Business Administration from Indian Institute of Management, Bangalore with specialisation in Marketing and Finance. He has over 27 years of experience in various fields. He is currently the Senior Vice President of APIDC-Venture Capital Limited.

Prof. Vijaya Chandru - Director

Dr. Vijaya Chandru has been a Professor of Computer Science at the Indian Institute of Science since 1992 and also serves as an honorary professor of the National Institute of Advanced Studies in Bangalore. He was elected a fellow of the Indian Academy of Sciences in 1996. He taught at Purdue University from 1982 to 1992 and the University of Pennsylvania in 1999-2000. He has also worked at IBM's Watson Research Centre as a visiting academic during 1990-1994.

His undergraduate education in India was in Electrical Engineering (BITS, Pilani) and at the graduate level in the US in applied mathematics, an MS in Systems Science (UCLA), and a PhD in Operations Research.

In October 2000, Prof. Vijaya Chandru and three colleagues from the Indian Institute of Science founded Strand Lifesciences, India's first bioinformatics company. He currently serves as Chairman & Chief Executive Officer of the Company.

By Order of the Board of Directors

Hyderabad
24 August 2007

Raj Kumar Singh
Company Secretary

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Eighth Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31 March 2007.

Financial Results

(Rs. In Lakhs)

	Year ended 31 March 2007		Year ended 31 March 2006	
	Standalone	**Consolidated**	Standalone	Consolidated
Total Income	625.56	2773.92	683.24	2459.78
Operating Profit before Depreciation & Tax	-479.25	-84.47	-374.11	-251.24
Less: Depreciation	149.91	270.74	278.73	372.39
Profit before Tax	-629.16	-355.21	-652.84	-623.63
Less: provision for FBT	3.29	3.29	3.14	3.14
Profit after Tax before extraordinary and prior period item	-632.45	-358.50	-655.98	-626.77
Less: Extraordinary and prior period item	-39.34	-39.34	0.18	10.70
Profit after tax after extraordinary and prior period item	-593.11	-319.16	-656.16	-637.47
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	-1.46	-0.83	-1.54	-1.47
Diluted	-1.46	-0.83	-1.54	-1.47
After extraordinary and prior period item				
Basic	-1.37	-0.74	-1.54	-1.50
Diluted	-1.37	-0.74	-1.54	-1.50

Operations

The consolidated income of the Company went up from Rs.24.60 crores to Rs. 27.74 crores and the consolidated loss reduced from Rs. 6.37 crores to Rs.3.19 crores.

MosChip India

The total income of the Company has decreased from Rs.6.83 crores in 2005-06 to Rs.6.26 crores in 2006-07. The decrease is on account of reduction of other income.

MosChip USA, a wholly owned subsidiary

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded nearly 27 percent growth in revenue from Rs. 20.43 crores in 2005-06 to Rs.26.04 crores during the year ended 31 March 2007. The Company has made a profit of Rs. 2.74 crores during the year ended 31 March 2007 as against Rs.0.18 crores during the previous financial year.

Dividend

The Company has not declared any dividend during the year under review.

Increase in Share Capital

Increase in Share Capital during the financial year 2006-07:

Particulars	No. of Shares	Price Per Share
On exercise of Employee Stock Options	1,500	26.75
On exercise of Employee Stock Options	6,000	30.50
On exercise of Employee Stock Options	6,000	31.00
Total	13,500	

In view of the above allotments, the total outstanding paid-up equity share capital of the Company has increased from 43,370,017 equity shares from the previous year 2005-06 to 433,383,517 equity shares as on 31 March 2007.

Marketing and distribution

The manufacturing and sale of products developed by the Company is handled by MosChip USA, which has appointed distributors in all the major markets for its semiconductor products. MosChip USA has a branch office in Hong Kong. Since the new products, particularly MCS 8140, have good potential in USA and Europe, there will be an increased focus on these regions to enhance sales volumes.

Employee Stock Option Plan

During the year under report the Company has five schemes in operation as mentioned below, for granting stock options to the employees of the Company and its wholly owned subsidiary in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999.

(a) Moschip Stock Option Plan – 2001
(b) MosChip Stock Option Plan – 2002
(c) MosChip Stock Option Plan – 2004
(d) MosChip Stock Option Plan – 2005 (MI)
(e) MosChip Stock Option Plan – 2005 (WOS)

Disclosures pursuant to para 12 of the above referred SEBI guidelines are set out as Annexure-A, to this report.

The prices, at which the stock options have been granted to the employees till date under the five schemes, are equal to the Market Price as defined in the SEBI guidelines in vogue.

Fixed Deposits

The Company has not accepted any fixed deposits in terms of Section 58A of the Companies Act, 1956 from the public.

Directors

Pursuant to the provisions of Article 133 of the Articles of Association of the Company, Mr. A. Ramesh and Prof. Vijaya Chandru, Directors retire by rotation in the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Pursuant to the provisions of clause 49 of the Listing Agreement entered with BSE, brief particulars of these directors are provided as an annexure to Notice convening Annual General Meeting.

Auditors

The Auditors of the Company M/s Gokhale & Co., Chartered Accountants, who retire at the ensuing Annual General Meeting of the company, are eligible for reappointment as Statutory Auditors of the company till the next Annual General Meeting. The Company has received their willingness for re-appointment as auditors of the Company and as required has furnished a Certificate under Section 224 (1B) of the Companies Act, 1956.

Qualification on the accounts and Board's clarification

Pursuant to the provisions of Sub-Section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 28 June 2007 on the accounts of the Company and Board's clarification on the same are furnished below:

Qualification in Auditors' Report

The Company has made an investment of Rs.37,55,79,087/- in its wholly owned unlisted subsidiary Company MosChip Semiconductor Technology, USA (Formerly NetMos Technology Inc. USA). The investment is being carried at cost. The difference between the investment amount of Rs.37,55,79,087/- and the net worth amount of Rs.12,78,07,589/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2007 has not been charged to the Profit and Loss account.

Board's clarification

The Board is of the opinion that the difference between the investment amount and the net worth amount of MosChip

Semiconductor Technology, USA, at book value, as on 31 March 2007 is not a reflection in the diminution of the value of the investment. The fair market value of MosChip USA, which is based on expected future cash flows over several years and other intangible assets (intellectual property developed and owned by it, the international distribution network, customer base, foundry relationships, etc.), is much higher than its net worth at book value. The book value does not capture the real intrinsic worth of an investment. The decline in fair market value of investment in MosChip USA, if any, is temporary in nature and hence no provision has been made in the books of accounts.

Conservation of energy, research and development, technology absorption, foreign exchange earnings and outgo

The particulars as prescribed pursuant to Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988, as amended from time to time, are set out as Annexure - B to this report.

Particulars of Employees

The particulars of employees that are required to be disclosed in this report pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, amended from time to time is set out as Annexure - C to this report.

Management Discussion & Analysis

Pursuant to the provisions of Clause 49 of the Listing Agreement, a report on Management Discussion & Analysis is set out as Annexure - D to this report.

Directors' Responsibility statement as per Section 217 (2AA) of the Companies Act, 1956

The Board of Directors of MosChip states that:

a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

b) they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2006-07 and of the profit or loss of the company for that period;

c) they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and

d) the annual accounts were prepared on the basis of a going concern.

Corporate Governance

Pursuant to the provisions of Clause 49 of the Listing Agreement and Section 292A of the Companies Act 1956, a Report on the Corporate Governance, which, *inter alia,* includes the composition and constitution of audit committee, is featuring as a part of Annual Report. Your Company will continue to adhere in letter and spirit to the good corporate governance policies. Pursuant to the provisions of Clause 49 (vii)(1) of the Listing Agreement, a certificate from a practicing Company Secretary on the compliance of the Clause is set out in Annexure-E to this report.

CEO's Declarataion

Pursuant to the provision of Clause 49 (I) (D) (ii) of the Listing Agreement, a declaration by the Chairman and CEO of the Company declaring that all the members of the Board and the Senior Management Personnel of the Company have affirmed compliance with the Code of Conduct of the Company, is set out as an Annexure-F to this report.

Acknowledgements

Your Directors thank the Company's bankers, investors and vendors for their unstinted support during the year. Your Directors also appreciate the contribution made by the employees at all levels, who through their hard work, perseverance and competence, are taking the company in the right direction.

Your directors also thank the Government of India, particularly the Customs and Excise Departments, Software Technology Park, Hyderabad, Department of Industrial Policy & Promotion under the Ministry of Commerce & Industry, Department of Company Affairs, Reserve Bank of India, Department of Telecommunications and all other agencies for their support, and wish their continued support in future.

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'A'

Disclosures pursuant to Para 12 of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999.

During the year under report the Company has five schemes in operation i.e. MosChip Stock Option Plan - 2001, MosChip Stock Option Plan - 2002, MosChip Stock Option Plan - 2004, MosChip Stock Option Plan - 2005(MI), MosChip Stock Option Plan - 2005(WOS) for issue and grant of stock options to its employees and employees of its wholly owned subsidiary, in accordance with the provisions of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999.

The requisite disclosures of particulars in respect of these Schemes during the year 2006-07 are as under.

	Plan 2001	Plan 2002	Plan 2004	Plan 2005 (MI)	Plan 2005 (WOS)
(a) Options granted during the year	Nil	101,000	338,000	462,000	500,000
(b) The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue.				
(c) Options Vested	70,375	125,879	102,500	Nil	Nil
(d) Options exercised	6,000	7,500	Nil	Nil	Nil
(e) The total number of shares arising as a result of exercise of options:	6,000	7,500	Nil	Nil	Nil
(f) Options lapsed (As per the plan, options lapsed i.e. unexercised options on account of resignation etc., shall become available for future grants under the existing plans)	49,750	196,450	261,000	50,000	Nil
(g) Variation of terms of options	Nil	Nil	Nil	Nil	Nil
(h) Money realized by exercise of options	186,000	223,125	Nil	Nil	Nil
(i) Total number of options in force	109,875	296,629	802,400	412,000	500,000
(j) Employee wise details of options granted to					
(1) Senior Managerial Personal	Nil	Nil	Nil	Nil	Nil
(2) Any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year					
1) Prem Talreja (an employee of Wholly Owned Subsidary)		Nil	100,000	Nil	100,000
2) Ken Wong (an employee of Wholly Owned Subsidary)		Nil	100,000	Nil	75,000
3) Vikram Punj (an employee of Wholly Owned Subsidary)		75,000	Nil	Nil	325,000
(3) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;			Nil	Nil	Nil
(k) Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20.		Rs.-1.37			

(l) The exercise price at which the Company has granted stock options is equal to the Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue, and hence the Intrinsic Value of the stock options is nil. Therefore, the employee compensation cost based on the Intrinsic Value is also nil. If the Company had used the Fair Value of the option using the Black Scholes Method, the employee compensation cost for the year ended 31 March 2007 would have been Rs. 254,404, which would have increased the loss from Rs. 59,311,049 to Rs. 59,565,453. The Basic and Diluted Earnings Per Share would be Rs. -1.38 instead of Rs. -1.37, which have been reported in the Balance Sheet.

(m) Weighted average exercise price and weighted average fair value of options granted where the exercise price is equal to the Market Price as on the date of grant:
Weighted average exercise price: Rs. 33.53
Weighted average fair value of options: Rs. 10.48

The Company does not have any options where the market price was higher/lower than the exercise price.

(n) The fair value of the options have been computed using the Black Scholes method, where the following assumptions were made:

a) Risk free interest rate was assumed between 6.4032% and 8.2247%, depending on the timing of grant and vesting period of the option, for the options granted during the year.

b) The expected life of the option is taken as the vesting period of the option.

c) The expected volatility has been computed using the daily share price movements of 240 trading days prior to the grant date. For annualizing the standard deviation, it is assumed that there are 240 trading days in a year. The standard deviation, a measure of volatility, worked out to 92.67% (on 21 August 2002), 91.48% (on 31 October 2002), 80.30% (on 29 January 2003), 67.24% (on 27 June 2003), 76.37% (0n 19 February 2004), 73.93% (on 26 August 2004), 69.61% (on 18 November 2004), 65.11% (on 31 January 2005), 53.39% (on 30 June 2005), 59.77% (on 23 September 2005), 58.53% (on 24 January 2006), 63.62% (on 10 April 2006), 64.05% (on 18 May 2006), 65.85% (on 30 June 2006), 59.50% (on 04 September 2006), 53.03% (on 27 October 2006), 53.64% (on 06 November 2006), 56.30% (on 18 January 2007) and 52.26% (on 29 March 2007).

d) Since the Company has been making losses, we have not assumed any dividend payments.

e) The Market Price of the shares on the grant dates was as follows: Rs. 31 on 21 August 2002, Rs. 23.95 on 31 October 2002, Rs. 26.75 on 29 January 2003, Rs.33.00 on 27 June 2003 being the closing prices on the date of grant; Rs.40.51 on 19 February 2004, being the average of the two weeks high and low price of the share preceding the date of grant of option; and Rs.30.50 on 26 August 2004, Rs.42.85 on 18 November 2004, Rs.44.25 on 31 January 2005, Rs.35.75 on 30 June 2005, Rs.45.60 on 23 September 2005, Rs.41.50 on 24 January 2006, Rs.37.70 on 10 April 2006, Rs.37.40 on 18 May 2006, Rs.24.15 on 30 June 2006, Rs.25.10 on 04 September 2006, Rs.26.00 on 27 October 2006, Rs.24.25 on 06 November 2006, Rs.32.95 on 18 January 2007 and Rs.24.80 on 29 March 2007 being the previous days closing price preceding the date of grant of options.

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'B'

Particulars pursuant to Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988

1. Conservation of Energy

The Company's operations require low energy consumption. Adequate measures are taken to conserve energy, wherever possible.

2. Technology Absorption on Form B

Research & Development (R&D)

1. Specific areas in which R&D work has been done by the Company

   The Company has been working on IP development for USB over IP, Networked USB, PCI-Express, SATA. In addition to these, the Company has also been developing two new products. The Company has also developed system s/w expertise to support the new products.

2. Benefits derived/expected from the R&D work

   Due to the portfolio of IP's that have been developed, the Company has been able to leverage and complete two products (MCS8140 & MCS9901) development. The MCS8140 product has come back & worked very well. It is being sampled to customers. This product is software programmable & can be used in multiple applications. The MCS9901 is in Fab & samples are expected by end of October.

3. Future plan of action

   The Company continues to invest in R&D for future products. Some newer market opportunities in storage & remote access create opportunities for new products. The Company plans to leverage the SOC products with s/w for various applications. This opens up opportunities for new market segments & helps our customer differentiate by s/w value addition.

4. Expenditure on R&D

   The expenditure on R&D is not separately classified, as there is no separate R&D division.

Technology absorption, adaptation and innovation

The requisite information under the head is not applicable to company as there were no imports of any technology.

3. Foreign Exchange Earnings and Outgo

(a) Activities relating to exports; initiative taken to increase exports; development of new export markets for products and services; and export plans;

The Company's products are meant for the international markets. Our products are being designed in by various customers and have started generating revenues for the Company. We expect revenues from licensing of software for these products to gain momentum during the current year.

The Company has also commenced development of custom products where the customer shares part of the development costs. The Company has also signed contracts for development and licensing of Intellectual Property. Apart from these, the Company is also planning to tap opportunities in offshore ASIC Development and Software Services for semiconductor companies. The revenues from these initiatives are expected to gain momentum in the coming years.

(b) Foreign exchange earnings and outgo

(Value in Rs.)

	Year ended 31 March 2007	Year ended 31 March 2006
Foreign Exchange earnings	**52,091,226**	49,898,022
Foreign Exchange outgo	**17,354,571**	63,217,720

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'C'

Sl. No.	Name	Designation/ nature of Duty	Qualifications	Exp (Yrs.)	Date of joining	Nature of employ-ment	Gross Remune-ration Rs.	Age (Yrs.)	Previous Employment/ position held
(i) Employed throughout the Financial Year									
1	K. Ramachandra Reddy	CEO/Chairman	MSEE, Madison, USA	30	01.06.2000	Director	37,00,000	58	Startech Semiconductor, USA/CEO
2	C. Dayakar Reddy	Managing Director	MSEE, SJSU, California	22	01.06.2000	Director	37,00,000	45	National Semiconductor, USA/Director - Systems Engineering
(ii) Employed for a part of the Financial Year									
1	Sunil Kakkar	VP - Engineering	MS, University of Illinois, Chicago	21	20.03.2006	Engineering Design & Development	15,25,333	47	Freescale Semiconductor India Ltd./ Chief Technologist-Verification

Note: Gross remuneration includes salary and perquisites

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'D'

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MosChip Semiconductor Technology Limited (MosChip India) is a fabless semiconductor company with its headquarters in Hyderabad, India. The Company specializes in development, marketing & sale of Application Specific Integrated Circuits (ASIC's) & SOC (System On a Chip) for PC Peripheral, Data Communication & Consumer Electronic segments. In this report, "MosChip Group", "Group", "we", "us" and "our" each refers to MosChip India and also its wholly owned subsidiary MosChip Semiconductor Technology, USA (MosChip USA), which was formerly known as NetMos Technology Incorporated, USA.

The financial statements have been prepared in compliance with the requirements of the Companies Act 1956 and the Generally Accepted Accounting Principles in India. The management of MosChip accepts responsibility for the integrity and objectivity of these financial statements, as well as, for various estimates and judgments used therein.

In addition to the historical information, this report contains certain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under the sub-heading "Risks and Concerns." Forward looking statements can be identified by the use of forward-looking words, such as "may," "could," "expect," "believe," "plan," "anticipate," "continue," 'likely," or other similar words.

Overview

MosChip is a fabless semiconductor Company from India with focus on products, and leveraging its engineering skills to develop custom products and IP development.

As a fabless semiconductor Company MosChip designs products and outsources the manufacturing of products. The product design and ASIC software development is generally done by MosChip, but sometimes jointly developed with MosChip USA. The software is licensed to/used by MosChip USA, which subcontracts the manufacturing to ASIC Service Providers and sells the chip through its distribution network worldwide.

The entire revenue from sale of products is thus in MosChip USA. MosChip USA pays a license fee to MosChip, which fee is linked to the gross margin on the products designed and developed by MosChip.

MosChip Group's product focus has been on data connectivity between computers and peripherals & other consumer electronic devices. The new product launches have been focused on the opportunity thrown up by the convergence of PC and consumer electronic devices and the growing need for Internet Security and networking. Apart from developing its own products, MosChip also develops custom products and IP for its customers and has plans to tap opportunities in offshore software services for semiconductor companies.

Industry

According to the Semiconductor Industry Association (SIA), worldwide sales of semiconductors set a new record at $247.7 billion in 2006, an increase of 8.9 percent from the $227.5 billion reported in 2005.

Sales growth was largely driven by popular consumer products such as cell phones, MP3 players, and HDTV sets - all products that have proliferated as semiconductor technology has enabled dramatically lower costs coupled with improved functionality. Cell phone shipments exceeded one billion units in 2006. The average semiconductor content of a cell phone fell slightly to around $40 last year, mainly due to demand for low-end phones in emerging markets. Growth of cell phone subscriptions in emerging markets continues to be strong. More than 34 million MP3 players were sold in the U.S. in 2006. While the growth rate for MP3 players is likely to slow going forward, the semiconductor content of these devices is growing as a result of increased storage capacity and addition of new functionality such as video capability. Preliminary estimates on worldwide personal computer sales indicate that about 235 million units were shipped in 2006. Despite a somewhat slower growth rate as a result of high penetration in some developed country markets, PCs continue to account for a significant portion of semiconductor consumption. Indications are that U.S. sales of HDTV units more than doubled in 2006 driven by sharply falling prices and increasing high-definition programming. We expect demand for HDTV monitors will continue to grow sharply for the next several years.

The Asia-Pacific region, in which China is the largest country market, experienced the strongest growth in semiconductor sales with a growth rate of 12.7 percent in 2006.

Growth has slowed down to 2 percent in the first half of 2007 as the industry reported global sales of $121 billion as against $118.4 billion in the first half of 2006, mainly because of rapid price attrition in several important market segments. The total unit shipments grew by almost 7 percent.

PCI

Compared to the progress made every year in other areas of computer technology such as processors and video cards, computer Input/Output (I/O) system technology has not changed much. Since the introduction of the PCI bus in the early 90's, very little has changed the way data is handled inside the computer.

Hard drives, peripherals, LAN cards, sound cards, USB and firewall all pass data through the same I/O system as the first 486 PC; the PCI bus running at 33 Megahertz and shifting 133 Mega Bytes per second of data. With the ever-growing need for higher bandwidth, Intel, in partnership with several other companies, which include the likes of IBM, Dell, Compaq, HP and Microsoft have recently introduced the PCI-Express standard for PC I/O. PCI-Express was approved in July 2002 and was released on motherboard products in 2004.

As of 2006, PCI Express appears to be well on its way to becoming the new back plane standard in personal computers. Almost all of the high-end graphics cards being released in 2006 from ATI and NVIDIA use PCI Express. Most new gigabit Ethernet chips and some 802.11 wireless chips also use PCI Express. Other hardware such as RAID controllers and network cards are also starting to make the switch. Version 1.0a of PCI Express was released in early 2007.

Universal Serial Bus (USB)

USB is the most popular external bus standard in the history of PCs. Today, USB connections can be found in a range of devices, from PCs, MP3 players, cameras to scanners, printers, digital camcorders and digital modems.

USB 1.1 standard, which supports data transfer rates up to 12 Megabits per second, has difficulty in handling high-speed peripherals such as external high capacity storage or high-end PC cameras, which have capability to move large chunks of data at high speed. The second difficulty that USB 1.1 enabled PC might encounter is in handling multiple USB peripherals.

USB 2.0 standard, which supports 480 Megabits per second, is an improvement over USB 1.1 in terms of data transfer rate. The USB 2.0 was introduced in May 2002, when Intel launched three USB 2.0 enabled core logic chipsets. The USB 2.0 market has increased at a good pace, as most PC and peripheral vendors now demand PCs installed with USB 2.0.

With over three billion devices using standard USB connectivity, USB has become the de-facto standard for connecting peripherals. USB can connect peripherals such as mouse, keyboards, game pads and joysticks, scanners, digital cameras, printers, external storage, networking components, etc.

USB OTG (On-The-Go) has also emerged to meet the challenge for connecting devices together without the PC. USB OTG will enable consumers to print photos directly from a camera, directly email pictures from a still camera using a mobile phone, print directly from a PDA, etc.

Wireless USB is the next emerging standard in the USB world. Wireless USB will allow the USB standard to operate wirelessly. It promises to have an effect particularly on those portable USB-enabled devices that make frequent ad-hoc connections such as portable digital audio players, digital still cameras and digital camcorders. However, the increasing bandwidth needs of the growing mass of USB devices and an inadequate volume of wireless USB is posing a challenge to the development and adoption of the wireless USB.

Opportunities

PCI Express

The emergence of the PCI Express is throwing up new market opportunities as the market migrates to the new standard. MosChip is working on a PCI Express product that is expected to be released in October 2007.

USB

This is a fast growing market with tremendous opportunity as every PC that was shipped in 2006 had USB connectivity. USB On-the-go is also emerging to meet the challenge for connecting devices together without the PC.

Outsourcing

American and European companies, in a bid to cut to costs have been looking to outsource design, verification and software aspects of the chip design process. A large pool of well-trained, low-cost engineering talent has been driving this trend, which is expected to gain momentum in the semiconductor industry in particular.

Threats

Delays in launch of new products, customer acceptance could adversely affect the Group's growth.

Development of semiconductor products and technologies is a highly complex process, and any failure to develop new technologies in a timely manner would adversely affect the Group's business.

Loss of key hardware and software professionals could adversely affect the Group's ability to support existing products and delay new products.

Unforeseen changes in technology / markets could render company's products obsolete.

Any changes in the international markets and government policies may affect the Company's future performance.

Outlook

The immediate outlook for the global semiconductor industry is positive. We expect sales from PCI products to remain stable as the need for UARTs is stable and many motherboards have dropped the UART and Printer Port support. PCI products have also been designed in by OEMs into new applications such as point-of-sale machines, game consoles and HDTV tuner modules. The launch of PCI Express product later this year will help us to retain our market position in this segment.

The USB products have also won OEM designs into various applications such as laptop and industrial docking stations. The new products MCS 7840 and MCS 7820, which were launched in November 2006, are expected to gain momentum. We are also witnessing strong demand for MCS 7830, which provides USB to Ethernet connectivity. MCS 8140, a highly integrated general purpose network processor that can be used in a variety of applications requiring network connectivity, was launched recently has been well received by our customers.

We expect to achieve a steady growth in our consolidated revenues during the current year.

Risks and concerns

The following important factors could affect our future results of operations.

Semiconductor products are difficult to manufacture without defects and the existence of defects in the manufactured products could result in an increase in costs and delays in the availability of products.

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to produce semiconductors free of defects. The ability to manufacture products of acceptable quality depends both on product design and manufacturing process technology. Since defective products can be caused by either design or manufacturing difficulties, identifying quality problems can occur only by analysing and testing semiconductors in a system after they have been manufactured. Failure to achieve defect-free products due to their complexity may result in an increase in the costs and delay in the availability of MosChip Group's products.

Because of the complex nature of semiconductor designs and of the associated manufacturing process and the rapid evolution of the customers' product designs, MosChip Group may not be able to develop new products or product enhancements in a timely manner, which could decrease customer demand for its products and reduce revenues.

The development of semiconductors is highly complex. These complexities require that the Company employ advanced designs and manufacturing processes that are unproven. The Group has experienced increased development time and delays in introducing new products that resulted in significantly less revenue than originally expected for those products. The Group will not always succeed in developing new products or product enhancements nor will the Group always do so in a timely manner.

Successful development and timely introduction of new enhanced products depends on a number of other factors, including:

- Accurate prediction of customer requirements and evolving industry standards;
- Use of advanced foundry processes and achievement of high manufacturing yields;
- Timely completion and introduction of new product designs; and
- Market acceptance of new products.

If the Group is not able to successfully develop and introduce new products in a timely manner, the Group's results of operations will be adversely affected.

Dependence on a sole source, third party manufacturers for its products exposes MosChip Group to shortages based on capacity allocation.

The Company does not own or operate a semiconductor fabrication facility and does not have the resources to manufacture its products internally. The ASIC software is licensed to MosChip USA, which, relies on third party ASIC Service Providers for wafer fabrication, assembly and testing of its products. MosChip USA's requirements represent only a small portion of the total production capacity of its contract manufacturers. MosChip USA does not have long-term supply contracts with its third-party manufacturers so they are not obliged to supply products for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order. MosChip USA tries not to maintain substantial inventories of products, but needs to order products long before it has firm purchase orders for those products, which could result in excess inventory or shortages. If MosChip USA is unable to obtain its products from manufacturers on schedule, its ability to satisfy customer demand will be harmed, and revenue from the sale may be lost or delayed.

Manufacturers of semiconductor products periodically discontinue manufacturing processes, which could make MosChip Group's products unavailable from current suppliers.

Semiconductor manufacturing technologies change rapidly and manufacturers typically discontinue older manufacturing processes in favour of newer ones. Once a manufacturer makes a decision to retire a manufacturing process, notice is generally given to its customers. Customers will then either retire the affected part or develop a new version of the part that can be manufactured on the newer process. In the event a manufacturing process is discontinued, the Group's products could become unavailable from current suppliers. Additionally, migrating to a new, more advanced process requires significant expenditures for research and development.

Future success depends upon the continued services of key personnel, many of whom would be difficult to replace and the loss of one or more of these employees could seriously harm the Company's business by delaying product development

The Company's future success depends upon the continued services of its executive officers, key hardware and software engineers, and sales, marketing and support personnel, many of whom would be difficult to replace. The loss of one or more of these employees could seriously harm the Company's business. In addition, because of the highly technical nature of its business, the loss of key engineering personnel could delay product introductions and significantly impair the Company's ability to successfully create future products. The Company believes that its success depends, in large part, upon its ability to identify, attract and retain qualified hardware and software engineers, and sales, marketing, finance and managerial personnel. Competition for talented personnel is intense and the Company may not be able to retain its key personnel or identify, or attract or retain other qualified personnel in the future. If the Company does not succeed in hiring and retaining employees with appropriate qualifications, its product development efforts, revenues and business could be seriously harmed.

MosChip Group does not have long-term commitments from its customers, and plans purchases based on estimates of customer demand, which may be inaccurate.

MosChip USA's sales are made on the basis of purchase orders rather than long term-purchase commitments. Customers may cancel or defer purchase orders at any time. This process requires MosChip USA to make multiple demand-forecast assumptions, each of which may introduce error into its estimates. If MosChip USA overestimates demand, it may purchase products that it may not be able to sell. As a result, the Company would have excess inventory, which would negatively affect the operating results. Conversely, if MosChip USA underestimates demand, it would forego revenue opportunities, lose market share and damage customer relationships.

Because of long product development process and sales cycle, MosChip Group may incur substantial expenses before it earns associated revenues and may not ultimately sell as many units of its products as forecasted.

MosChip Group develops products based on anticipated market and customer requirements and incurs substantial product development expenditures prior to generating associated revenues. The customers typically perform numerous tests and extensively evaluate MosChip Group's products before incorporating them into their systems. The time required for testing, evaluation and design of MosChip Group's products, into a customer's equipment can take up to six months or more. However, even when the Group achieves design win, the customer may never ship systems incorporating the Group's products. Because of this lengthy development and sales cycle, the Group will experience delays between the time it incurs expenditures for research and development, sales and marketing, inventory levels and the time it generates revenues, if any, from these expenditures. Additionally, if actual sales volumes for a particular product are substantially less than originally forecasted, the Group may experience large write-offs of capitalised license fees, product masks and prepaid royalties that would adversely affect the operating results.

MosChip Group may not able to respond to the rapid technological changes in the market in which it competes, or it may not be able to comply with industry standards in the future making its products less desirable or obsolete.

The markets in which the Group competes or seeks to compete are subject to rapid technological change, frequent new product introductions, changing customer requirements for new products and features, and evolving industry standards. The introduction of new technologies and the emergence of new industry standards could render the Group's products less desirable or obsolete, which could harm its business.

MosChip Group's products and software could contain defects, which could reduce sales of those products or result in claims against the Group.

Despite testing both by the Group's customers and the Group, errors or performance problems may be found in existing or new semiconductors and software. This could result in a delay in the recognition or loss of revenues, loss of market share or failure to achieve market acceptance. These defects may cause the Group to incur significant warranty, support and repair costs. They could also divert the attention of its engineering personnel from product development efforts and harm relationships with its customers. The occurrence of these problems could result in the delay or loss of market acceptance of the Group's semiconductors and would likely harm its business.

Others may bring infringement actions against MosChip Group that could be time-consuming and expensive to defend.

The Group may become subject to claims involving patents and other property rights. Intellectual property claims would subject the Group to significant liability claims for damages and invalidate its proprietary rights. In addition, intellectual property claims may be brought against customers that incorporate its products in the design of their own products. These claims, regardless of their success or merit and regardless of whether the Group is named as a defendant in a lawsuit, would likely be time consuming and expensive to resolve and would divert the time and attention of the Management and technical personnel. Any future intellectual property litigation or claims also could force the Group to do one or more of the following:

- stop selling products using technology that contains the allegedly infringing intellectual property;
- attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all;
- attempt to redesign those products that contain the allegedly infringing intellectual property; and
- pay damages for past infringement claims that are determined to be valid or which are arrived at in settlement of such litigation or threatened litigation.

If the Group is forced to take any of the foregoing actions, it may be unable to manufacture and sell its products, which could seriously harm its business. In addition, the Group may not be able to develop, license or acquire non-infringing technology under reasonable terms. These developments could result in an inability to compete for customers or could adversely affect the Group's ability to increase its earnings.

Failure to manage growth and expansion effectively could adversely affect MosChip Group's ability to increase its business and the results of operation.

The Group's ability to successfully market and sell its products in a rapidly evolving market requires effective planning and management processes. The Group continues to increase the scope of its operations domestically and internationally and has increased its headcount substantially. The Group's past growth, and its expected future growth, places a significant strain on its management systems and its resources including the financial and managerial controls, reporting systems and procedures. The Company must also manage multiple relationships with customers, contract manufacturers and other third parties. Moreover, there may be unexpected costs. The Group's systems, procedures or controls may not be adequate to support its operations and it may not be able to expand quickly enough to exploit potential market opportunities.

The cyclical nature of the semiconductor industry may lead to significant variances in the demand for MosChip Group's products and could harm its operations.

In the past, the semiconductor industry has been characterized by significant downturns and wide fluctuations in supply and demand. Also, during this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia, Europe and North America. The cyclical nature of the semiconductor industry has lead to significant variances in product demand and production capacity. It has also accelerated the reduction of average selling prices per unit. The Group may experience periodic fluctuations in its future financial results because of changes in industry-wide conditions.

The Company's operating and consolidated* results may be adversely affected by variations of the Indian rupee against foreign currencies *and the US dollar

The Company generates its revenues from international operations. The Company also consolidates its results with a wholly owned subsidiary in USA. Any adverse fluctuations in the currencies in which the Company's exports are invoiced or any adverse fluctuation against the US dollar would affect the Company's results of operations and the consolidated financial position.

Internal control systems

The Company has formulated effective internal control systems and implemented the same strictly to ensure that the assets and interests of the Company are safeguarded and to determine the accuracy and reliability of accounting data. The Company has an internal audit system and its functions are to ensure that systems are designed and implemented with adequate internal controls. The Company's control methodology is commensurate with the size of operations, the transactions that are executed, and the assets that must be safeguarded and deployed in accordance with the Company's policies. An Audit Committee, headed by a non-executive independent Director, periodically reviews the audit information/observation and all significant issues are brought to the attention of the committee.

Human resources

The Company currently employs a total of 120 employees. All the employees are located at Hyderabad, India. Of these 100 are technical employees and the rest are marketing and support staff.

MosChip believes that the key to its success is in its ability to hire and retain employees with appropriate qualifications and competencies. The Company's human resource management works towards this goal and strives to provide the right work atmosphere, opportunities for learning and personal development to all employees, and appraisal and reward mechanisms to encourage excellence in performance.

The Company regularly ensures that the compensation packages are in line with industry levels and grants stock options to retain talent.

COMMENTARY ON THE FINANCIAL STATEMENTS OF MOSCHIP INDIA

Balance Sheet

1. Share Capital

The Company has only one class of shares. During the year under review, the Company has allotted 13,500 equity shares of Rs. 10 each. The details of the allotment of shares during the year are provided elsewhere in the Directors' Report.

As a result, the total paid-up equity share capital of the company has increased from 43,370,017 shares during the previous year to 43,383,517 shares in the year under review.

There are no calls-in-arrears.

2. Share Application Money

Share application money primarily consists of the excess amount received from and repayable to non-resident/ foreign investors against the shares allotted to them.

3. Reserves and Surplus

Capital Reserve

The capital reserve of Rs. 1,250,000 is on account of investment subsidy received from Government of Andhra Pradesh.

Convertible Warrants

During the year under review, the Company has allotted 1,500,000 convertible warrants at a price of Rs.31 each. The warrants were issued for an upfront consideration of Rs. 4,650,000.

Share Premium

The share premium account increased by Rs. 274,125 during the financial year upon allotment of 13,500 equity shares of Rs. 10 each as per details provided elsewhere in the Directors' Report.

4. Fixed Assets

During the year under review, Computer Software having Gross Block of Rs.12,755,325/- and Accumulated Depreciation of Rs.12,577,986/- as on 31 March 2007, were retired from active use as no further benefit was expected. More details are given in Note 16 of Notes on Accounts.

Company has also eliminated fixed assets amounting to Rs.14,576,349/- from Gross block and Rs.5,239,055/- from Accumulated depreciation on account of assets destroyed by fire.

More details are given in Note 15 of Notes on Accounts.

Additions to fixed assets increased by 26% during the financial year mainly on account of replacement of assets destroyed by fire.

5. Investments

The long-term investments of the Company include 19,192,404 shares of MosChip Semiconductor Technology USA (a company incorporated in USA). Of these, 16,131,180 shares were acquired in consideration of 8,325,770 equity shares of Rs.10 each of the Company at a premium of Rs.27.14 per share. The balance 3,061,224 shares were acquired through cash investment of Rs. 66,359,989/-. The Company owns the entire equity capital of MosChip Semiconductor Technology USA.

Short-term Investments of the Company includes investment debt schemes of various mutual funds.

6. Interest Accrued on Deposits

Interest accrued on deposits represents the interest accrued but not due on fixed deposits and Bank guarantees with banks.

7. Cash and Bank Balances

The bank balances in India include both Rupee accounts and Foreign Currency Accounts. Fixed Deposits of Rs. 712,761 are given as security for issue of bank guarantees.

8. Sundry Debtors

Sundry Debtors of Rs. 21,279,036 is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA and the Company has received the same after 31 March 2007.

9. Loans and Advances

Deposits

Deposits represent deposits towards electricity, telephone, rent, etc.

Advance to MosChip Employees' Trust

Advance to MosChip Employees' Trust of Rs. 3,130,000 is the balance amount of interest free loan given to the Trust as a part of the ESOP scheme of the Company.

Other advances

Other advances recoverable in cash, kind or value to be received are primarily towards prepayments for value to be received.

Prepaid Income Tax

Prepaid Income Tax represents the refund due from Income Tax Department for the taxes deducted at source by others from the amounts payable to the Company.

10. Current Liabilities

Sundry Creditors (Others) of Rs. 3,233,674 include liabilities for capital works amounting to Rs. 825,759.

11. Provisions

Provision of Rs. 4,126,066 includes provision for Leave Encashment amounting to Rs. 1,863,075 and Rs. 2,258,788 towards Gratuity and Rs. 4,203 towards Fringe benefits tax (net of Advance Tax).

No provision has been made for Income Tax as the book profit as well as the Taxable Income as per the Income Tax Act is resulting in a loss.

12. Miscellaneous Expenditure

The Miscellaneous Expenditure, which consists of GDR issue expenses, is being amortized over a period of 5 years in accordance with the Accounting Policy adopted by the Company.

13. Guarantees

The Company has outstanding guarantees for various purposes amounting to Rs. 3,237,761 (previous year Rs. 3,143,040) for the year ended 31 March 2007.

These guarantees are in the nature of performance guarantees relating to export obligations.

Profit and Loss Account

14. Sales Revenue

The sales revenue for the year under review amounted to Rs. 52,091,226 as against Rs. 49,898,022 during the previous year. Of this Rs. 44,873,261 was on account of software development and royalty charges billed to the wholly owned subsidiary.

15. Non Operating Income

Non-operating income consists of interest on deposits with banks & others and profit on sale of current investments.

16. Expenditure

The expenditure for the year under review amounted to Rs. 110,480,871 as against Rs. 105,734,959 during the previous year.

17. Depreciation

During the year, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each amounting to Rs. 734,971.

18. Loss for the year

The loss for the year after tax but before extraordinary and prior period item is Rs. 63,244,731 compared to the previous year loss of Rs. 65,598,342.

The loss for the year after tax after extraordinary and prior period item is Rs. 59,311,049 compared to the previous year loss of Rs. 65,615,961.

19. Earnings Per Share

The Basic and Diluted Earnings per Share computed in accordance with the Accounting Standard 20 issued by the Institute of Chartered Accountants of India is Rs. – 1.46 before taking into consideration extraordinary and prior period item and Rs. -1.37 after taking into consideration extraordinary and prior period item. More details on computation of EPS are given in Note 8 of Notes on Accounts.

20. Foreign Exchange Difference

An amount of Rs. 331,983 has been considered as unrealized loss and an amount of Rs. 96,761 as realized loss on foreign exchange fluctuation during the current year on account of foreign exchange rate differences arising due to timing differences between accrual of income/expense and receipt/payment of the same.

21. Related Party Transactions

The transactions with the related parties other than employees are given in Note 10 of Notes on Accounts.

All the transactions are on commercial basis and are not detrimental to the interests of the Company.

22. Leases

The Company has operating leases for Office Buildings. The rental expenses for operating leases for the year ended 31 March 2007 amounted to Rs. 5,585,274. The Company has the right to terminate the lease agreement for Hyderabad office building by giving three months written notice.

23. Employees Stock Options

The Company has set up a Trust called "Moschip Employee Trust" to manage Stock Option plans introduced by the Company to its employees. Towards this the Company has funded the trust with Rs. 6,005,000 by way of an interest free loan. Since the establishment of trust is prior to the IPO, the Guidelines of SEBI on ESOPs and ESPS are not applicable to this scheme.

The Company has Five more Employee Stock Option Schemes namely MosChip Stock Option Plan 2001, MosChip Stock Option Plan 2002, MosChip Stock Option Plan 2004, MosChip Stock Option Plan 2005 (MI) and MosChip Stock Option Plan 2005 (WOS) with 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares and 500,000 equity shares respectively, in accordance with the Employee Stock Option Scheme and Employee Stock Purchase Guidelines 1999 issued by SEBI.

Details such as options granted, exercised and outstanding under each of the plans are given in Note 7 of Notes on Accounts and Annexure - A to Directors Report.

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

CORPORATE GOVERNANCE REPORT

1. Company's Philosophy

MosChip is committed to pursue the principles of good corporate governance in order to be a good corporate citizen of India and also to keep abreast the shareholders of the company with day-to-day affairs of the Company in the best possible manner.

2. Board of Directors

The Company has an Executive Chairman. The Chairman along with Managing Director manages the day-to-day affairs of the Company. The Board of the Company has a combination of Executive and Non-Executive directors. Non-Executive directors comprises ***66.66%*** of the Board.

a) Composition and category of directors as on 31 March 2007

Table - 1

Category	No. of Directors
Executive Directors (Promoter Directors)	2
Non-Executive Independent Directors	4
Total	6

b) Attendance of each director at the Board meetings held during the year 2006- 07 and at the last Annual General Meeting

Table - 2

Name of the Director	Meetings held during the tenure	Meetings attended	Last AGM
Mr. K. Ramachandra Reddy	6	5	Yes
Mr. C. Dayakar Reddy	6	6	Yes
Mr. Alur Ramesh	6	5	No
Prof. Vijaya Chandru	6	1	No
Mr. G. Prasad	6	5	Yes
Dr. M. Rammohan Rao	6	4	No

c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2006-07

Table - 3

Name of the Director	Board		Committee	
	Chairman	Member	Chairman	Member
Mr. K. Ramachandra Reddy	1	1	Nil	Nil
Mr. C. Dayakar Reddy	Nil	1	Nil	Nil
Mr. Alur Ramesh	Nil	10	Nil	1
Prof. Vijaya Chandru	Nil	4	Nil	Nil
Dr. M. Rammohan Rao	1	5	2	3
Mr. G. Prasad	Nil	1	Nil	Nil

d) No. of Board Meetings held and dates on which they were held during 2006-07

Table - 4

Quarter	No. of Meetings	Dates on which held
Apr - June	2	28 April 2006, 28 June 2006
Jul - Sep	2	14 July 2006, 31 August 2006
Oct - Dec	1	27 October 2006
Jan - Mar	1	18 January 2007
Total	**6**	

None of the directors on the Board are members in more than ten Committees and they do not act as Chairman of more than five Committees across all companies in which they are directors.

None of the Non-Executive directors have any pecuniary relationship or transactions with the Company.

3. Audit Committee

The Audit Committee was formed on 19 January, 2001 with qualified and independent members of the Board of Directors of the Company. The Company Secretary acts as Secretary of the Committee. This Committee was last re-constituted on 26 August 2004.

a) Brief description of terms of reference

The terms of reference of the Audit Committee is in conformity with the provisions of paragraphs C & D in sub-clause II of Clause 49 of the Listing Agreement entered with Bombay Stock Exchange Limited, which *inter alia,* includes the following:

- Overseeing the Company's financial reporting process and ensuring correct, adequate and credible disclosure of financial information.
- Recommending appointment and removal of external auditors and fixing of their fees.
- Reviewing with management the annual financial statements with special emphasis on accounting policies and practices, compliances with accounting standards and other legal requirements concerning financial statements.
- Reviewing the adequacy of the Audit and compliance functioning including their policies, procedures, techniques and other regulatory requirements.
- Reviewing the adequacy of internal control systems and significant audit findings.

b) Composition, names of members and Chairperson

The Audit Committee comprises of the following directors

1. Mr. G. Prasad — Chairman
2. Mr. A. Ramesh — Member
3. Prof. Vijaya Chandru — Member
4. Dr. M. Rammohan Rao — Member

c) Meetings and attendance during the year 2006-07

Five meetings of the Audit Committee were held during the year 2006-07. Mr. G. Prasad, Mr. A. Ramesh and Dr. M. Rammohan Rao had attended four meetings and Prof. Vijaya Chandru attended one meeting.

4. Remuneration Committee

a) Brief description of terms of reference

To determine on behalf of Board and Shareholders, the Company's policy on specific remuneration packages for Executive directors and Non-Executive directors, including pension rights and any compensation payment. The Committee was last re-constituted on 26 August 2004.

b) Composition, names of members and Chairperson

The Remuneration Committee comprises of the following directors

Mr. G. Prasad — Chairman
Mr. A. Ramesh — Member
Prof. Vijaya Chandru — Member
Dr. M. Rammohan Rao — Member

c) Attendance during the year 2006-07

One meeting was held during the year 2006-07 to revise the remuneration package of CEO and Managing Director. Mr. G. Prasad and Mr. A. Ramesh attended the meeting while Dr. M. Rammohan Rao and Prof. Vijaya Chandru were granted leave of absence. Sitting fees for attending Board and Committee Meetings were enhanced during the year. Apart from sitting fees for attending Board and Committee meetings , no special compensation to non-executive directors were paid during the year 2006-07.

d) Details of remuneration to all the directors

Table - 5

Sl. No.	Name	Designation	Salary in Rs.	Performance Incentives Rs.	Commi-ssion	Total In Rs.	Notice period	Sevearance Fee in Rs.	Sitting Fee in Rs.	Stock Options
01	K.Ramachandra Reddy	Chairman	3,700,000	Nil	Nil	3,700,000	NA	NA	Nil	Nil
02	C. Dayakar Reddy	M.D.	3,700,000	Nil	Nil	3,700,000	NA	NA	Nil	Nil
03	A. Ramesh	Director	NA	NA	NA	NA	NA	NA	21,500	Nil
04	G. Prasad	Director	NA	NA	NA	NA	NA	NA	16,000	Nil
05	Prof. Vijaya Chandru	Director	NA	NA	NA	NA	NA	NA	8,000	Nil
06	Dr. M. Rammohan Rao	Director	NA	NA	NA	NA	NA	NA	14,500	Nil

5. Shareholders / Investors Grievance Committee

This Committee was last re-constituted on 26 August 2004.

a) Terms of reference

The Committee shall specifically look into the redressing of shareholder and investor complaints like transfer of shares, non-receipt of balance-sheet, non-receipt of declared dividend etc.

b) Composition, names of members and Chairperson

The Committee comprises of the following Non-Executive directors

Mr. Alur Ramesh	—	Chairman
Mr. G. Prasad	—	Member
Prof. Vijaya Chandru	—	Member
Dr. M. Rammohan Rao	—	Member

c) Name and Designation of Compliance Officer

Mr. Raj Kumar Singh — Company Secretary

d) No. of Shareholders Complaints received during the year 2006-07

During the year 2006-07, in total 6 Nos. of complaints / letters were received from the investors and all were disposed of during the year. Please see the *Table-6* given below

e) No. of complaints not solved to the satisfaction of shareholders

There were no complaints that were not solved to the satisfaction of shareholders.

f) No. of pending share transfer

All shares which were received for transfer during the year were transferred and no transfers were pending.

Details of Shareholders complaints during the year 2006-07

Table - 6

Sl.No.	Nature of Complaint/Request	Received	Disposed	Pending
01	Change / Correction of address	2	2	Nil
02	Loss/Issue of duplicate Share Certificate	1	1	Nil
03	Non-receipt of Share Certificate	2	2	Nil
04	Others	1	1	Nil
	TOTAL	6	6	Nil

6. General Body Meetings

a) Details of last three AGMs

The information about the last three general body meetings is given in *table-7* as shown below:

Table - 7

Annual General Meeting	Venue	Time & Date
Fifth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 September 2004 at 10.30 hrs.
Sixth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad - 500 034	30 September 2005 at 10.30 hrs.
Seventh	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad - 500 034	29 September 2006 at 10.30 hrs.

7. Disclosures

a) During the year 2006-07 the Company has entered into related party transactions worth Rs.64,475,297/- (both receivables and payables) with MosChip Semiconductor Technology, USA the Wholly Owned Subsidiary of the Company. All these transactions were at arm's length and do not have potential conflict with the interest of the Company at large.

8. Means of Communication

- Quarterly and Half-yearly results will normally be published in Business Standard Daily or The Hindu Business Line Daily in English and Andhra Bhoomi Regional Language Daily (Telugu).
- Apart from the financial results, all official press releases of the Company and presentation made to the institutional investors and analysts if any, are being placed on the Company's website www.moschip.com.
- Management's Discussion and Analysis forms part of the Annual Report.

9. General Shareholder Information

- AGM - Date, Time and Venue : 29 September 2007, 10.30 am at the Registered Office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad - 500 034
- Financial Calendar :
  The following is the tentative financial calendar of the Company, which is subject to change:

Un-Audited Financial Results for the FY 2007-08

First Quarter Results	:	31 July 2007
Second Quarter & Half-yearly Results	:	Between 20 & 31 October 2007
Third Quarter Results	:	Between 20 & 31 January 2008
Fourth Quarter & Annual Results (Audited in lieu of un-audited results)	:	Between 20 & 30 June 2008

- Date of Book Closure : 22 to 29 September, 2007 (both days inclusive)
- Dividend Payment Date : Not Applicable
- Listing on Stock Exchanges : Bombay Stock Exchange Limited
  P J Towers, Dalal Street, Fort, Mumbai - 400 001.
- Stock Code
  BSE : 532407 / MOSCHIP SEMI
- Market Price data : High / Low during each month in the Financial Year 2006-07 and Performance in comparison to broad-based indices such as BSE Sensex, Crisil Index etc.

  The information on market price of MosChip stock and its comparison with BSE Sensex is shown in Table-8.
  MosChip Share price on BSE and in comparison with BSE Sensex

Table - 8

Month & Year	MosChip		Sensex	
	High	Low	High	Low
Apr 06	41.40	34.05	12102.00	11008.43
May 06	41.85	29.30	12671.11	9826.91
Jun 06	31.80	20.95	10626.84	8799.01
Jul 06	24.80	20.95	10940.45	9875.35
Aug 06	27.40	21.50	11794.43	10645.99
Sep 06	32.20	24.75	12485.17	11444.18
Oct 06	28.45	24.05	13075.85	12178.83
Nov 06	29.85	22.95	13799.08	12937.30
Dec 06	28.90	22.75	14035.30	12801.65
Jan 07	37.70	24.85	14325.92	13303.22
Feb 07	36.00	28.50	14723.88	12800.91
Mar 07	31.20	23.60	13386.95	12316.10

- Registrar and Transfer Agents : Sathguru Management Consultants Private Limited.
  Plot No.15, Hindi Nagar, Behind Saibaba Temple,
  Punjagutta, Hyderabad – 500 034.
  Tel: +91-40-2335-0586 / 2335-6507 / 2335-6975
  Fax: +91-40-2335-4042
  Email: sta@sathguru.com
  Web: www.sathguru.com
- **Share Transfer System**

  The applications for transfers, transmission etc., are received by the Company at Registered Office address at Hyderabad or at Sathguru Management Consultants Private Limited, Registrar and Transfer Agents, Hyderabad. As the Company's shares are currently traded in dematerialized form the transfers are processed and approved in the electronic form by NSDL / CDSL through their depository participants.

  Shares sent for physical transfer are generally registered and returned within a week from the date of receipt; provided the documents are clear in all respects. The authorised persons for share transfers will meet at regular interval to clear the transfer cases as early as possible.

  Sathguru Management Consultants Private Limited is the Common Share Transfer Agent for both Physical and demat mode.

- **Distribution of Shareholding**

  The Distribution of shareholding of the Company as on 31 March 2007 is shown in Table - 9.

  Distribution of Shareholding as on 31 March 2007

Table - 9

Sl.No	Category		No. of members		No. of shares		% of equity	
	From	To	Physical	Electronic	Physical	Electronic	Physical	Electronic
1	1	500	88	23698	15668	5367820	0.04	12.37
2	501	1000	6	4051	5400	3515174	0.01	8.10
3	1001	2000	4	1965	6100	3127420	0.01	7.21
4	2001	3000	5	613	13000	1610103	0.03	3.71
5	3001	4000	1	233	3200	864721	0.01	1.99
6	4001	5000	6	281	28900	1352777	0.07	3.12
7	5001	10000	2	332	13590	2482705	0.03	5.72
8	10001	Above	22	252	3535811	21441128	8.15	49.42
	Total		134	31425	3621669	39761848	8.35	91.65
Grand Total			**31559**		**43383517**		**100.00**	

- **Dematerialisation of shares and liquidity**

  As per SEBI guidelines on investors' protection, the Company's shares are to be traded only in dematerialized mode. Accordingly, the Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to establish electronic connectivity and facilitate scrip-less trading. As at the end of 31 March 2007, 91.65% of the outstanding equity shares of the company are in electronic form.

  The Company's shares are being traded in the Bombay Stock Exchange Limited (BSE) under ISIN-INE935B01017

- **Outstanding GDRs/ADRs/Warrants or any other convertible instruments conversion date and likely impact on equity**

  Company has not issued any GDRs / ADRs / Convertible Debentures during the year 2006-07. However, the Company has issued 1,500,000 warrants convertible into equity shares on preferential basis on 21 December 2006. These warrants are convertible at any time on or before 21 June 2008. Upon exercise of these warrants, the paid-up capital of the Company will increase by the number of warrants exercised.

- **Plant locations**

  The Company doesn't have manufacturing facilities. However, the Company has the Design Centre at Hyderabad and a Branch office at USA, the particulars of which are given in Table -11:

Table - 11

Design House / Branch Office	Location
Hyderabad	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034, AP, India
USA	3335, Kifer Road, Santa Clara, California 95051, USA

- Address for Correspondence and contact persons for investors queries

  Investors' correspondence may be addressed to the Company Secretary and Compliance Officer at the registered office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034, Tel: +91-40-2337-9440 Fax: +91-2337-9439, Email: **investorrelations@moschip.com**

Besides, investors are also requested to make any correspondence with the Share Transfer Agents, whose particulars are furnished as under:

Sathguru Management Consultants Pvt. Ltd.
Plot No.15, Hindi Nagar, Punjagutta,
Hyderabad – 500 034
Contact Person: Mr. K. Raghunathan - Director /
Mr. R. Chandrasekher - Divisional Manager
(Capital Markets)
Tel: +91-40-2335-0586 / 2335-6507 / 2335-6975
Fax: +91-40-2335-4042,
Email: **sta@sathguru.com**
Web: **www.sathguru.com**

10. Non-Mandatory requirements:

Pursuant to the provisions of Notes 2 under Clause 49 of Listing Agreement it is informed that the Company has adopted the following non-mandatory requirements during the year under report.

- Setting of Remuneration Committee

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'E'

CERTIFICATE ON CORPORATE GOVERNANCE

The Members
MosChip Semiconductor Technology Limited

1. We have examined the registers, records, books of and the implementation of Corporate Governance procedures by MosChip Semiconductor Technology Limited for the year ended 31 March 2007, with the relevant records and documents maintained by the company, furnished to us for our examination and the report on corporate governance as approved by the Board of Directors.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the 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. We further 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.
3. We state that in respect of investor grievances received during the year ended on 31 March 2007, no investor grievances are pending against the company for a period exceeding one month as per the records maintained by the company and presented to the shareholders/ investors grievance committee.
4. In our opinion and to the best of our information and according to the explanations given to us, the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement(s) with the Bombay Stock Exchange Limited, have been complied with in all material respects by the company.

For LVV Associates,
Company Secretaries,

Hyderabad
22 August 2007

(L. Dhanamjaya Reddy)
(Partner)
C.P. No. 3752

ANNEXURE 'F'

CEO'S DECLARATION

The Members,
MosChip Semiconductor Technology Limited.

I, K. Ramachandra Reddy, Chairman & CEO of the Company do hereby declare that pursuant to the provisions of Clause 49(I) (D) (ii) of the Listing Agreement, all the members of the Board and the Senior Management Personnel have furnished their affirmation of compliance with the Code of Conduct of the Company.

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Members
MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED
Hyderabad

We have examined the attached Consolidated Balance Sheet of MosChip Semiconductor Technology Limited and its wholly owned subsidiary MosChip SemiconductorTechnology, USA as at 31 March 2007 and the Profit and Loss Account as well as the Cash Flow statement for the year ended on that date.

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

1. The Company has made a total investment of Rs. 375,579,087/- in its wholly owned unlisted subsidiary Company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The difference between the investment amount of Rs. 375,579,087/- and the Networth amount of Rs. 129,807,589/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2007 has not been charged to the Profit & Loss Account.

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

   And on the basis of the separate audited financial statements of MosChip Semiconductor Technology Limited and the wholly owned subsidiary MosChip Semiconductor Technology, USA

   On the basis of the information and explanations given to us and on the consideration of the audited financial statements of MosChip Semiconductor Technology Limited and its wholly owned subsidiary, we are of the opinion that:

   a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of MosChip Semiconductor Technology Limited and its wholly owned subsidiary MosChip Semiconductor Technology, USA as at 31 March 2007;

   b) the Consolidated Profit & Loss Account for the year ended 31 March 2007 gives a true and fair view of the Consolidated results of operations of the Company and

   c) the Consolidated Cash Flow Statement shows a true and fair view of the Consolidated Cash Flows for the year ended on 31 March 2007.

For **Gokhale & Co**
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Place : Hyderabad
Date : 28 June 2007

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2007

	Schedule No.	Rs.	As at 31 March 2007 Rs.	Rs.	As at 31 March 2006 Rs.
SOURCES OF FUNDS:					
SHAREHOLDERS' FUNDS:					
Share Capital	1		**433,835,170**		433,700,170
Share Application Money			**129,415**		165,110
Reserves and Surplus	2		**661,733,201**		665,086,583
Total			**1,095,697,786**		1,098,951,863
APPLICATION OF FUNDS:					
FIXED ASSETS:	3				
Gross Block		**208,289,259**		194,602,631	
Less: Depreciation		**109,133,452**		132,950,667	
Net Block		**99,155,807**		61,651,964	
Capital work in progress		**13,204,255**	**112,360,062**	8,448,459	70,100,423
Goodwill			**235,817,338**		239,725,378
INVESTMENTS	4		**91,241,173**		67,466,337
NET CURRENT ASSETS:					
CURRENT ASSETS,					
LOANS AND ADVANCES:					
Interest accrued on Deposits		**1,577,885**		7,778,326	
Inventories	5	**20,079,818**		16,539,286	
Sundry Debtors	6	**42,955,035**		28,295,768	
Cash and Bank Balances	7	**96,947,371**		197,060,086	
Loans and Advances	8	**14,007,919**		13,193,183	
GROSS CURRENT ASSETS		**175,568,028**		262,866,649	
Less: Current Liabilities and provisions	9	**27,994,021**		20,813,715	
NET CURRENT ASSETS			**147,574,007**		242,052,934
MISCELLANEOUS EXPENDITURE	10		**8,454,231**		11,272,299
PROFIT AND LOSS ACCOUNT			**500,250,975**		468,334,492
NOTES TO ACCOUNTS	15				
Total			**1,095,697,786**		1,098,951,863

The Schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhar Gokhale
Partner

C. Dayakar Reddy
Managing Director

G. Prasad
Director

Place: Hyderabad
Date : 28 June 2007

A. Ramesh
Director

Raj Kumar Singh
Company Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

		Schedule No.	For the year ended 31 March 2007 Rs.	For the year ended 31 March 2006 Rs.
I	**INCOME:**			
	Sales Revenue	11	**264,538,243**	228,693,514
	Other Income	12	**12,854,217**	17,284,272
			277,392,460	245,977,786
II	**EXPENDITURE:**			
	Material Cost, Software and Product Development Expenses	13	**200,945,161**	195,331,676
	Sales, General and Administration Expenses	14	**84,894,251**	75,770,556
	Depreciation		**27,074,010**	37,239,440
			312,913,422	308,341,672
III	**Profit/(Loss) Before Tax**		**(35,520,962)**	(62,363,886)
	Less: Fringe Benefit Tax		**329,203**	314,396
	Profit/(Loss) After Tax Before Extraordinary and Prior Period Item		**(35,850,165)**	(62,678,282)
	Less: Extra Ordinary and Prior Priod Items		**(3,933,682)**	1,068,819
	Profit/(Loss) After Tax After Extraordinary and Prior Period Item		**(31,916,483)**	(63,747,101)
	Add: Balance brought forward from previous year		**(468,334,492)**	(404,587,391)
	Balance carried to Balance Sheet		**(500,250,975)**	(468,334,492)
IV	**Earnings Per Share (EPS)**			
	Equity Share of face value Rs.10/- each			
	Before Extraordinary and Prior Period Items			
	Basic		**(0.83)**	(1.47)
	Diluted		**(0.83)**	(1.47)
	After Extraordinary and Prior Period Items			
	Basic		**(0.74)**	(1.50)
	Diluted		**(0.74)**	(1.50)
	Number of shares used in computing EPS			
	Basic		**43,382,564**	42,569,215
	Diluted		**43,382,564**	42,569,705

The Schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhar Gokhale
Partner

C. Dayakar Reddy
Managing Director

G. Prasad
Director

Place: Hyderabad
Date : 28 June 2007

A. Ramesh
Director

Raj Kumar Singh
Company Secretary

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET

	As At 31 March 2007 Rs.	As At 31 March 2006 Rs.
SCHEDULE 1		
SHARE CAPITAL		
Authorised:		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	**550,000,000**	550,000,000
Issued:		
45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	**451,005,890**	451,005,890
Subscribed and Paid - up:		
43,383,517 (Previous Year 43,370,017) equity shares of Rs.10/- each	**433,835,170**	433,700,170
(Of the above 8,325,770 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA)		
(Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Verasity Technologies, Inc with the Company)		
SCHEDULE 2		
RESERVES AND SURPLUS:		
Foreign Currency Translation Reserve	**(4,142,219)**	4,135,288
Capital Reserve	**1,250,000**	1,250,000
Convertible Warrants	**4,650,000**	-
Securities Premium		
Opening Balance	**659,701,295**	427,803,732
Additions	**274,125**	231,897,563
Closing Balance	**659,975,420**	659,701,295
	661,733,201	**665,086,583**

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET

SCHEDULE 3

CONSOLIDATED FIXED ASSETS

Amount in Rupees

S. No.	Description	GROSS BLOCK					DEPRECIATION					NET BLOCK	
		Balance at 01.04.06	Additions during the year	Deletions during the year	Adjustments during the year*	**Balance as at 31.03.07**	Balance as at 01.04.06	For the Year	Deletions during the year	Adjustments during the year **	**Balance as at 31.03.07**	**Balance as at 31.03.07**	Balance as at 01.04.06
1.	Computers	34,119,183	16,263,024	13,649,371	-	**36,732,836**	19,602,548	5,709,863	9,132,417	-	**16,179,994**	**20,552,842**	**14,516,635**
2.	Electrical Installation	3,093,287	934,255	-	-	**4,027,542**	685,709	170,605	-	-	**856,314**	**3,171,228**	2,407,578
3.	Plant and Machinery	27,820,459	2,081,043	385,374	-	**29,516,128**	20,249,947	2,198,020	71,098	-	**22,376,869**	**7,139,259**	7,570,512
4.	Software	77,193,285	503,240	20,379,521	-	**57,317,004**	58,468,227	5,589,519	20,202,182	2,232,959	**41,622,605**	**15,649,399**	18,725,058
5.	Furniture and Fittings	7,779,202	2,502,572	51,582	6,860	**10,223,332**	2,458,584	520,148	19,201	5,916	**2,953,615**	**7,269,717**	5,320,618
6.	Office Equipment	5,269,272	1,918,909	627,738	54,630	**6,505,813**	3,079,289	289,340	211,972	47,642	**3,109,015**	**3,396,798**	2,189,983
7.	Vehicles	84,257	-	-	-	**84,257**	30,371	8,004	-	-	**38,375**	**45,882**	53,886
8.	Lab Equipment	2,356,991	11,173,037	-	-	**13,530,028**	61,168	275,890	-	-	**337,058**	**13,192,970**	2,295,823
9.	Leasehold Improvements	-	3,262,699	-	-	**3,262,699**	-	331,150	-	-	**331,150**	**2,931,549**	-
10.	Mask Tools	36,886,695	28,974,870	18,365,245	406,700	**47,089,620**	28,314,825	11,981,471	18,365,245	602,594	**21,328,457**	**25,761,163**	8,571,871
	TOTAL	194,602,631	67,613,649	53,458,831	468,190	208,289,259	132,950,668	27,074,010	48,002,115	2,889,111	109,133,452	99,155,807	61,651,964
	Previous Year	153,052,977	43,640,267	2,090,613	-	194,602,631	96,744,128	37,239,440	1,032,901	-	132,950,667	61,651,964	-

Note:

* Adjustments for the year includes Rs. 468,190/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

** Adjustments for the year includes Rs. 656,152/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET

	As At 31 March 2007 Rs.	As At 31 March 2006 Rs.
SCHEDULE 4		
INVESTMENTS:		
Current		
Non-Trade, Unquoted, At Cost		
2715362.161 (Previous Year Nil) Units of Rs.10/- each in Principal Cash Management Fund	**40,000,000**	-
SVB Securities Liquid Fund	**51,241,173**	67,466,337
	91,241,173	67,466,337
SCHEDULE 5		
INVENTORIES:		
Finished Goods	**20,079,818**	16,539,286
	20,079,818	16,539,286
SCHEDULE 6		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	**-**	-
Others	**42,955,035**	28,295,768
	42,955,035	28,295,768
SCHEDULE 7		
CASH AND BANK BALANCES:		
Cash on hand	**48,877**	18,395
Balance with Scheduled Banks		
- In Current accounts	**62,870,978**	13,068,273
- In fixed deposit accounts (Rs.712,761/- (Previous Year Rs.618,040/-) pledged towards margin on Bank Guarantee)	**21,752,209**	170,624,988
Balances with Non-Scheduled Bank in Current Account	**12,275,307**	13,348,430
	96,947,371	197,060,086

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET

	As At 31 March 2007 Rs.	As At 31 March 2006 Rs.
SCHEDULE 8		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	**3,147,976**	1,225,853
MosChip Employees Trust	**3,130,000**	3,903,000
Other Advances and Receivables	**3,195,717**	3,374,762
Prepaid Expenses	**3,018,982**	4,154,987
Prepaid Income Tax	**1,515,244**	534,581
	14,007,919	13,193,183
SCHEDULE 9		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	**-**	-
Others	**23,654,246**	16,683,201
	23,654,246	16,683,201
PROVISIONS:		
Leave Encashment	**2,076,784**	1,957,318
Gratuity	**2,258,788**	2,173,196
Fringe Benefit Tax (net of Advance Tax)	**4,203**	-
	4,339,775	4,130,514
	27,994,021	20,813,715
SCHEDULE 10		
MISCELLANEOUS EXPENDITURE: (To the extent not written off or adjusted)		
GDR Issue Expenses	**8,454,231**	11,272,299
	8,454,231	11,272,299

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31 March 2007 Rs.	For the year ended 31 March 2006 Rs.
SCHEDULE 11		
SALES:		
Software Sales	7,217,965	25,041,369
Semiconductor Sales	257,316,167	203,652,145
Misc. Sales	4,111	-
	264,538,243	228,693,514
SCHEDULE 12		
OTHER INCOME:		
Interest Earned (Gross)	7,256,462	8,896,733
(Tax Deducted at Source Rs.980,663/- (previous year Rs.534,581/-))		
Miscellaneous Income	1,277	3,254,134
Profit on Sale of Fixed Assets	-	20,056
Profit on Sale of Investments	5,596,478	5,113,349
	12,854,217	17,284,272
SCHEDULE 13		
MATERIAL COST, SOFTWARE AND PRODUCT DEVELOPMENT EXPENSES:		
Materials, Finished and Processed Stocks	112,321,527	104,909,530
Frieght Expenses	2,471,180	1,639,783
Salaries and Other Allowances to Employees	53,123,672	52,349,010
Contribution to PF	161,140	178,360
Staff Welfare Expenses	4,113,882	3,173,786
Directors' Remuneration	3,700,000	2,666,032
Professional Charges - Technical	479,409	4,296,608
Rent	6,682,334	4,875,318
Electricity Charges	1,627,098	1,667,613
Consumables	6,031,546	3,522,550
Repairs & Maintenance	945,100	186,950
Research and Development Expenses	2,404,478	10,665,945
Software Charges	5,244,929	4,109,495
Communication Expenses	498,380	627,739
Computer Maintenance	1,140,486	462,957
	200,945,161	195,331,676

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31 March 2007 Rs.	For the year ended 31 March 2006 Rs.
SCHEDULE 14		
SALES, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and Other Allowances to Employees	**30,423,996**	36,470,842
Contribution to PF	**98,071**	84,495
Directors' Remuneration	**3,700,000**	2,666,032
Directors' Sitting Fee	**60,000**	35,000
Printing and Stationery	**605,200**	224,860
Postage, Telegrams and Telephones	**1,644,874**	1,924,184
Rent	**2,033,754**	998,559
Fees, Rates and Taxes	**647,240**	780,450
Vehicle Maintenance	**56,865**	40,826
Repairs and Maintenance	**326,567**	155,946
Travelling and Conveyance	**10,015,995**	8,443,915
Marketing Expenses	**4,920,392**	2,801,504
Advertisement Expenses	**3,436,837**	2,666,420
Payments to Auditors	**1,003,528**	847,664
Insurance	**3,029,891**	2,763,225
Professional charges	**11,237,623**	4,040,192
Electricity Charges	**495,204**	341,559
Recruitment Expenses	**1,287,256**	425,420
General Expenses	**6,144,671**	4,481,998
Penalties	**23,750**	-
Bad Debts Written Off	**228,500**	-
Loss on Fixed Assets Sold/Discarded	**208,160**	21,573
Interest and Finance Charges	**-**	10
Realised Loss on Forex Fluctuation	**96,761**	914,732
Unrealised Loss on Forex Fluctuation	**331,983**	1,479,657
With Holding Tax	**-**	329,250
Improvements to leased premises	**19,065**	14,174
GDR Issue Expenses Written Off	**2,818,068**	2,818,069
	84,894,251	75,770,556

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE 15

NOTES TO ACCOUNTS

1. Description of Business

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") and its subsidiary (hereinafter collectively referred to as "the Group") is a fabless semiconductor company engaged in the business of developing and manufacture of application specific integrated circuits (ASICs) specializing in the areas of computer peripherals, data communications and consumer electronics

MosChip has its headquarters in Hyderabad with offices in United States of America and Hong Kong.

2. Significant Accounting Policies

a. Basis for Preparation of Financial Statements

The Consolidated financial statements present the accounts of the Company and its wholly owned subsidiary MosChip Semiconductor Technology, USA. The Consolidation is based on the audited financial statements of MosChip Semiconductor Technology Limited and MosChip Semiconductor Technology, USA (Wholly Owned Subsidiary) for the year ended 31 March 2007.

The Consolidated financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. Consistency in adoption of accounting policies among group companies is ensured to the extent practicable.

b. Principles of Consolidation

The financial statements of the Parent and its subsidiary have been Consolidated on a line-by-line basis by adding together the book value of like item of assets, liabilities, income and expenses, after eliminating intra group balance and unrealised profit / losses on intra group transaction, and are presented to the extent possible, in the same manner as the Parent's independent financial statements.

The excess of cost to the Parent of its investment over its equity in the subsidiary at the respective dates on which the investment in such Subsidiary was made is recognised as Goodwill in Consolidated financial statements.

c. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Examples of such estimates include future obligations under employee retirement benefit plans and the useful life of fixed assets. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

d. Foreign Currency Translation

Indian Rupee is the functional currency of MosChip Semiconductor Technology Limited and US Dollar is the functional currency of MosChip Semiconductor Technology, USA. Wholly owned subsidiary is classified as non-integral operation according to Accounting Standard 11. Therefore, in respect of Wholly owned subsidiary all the assets and liabilities both Monetary and Non-Monetary are translated using exchange rate prevailing at the Balance Sheet date and revenue, cost and expenses are translated using average exchange rate prevailing during the reporting period. The resultant translation exchange gain / loss have been disclosed as "Foreign Currency Translation Reserve" under Reserves & Surplus.

e. Revenue Recognition

Revenue from Software sales is recognized based on software developed and billed as per the terms of specific contracts. Provision for doubtful debts are recorded in the period in which such losses become probable based on the current estimates.

Revenue from royalty is recognized on accrual basis based on the terms of the agreement, provided collection is probable.

Interest income is recognized on accrual basis.

f. Fixed Assets and Capital Work-in-Progress

Fixed Assets are stated at cost of acquisition inclusive of inland freight, duties and taxes and incidental expenditure incurred during installation wherever applicable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leasehold improvements represent expenses incurred towards civil works, interior furnishings, etc. on the leased premises.

Capital work-in-progress comprises outstanding advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

Fixed Assets sold or retired from active use are eliminated from accounts by removing the related cost and accumulated depreciation. On elimination or removal any gain or loss is included in the results of operations.

g. Depreciation

Depreciation on Fixed Assets of the holding Company other than Improvement to Leasehold Premises, Mask Tool Charges (Part of Plant & Machinery) and Computer Software is provided under Straight Line method at the rates specified in Schedule XIV of the Companies Act, 1956.

Depreciation on additions and deletions to assets during the year is charged to revenue pro rata to the period of their use.

Leasehold Improvements are amortized over the estimated useful life or unexpired period of lease (whichever is lower) on a straight line basis.

Mask Tools are depreciated over a period of 2 years based on estimated useful life.

Computer Software is depreciated over a period of 5 years based on the technical evaluation about their useful economic life. These rates are higher than those prescribed in Schedule XIV of the Companies Act, 1956.

Assets costing less than Rs.5,000/- individually have been fully depreciated in the year of purchase.

Depreciation on fixed assets of the subsidiary Company is computed using the straight-line method and is charged to income over the estimated useful life of two, three, five and seven years.

h. Foreign Exchange Transactions

i. **Initial Recognition** - Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

ii. **Conversion** - Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

iii. **Exchange Differences** - Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise except those arising on liabilities pertaining to fixed assets acquired from outside India, which are adjusted with the cost of the fixed assets.

iv. **Foreign Operations** - The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself. Exchange differences arising on a monetary item forming part of net investment in a non-integral foreign operation is accumulated in foreign currency translation reserve until disposal of the net investments.

i. Investments

Investments are classified into current investments and long-term investments. Current Investments are carried at the lower of cost and fair value, and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.

j. Retirement benefits

i. **Provident Fund:** The Company contributes to the employees' provident fund (a defined contribution benefit) maintained under the Employees Provident Fund scheme by the Central Government.

ii. **Gratuity**: The Company Contributes to LIC Group Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation as on the balance sheet date. Contributions made to the fund are expensed in the year.

iii. **Leave Encashment:** Liabilities with regard to the Leave Encashment are determined by actuarial valuation as on the balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

k. Earnings per share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard 20 "Earnings Per Share". Basic earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period. Diluted earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

l. Miscellaneous Expenditure

Preliminary expenses and expenditure in connection with issue of shares are written off over a period of five years.

3. Contingent Liabilities

i. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for: Rs.15,695,442/- (as at 31 March 2006 Rs. 21,571,500/-).

ii. On account of Bank Guarantee given by bankers: Rs.712,761/- (as at 31 March 2006 Rs.618,040/-).

iii. On account of Bond executed by the Company to Government of India towards exemption of Customs Duty on Imported Equipment and Excise Duty on Indigenous Equipment: Rs. 2,525,000/- (as at 31 March 2006 Rs.2,525,000/-).

4. Earnings Per Share

The Company reports basic and diluted earnings per equity share in accordance with AS-20, "Earnings Per Share".

Basic earnings per equity share has been computed by dividing net loss after tax by the weighted average number of equity shares outstanding during the applicable periods. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the applicable periods. The reconciliation between basic and diluted earnings per equity share is as follows:

(Amount in Rupees except share numbers)

	Year ended 31 March 07	Year ended 31 March 06
BASIC EARNINGS/ (LOSS) PER SHARE		
Net Profit/(Loss) for the period before extraordinary and prior period item	**(36,502,993)**	(62,678,282)
Net Profit/(Loss) for the period after extraordinary and prior period item	**(31,916,483)**	(63,747,101)
Weighted average number of equity shares	**43,382,564**	42,569,215
EPS before extraordinary and prior period item	**(0.84)**	(1.47)
EPS after extraordinary and prior period item	**(0.74)**	(1.50)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before extraordinary and prior period item	**(36,502,993)**	(62,678,282)
Net Profit/(Loss) for the period after extraordinary and prior period item	**(31,916,483)**	(63,747,101)
Adjustments	**Nil**	Nil
Diluted Net Profit/(Loss) for the period before extraordinary and prior period item	**(36,502,993)**	(62,678,282)
Diluted Net Profit/(Loss) for the period after extraordinary and prior period item	**(31,916,483)**	(63,747,101)
Weighted average number of equity shares	**43,382,564**	42,569,215
Diluted Potential weighted average number of equity shares	**Nil**	490
Weighted average number of diluted equity shares	**43,382,564**	42,569,705
EPS before extraordinary and prior period item	**(0.84)**	(1.47)
EPS after extraordinary and prior period item	**(0.74)**	(1.50)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Segment Reporting

The Company recognizes ASIC design as its only primary segment since its operations during the year consists of ASIC design and sale/license of related intellectual property developed by it. Accordingly revenues from sale/license of software (designs/intellectual property) comprise the primary basis of segmental information set out in these Financial Statements. Secondary segmental reporting is performed on the basis of the geographical location of customers

a. Business Segment Information:

Particulars	Year ended 31 March 2007	
	Software Rs.	*ASICs* Rs.
Revenue		
Sales to external customers	7,217,965	257,320,278
Segment Profit / (loss)	(118,219,780)	69,191,773
Other Income	9,818,584	3,035,633
Profit / (loss) before Tax	(108,401,196)	72,227,406
Fringe Benefit Tax	329,203	—
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(108,730,399)	72,227,406
Extraordinary and Prior Period Income	(3,933,682)	(652,828)
Net profit/(loss)	(104,796,717)	72,880,234
Other Segment Information		
Depreciation	14,990,694	12,083,316
Non-cash expenses other than depreciation	2,818,068	Nil
Particulars of Segment Assets and Liabilities		
Segment Assets	164,240,393	59,056,672
Investments	40,000,000	51,241,173
Cash and Bank Deposits	84,853,823	12,093,548
Other Assets	1,577,885	Nil
Total Assets	250,672,101	128,497,162
Segment Liabilities	7,349,212	20,644,809
Total Liabilities	7,349,212	20,644,809

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

b. Geographic Segment Information:

Particulars	Year ended 31 March 2007	
	Software Rs.	*ASICs* Rs.
Revenue		
Hong Kong	156,822,516	108,822,630
Taiwan	58,015,010	68,026,679
Rest of World	49,700,717	51,844,205
Carrying amount of segment fixed assets		
India	137,187,663	126,091,523
North America	71,101,596	76,959,567
Additions to fixed assets		
India	38,485,196	29,374,594
North America	29,128,453	14,265,673

6. Regrouping/ Reclassification

The figures for previous year have been regrouped / reclassified wherever necessary.

Per and subject to our report of even date

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhar Gokhale
Partner

Place: Hyderabad
Date : 28 June 2007

For and on behalf of the Board of Directors

C. Dayakar Reddy
Managing Director

A. Ramesh
Director

G. Prasad
Director

Raj Kumar Singh
Company Secretary

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

		31 March 2007 Rs.	31 March 2006 Rs.
A.	**Cash Flow from Operating Activities:**		
	Net Profit before tax, Prior period and Extraordinary item	**(35,520,962)**	(62,363,886)
	Adjustments for:		
	Depreciation	**27,074,010**	37,239,440
	GDR issue expenses written off	**2,818,068**	2,818,069
	Interest Income	**(7,256,462)**	(8,896,733)
	Loss on fixed assets sold/discarded	**208,160**	1,517
	Profit on sale of investments	**(5,596,478)**	(5,113,349)
	Bad debts Written off	**228,500**	-
	Provision for Retirement Benefits	**(147,085)**	-
	Foreign Exchange adjustments	**220,481**	92,506
	Operating Profit before changes in working capital	**(17,971,768)**	(36,222,436)
	(Increase)/Decrease in Sundry Debtors	**(14,659,267)**	(9,032,063)
	(Increase)/Decrease in Inventories	**(3,540,532)**	(2,133,181)
	(Increase)/Decrease in Loans and Advances	**165,927**	(4,311,114)
	Increase/(Decrease) in Current liabilities	**6,031,144**	10,886,592
	(Increase)/Decrease in Bank Guarantee Deposits with Bankers	**(94,721)**	(16,790)
	Cash generated from operations	**(30,069,217)**	(40,828,992)
	Income-tax paid	**1,305,663**	376,568
	Cash generated from operations before Extra Ordinary and Prior period items	**(31,374,880)**	(41,205,560)
	Extra Ordinary Income	**(8,000,000)**	1,068,819
	Net cash from operating Activities [A]	**(23,374,880)**	(42,274,379)
B.	**Cash flow from Investing Activities:**		
	Purchase of Fixed Assets	**(71,901,255)**	(47,478,107)
	Sale proceeds of Fixed Assets	**9,500**	133,600
	Purchase of Investments	**(271,500,000)**	(508,166,337)
	Interest received	**13,456,903**	1,400,641
	Sale of Investments	**253,321,642**	446,709,458
	Foreign currency translation adjustment for non-integral operation	**(4,369,467)**	4,135,288
	Net Cash used for Investing Activities [B]	**(80,982,677)**	(103,265,457)
C.	**Cash flow from Financing Activities:**		
	Net proceeds from Issue of Share Capital	**99,305**	93,259,118
	Securities Premium	**274,125**	231,897,563
	Convertible Warrants	**4,650,000**	-
	Subsidy From State Govt	**-**	250,000
	GDR issue Expenses	**-**	(10,713,960)
	Net Cash from Financing Activities [C]	**5,023,430**	314,692,721

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	31 March 2007 Rs.	31 March 2006 Rs.
Net Increase/(Decrease) in cash & cash equivalents [A+B+C]	**(99,334,127)**	169,152,885
Cash and Cash equivalents at the beginning of the Period	**196,442,046**	27,381,667
Cash and Cash equivalents at the end of the period	**97,107,919**	196,534,552
Note: Cash and Cash equivalents at the beginning of the year		
Cash and Bank balances	**197,060,086**	27,982,917
Less: Deposits with Bankers towards Bank Guarantee	**618,040**	601,250
	196,442,046	27,381,667
Cash and Cash equivalents at the end of the year		
Cash and Bank balances	**96,947,371**	197,060,086
Add: Unrealised gain on foreign exchange fluctuation	**220,481**	92,506
Less: Deposits with Bankers towards Bank Guarantee	**712,761**	618,040
	96,455,091	196,534,552

Per and subject to our report of even date

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhar Gokhale
Partner

Place: Hyderabad
Date : 28 June 2007

For and on behalf of the Board of Directors

C. Dayakar Reddy
Managing Director

A. Ramesh
Director

G. Prasad
Director

Raj Kumar Singh
Company Secretary

AUDITORS' REPORT

The Members
MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED
Hyderabad

We have audited the attached Balance Sheet of MosChip Semiconductor Technology Limited, Hyderabad as at 31 March 2007 and 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.

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government in terms of subsection (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.

2. The Company has made a total investment of Rs.375,579,0877- in its wholly owned unlisted subsidiary Company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA).The investment is being carried at cost. The difference between the investment amount of Rs.375,579,0877- and the Networth amount of Rs 129,807,5897- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2007 has not been charged to the Profit & Loss Account.

3. Further to our comments in the annexure referred to in paragraph 1, and subject to what is stated in paragraph 2 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 books of account.

   d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting tandards referred to in subsection (3C) of Section 211 of the Companies Act, 1956.

   e) On the basis of written representation received from the Directors, as on 31 March 2007 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on 31 March 2007 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

   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 2007

      ii) In the case of the Profit & Loss Account, of the Loss of the company for the year ended on 31 March 2007; and

      iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on 31 March 2007.

For **Gokhale & Co**
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Place : Hyderabad
Date : 28 June 2007

AUDITORS' REPORT

ANNEXURE

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of subsection (4A) of Section 227 of the Companies Act, 1956 (1 of 1956) and on the basis of such checks, as we considered appropriate, we further report that:

(i) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management according to the phased programme designed to cover all assets on rotation basis. In respect of assets verified according to this programme, which is reasonable, no material discrepancies were noticed. The Company has not disposed off substantial part of its fixed assets during the year.

(ii) The Company-had no inventory during the year.

(iii) 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 Act. The Company had granted a loan to its fully owned subsidiary MosChip Semiconductor Technology, USA and during the financial year the subsidiary has repaid the entire loan amount. Keeping in view the strategic business relationship between the two Companies,in our opinion, the rate of interest and other terms and conditions of the loan were not, prima facie, prejudicial to the interests of the Company.

(iv) In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of its products.

(v) Transactions that need to be entered in a register in pursuance of Section 301 of the Act have been entered. In our opinion and based on information and explanations given to us transactions of the value of Rs 5 lakhs or more have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

(vi) The Company has not accepted deposits from the public covered by the provisions of section 58 A of the Companies Act.

(vii) The Company has an internal audit system commensurate with its size and nature of its business.

(viii) The Company is not required to maintain any cost records under clause (d) of sub-section (1) of Section 209 of the Act.

(ix) The Company is regular in depositing the Provident Fund and ESI dues with the appropriate authorities. According to the explanations and information given to us there were no undisputed statutory dues including Investor Education and Protection Fund, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty etc outstanding for a period of more than six months from the date they became payable.

(x) The Company's accumulated losses at the end of the financial year were less than fifty percent of its net worth. The Company has incurred cash losses in the financial year under audit as well as in the immediately preceding financial year.

(xi) There were no dues payable to any Bank or financial institution/s 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) The Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xiv) No part of the funds raised on short-term basis have been used for long-term investments and vice-versa.

(xv) The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.

(xvi) On the basis of information and explanations given to us no fraud on or by the Company has been noticed or reported during the year.

The other clauses of the order are not applicable to the Company for the year under audit.

For **Gokhale & Co**
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Place : Hyderabad
Date : 28 June 2007

BALANCE SHEET AS AT 31 MARCH 2007

	Schedule No.	Rs.	As at 31 March 2007 Rs.	Rs.	As at 31 March 2006 Rs.
SOURCES OF FUNDS:					
SHAREHOLDERS' FUNDS:					
Share Capital	1		**433,835,170**		433,700,170
Share Application Money			**129,415**		165,110
Reserves and Surplus	2		**665,875,420**		660,951,295
Total			**1,099,840,005**		1,094,816,575
APPLICATION OF FUNDS:					
FIXED ASSETS:	3				
Gross Block		**158,307,259**		147,211,119	
Less:Depreciation		**85,465,352**		94,647,897	
Net Block		**72,841,907**		52,563,222	
Capital work in progress		**436,630**	**73,278,537**	-	52,563,222
INVESTMENTS	4		**415,579,087**		375,579,087
NET CURRENT ASSETS: CURRENT ASSETS, LOANS AND ADVANCES:					
Interest accrued on Deposits		**1,577,885**		7,778,326	
Sundry Debtors	5	**21,279,036**		8,068,634	
Cash and Bank Balances	6	**84,853,823**		183,947,226	
Loans and Advances	7	**11,880,331**		30,865,251	
GROSS CURRENT ASSETS		**119,591,075**		230,659,437	
Less: Current Liabilities and provisions	8	**7,359,740**		6,243,236	
NET CURRENT ASSETS			**112,231,335**		224,416,201
MISCELLANEOUS EXPENDITURE	9		**8,454,231**		11,272,299
PROFIT AND LOSS ACCOUNT			**490,296,815**		430,985,766
NOTES TO ACCOUNTS	13				
Total			**1,099,840,005**		1,094,816,575

The Schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhar Gokhale
Partner

C. Dayakar Reddy
Managing Director

G. Prasad
Director

Place: Hyderabad
Date : 28 June 2007

A. Ramesh
Director

Raj Kumar Singh
Company Secretary

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2007

		Schedule No.	For the year ended 31 March 2007 Rs.	For the year ended 31 March 2006 Rs.
I	**INCOME:**			
	Sales Revenue		**52,091,226**	49,898,022
	Other Income	10	**10,464,811**	18,426,283
			62,556,037	68,324,305
II	**EXPENDITURE:**			
	Software and Product Development Expenses	11	**80,649,005**	74,791,543
	Sales, General and Administration Expenses	12	**29.831,866**	30,943,416
	Depreciation		**14,990,694**	27,873,292
			125,471,565	133,608,251
III	**Profit/(Loss) Before Tax**		**(62,915,528)**	(65,283,946)
	Less: Fringe Benefit Tax		**329,203**	314,396
	Profit/(Loss) After Tax Before Extraordinary and Prior Period Item		**(63,244,731)**	(65,598,342)
	Less: Extra Ordinary and Prior Priod Items*		**(3,933,682)**	17,619
	Profit/(Loss) After Tax After Extraordinary and Prior Period Item		**(59,311,049)**	(65,615,961)
	Add: Balance brought forward from previous year		**(430,985,766)**	(365.369,805)
	Balance carried to Balance Sheet		**(490,296,815)**	(430,985,766)
IV	**Earnings Per Share (EPS)**			
	Equity Share of face value Rs.10/- each			
	Before Extraordinary and Prior Period Items			
	Basic		**(1.46)**	(1.54)
	Diluted		**(1.46)**	(1.54)
	After Extraordinary and Prior Period Items			
	Basic		**(1.37)**	(1.54)
	Diluted		**(1.37)**	(1.54)
	Number of shares used in computing EPS			
	Basic		**43,382,564**	42,569,215
	Diluted		**43,382,564**	42,569,705

* Refer Note 15 in Notes to Accounts

The Schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhar Gokhale
Partner

C. Dayakar Reddy
Managing Director

G. Prasad
Director

Place: Hyderabad
Date : 28 June 2007

A. Ramesh
Director

Raj Kumar Singh
Company Secretary

SCHEDULES FORMING PART OF BALANCE SHEET

	As At 31 March 2007 Rs.	As At 31 March 2006 Rs.
SCHEDULE 1		
SHARE CAPITAL:		
Authorised: 55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	**550,000,000**	550,000,000
Issued: 45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	**451,005,890**	451,005,890
Subscribed and Paid-up: 43,383,517 (Previous Year 43,370,017) equity shares of Rs.10/- each	**433,835,170**	433,700,170
(Of the above 8,325,770 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA)		
(Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Verasity Technologies, Inc with the Company)		
SCHEDULE 2		
RESERVES AND SURPLUS:		
Capital Reserve	**1,250,000**	1,250,000
Convertible Warrants	**4,650,000**	-
(Refer Note 5 in Notes to Accounts)		
Securities Premium		
Opening Balance	**659,701,295**	427,803,732
Additions	**274,125**	231,897,563
Closing Balance	**659,975,420**	659,701,295
	665,875,420	660,951,295

SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE 3
FIXED ASSETS

(Amounts in Rupees)

S. No.	DESCRIPTION	GROSS BLOCK				DEPRECIATION					NET BLOCK	
		Balance at 01.04.06	Additions during the year	Deletions during the year*	**Balance as at 31.03.07**	Balance as at 01.04.06	For the Year	Deletions during the year*	Adjustments during the year *	**Balance as at 31.03.07**	**Balance as at 31.03.07**	Balance as at 01.04.06
1.	Computers	34,119,183	16,263,024	13,649,371	**36,732,836**	19,602,548	5,709,863	9,132,417	-	**16,179,994**	**20,552,842**	14,516,635
2.	Electrical Installation	3,093,287	934,255	-	**4,027,542**	685,709	170,605	-	-	**856,314**	**3,171,228**	2,407,578
3.	Plant and Machinery	27,820,459	2,081,043	385,374	**29,516,128**	20,249,947	2,198,020	71,098	-	**22,376,869**	**7,139,259**	7,570,512
4.	Software	69,569,089	503,240	12,755,325	**57,317,004**	50,844,031	5,589,519	12,577,986	2,232,959	**41,622,605**	**15,694,399**	18,725,058
5.	Furniture and Fittings	7,466,792	2,502,572	51,582	**9,917,782**	2,216,732	502,707	19,201	-	**2,700,238**	**7,217,544**	5,250,060
6.	Office Equipment	2,701,061	1,765,326	547,404	**3,918,983**	957,391	204,936	139,578	-	**1,022,749**	**2,896,234**	1,743,670
7.	Vehicles	84,527	-	-	**84,527**	30,371	8,004	-	-	**38,375**	**45,882**	53,886
8.	Lab Equipment	2,356,991	11,173,037	-	**13,530,028**	61,618	275,890	-	-	**337,058**	**13,192,970**	2,295,823
9.	Leasehold Improvements	-	3,262,699	-	**3,262,699**	-	333,150	-	-	**331,150**	**2,931,549**	-
	Total	147,211,119	38,485,196	27,389,056	**158,307,259**	94,647,897	14,990,694	21,940,280	2,232,959	**85,465,352**	**72,841,907**	52,563,222
	Previous Year	116,997,027	30,551,794	337,702	**147,211,119**	66,977,191	27,873,292	202,586	-	**94,647,897**	**52,563,222**	-

* Refer Note 15 & 16 of Notes to Accounts

SCHEDULES FORMING PART OF BALANCE SHEET

	As At 31 March 2007 Rs.	As At 31 March 2006 Rs.
SCHEDULE 4		
INVESTMENTS:		
Long-Term Unquoted, At cost Wholly-owned Subsidiary:		
19,192,404 (Previous Year 19,192,404) shares of MosChip Semiconductor Technology USA (a company incorporated in USA)	**375,579,087**	375,579,087
	375,579,087	375,579,087
Current Non-Trade, Unquoted, At Cost		
2715362.161 (Previous Year Nil) Units of Rs.10/- each in Principal Cash Management Fund	**40,000,000**	-
	40,000,000	-
Aggregate market value of the non-trade investments as on 31 March 2007 is Rs. 40,000,000/- (Previous Year Nil)		
	415,579,087	375,579,087
SCHEDULE 5		
SUNDRY DEBTORS: (Unsecured, Considered Good)		
Outstanding for a period exceeding six months	**-**	-
Others	**21,279,036**	8,068,634
	21,279,036	8,068,634
SCHEDULE 6		
CASH AND BANK BALANCES:		
Cash on hand	**48,877**	18,395
Balance with Scheduled Banks		
- In Current accounts	**62,870,978**	13,068,272
- In fixed deposit accounts (Rs.712,761/- (Previous Year Rs.618,040/-) pledged towards margin on Bank Guarantee)	**21,752,209**	170,624,987
Bank of America, USA (Maximum amount outstanding during the period Rs.241,273/- (previous year Rs.10,114,884/-)	**181,759**	235,572
	84,853,823	183,947,226

SCHEDULES FORMING PART OF BALANCE SHEET

	As At 31 March 2007 Rs.	As At 31 March 2006 Rs.
SCHEDULE 7		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	**1,020,388**	1,049,921
Loan to Subsidiary	**-**	17,848,000
MosChip Employees Trust	**3,130,000**	3,903,000
Other Advances and Receivables	**3,195,717**	3,374,762
Prepaid Expenses	**3,018,982**	4,154,987
Prepaid Income Tax	**1,515,244**	534,581
	11,880,331	30,865,251
SCHEDULE 8		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	**-**	-
Others	**3,233,674**	2,301,759
	3,233,674	2,301,759
PROVISIONS:		
Leave Encashment	**1,863,075**	1,768,281
Gratuity	**2,258,788**	2,173,196
Fringe Benefit Tax (Net of Advance Tax)	**4,203**	-
	4,126,066	3,941,477
	7,359,740	6,243,236
SCHEDULE 9		
MISCELLANEOUS EXPENDITURE: (To the extent not written off or adjusted)		
GDR Issue Expenses	**8,454,231**	11,272,299
	8,454,231	11,272,299

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	For the year ended 31 March 2007 Rs.	For the year ended 31 March 2006 Rs.
SCHEDULE 10		
OTHER INCOME:		
Interest Earned (Gross)	**7,902,689**	10,560,831
(Tax Deducted at Source Rs. 980,663/- (previous year Rs.534,581/-))		
Miscellaneous Income	**1,277**	2,732,047
Profit on Sale of Fixed Assets	**-**	20,056
Profit on Sale of Investments	**2,560,845**	5,113,349
	10,464,811	18,426,283
SCHEDULE 11		
SOFTWARE AND PRODUCT DEVELOPMENT EXPENSES:		
Salaries and Other Allowances to Employees	**53,123,672**	52,349,010
Contribution to PF	**161,140**	178,360
Staff Welfare Expenses	**3,783,554**	2,963,565
Directors' Remuneration	**3,700,000**	2,666,032
Professional Charges - Technical	**479,409**	4,296,608
Rent	**4,282,043**	1,991,632
Electricity Charges	**1,339,045**	1,340,376
Consumables	**6,065,367**	3,662,764
Repairs & Maintenance	**830,980**	143,005
Software Charges	**5,244,929**	4,109,495
Communication Expenses	**498,380**	627,739
Computer Maintenance	**1,140,486**	462,957
	80,649,005	74,791,543

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	For the year ended 31 March 2007 Rs.	For the year ended 31 March 2006 Rs.
SCHEDULE 12		
SALES, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and Other Allowances to Employees	**6,280,472**	9,182,329
Contribution to PF	**98,071**	84,495
Directors' Remuneration	**3,700,000**	2,666,032
Directors' Sitting Fee	**60,000**	35,000
Printing and Stationery	**185,093**	129,037
Postage, Telegrams and Telephones	**1,020,697**	1,376,466
Rent	**1,303,231**	407,925
Fees, Rates and Taxes	**136,201**	189,174
Vehicle Maintenance	**56,865**	40,826
Repairs and Maintenance	**291,835**	146,945
Traveling and conveyance	**4,741,625**	5,489,389
Advertisement Expenses	**178,305**	144,013
Payments to Auditors	**190,943**	207,200
Insurance	**846,766**	442,392
Professional charges	**2,468,857**	1,366,918
Electricity Charges	**407,536**	274,535
Recruitment Expenses	**1,287,256**	412,292
General Expenses	**2,859,766**	2,770,992
Penalties	**23,750**	
Bad Debts Written Off	**228,500**	-
Loss on Fixed Assets Sold/Discarded	**200,220**	21,573
Realised Loss on Forex Fluctuation	**96,761**	914,732
Unrealised Loss on Forex Fluctuation	**331,983**	1,479,658
With Holding Tax	**-**	329,250
Improvements to leased premises	**19,065**	14,174
GDR Issue Expenses Written Off	**2,818,068**	2,818,069
	29,831,866	30,943,416

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

SCHEDULE 13

NOTES TO ACCOUNTS

1. Description of Business

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") is a fabless semiconductor company engaged in the business of developing application specific integrated circuits (ASICs) specializing in the areas of computer peripherals, data communications and consumer electronics The development/design process is carried out at its design centre located in Hyderabad.

MosChip has its headquarters in Hyderabad, India with a Branch Office in Santa Clara, CA, USA.

2. Significant Accounting Policies

a. Basis for Preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used during the previous year.

b. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Examples of such estimates include future obligations under employee retirement benefit plans and the useful life of fixed assets. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

c. Revenue Recognition

Revenue from Software sales is recognized based on software developed and billed as per the terms of specific contracts. Provision for doubtful debts are recorded in the period in which such losses become probable based on the current estimates.

Revenue from royalty is recognized on accrual basis based on the terms of the agreement, provided collection is probable.

Interest income is recognized on accrual basis.

d. Fixed Assets and Capital Work-in-Progress

Fixed Assets are stated at cost of acquisition inclusive of inland freight, duties and taxes and incidental expenditure incurred during installation wherever applicable.

Leasehold improvements represent expenses incurred towards civil works, interior furnishings, etc. on the leased premises.

Capital work-in-progress comprises outstanding advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

Fixed Assets sold or retired from active use are eliminated from accounts by removing the related cost and accumulated depreciation. On elimination or removal any gain or loss is included in the results of operations.

e. Depreciation

Depreciation on Fixed Assets other than Improvement to Leasehold Premises, Mask Tool Charges (Part of Plant & Machinery) and Computer Software is provided under Straight Line method at the rates specified in Schedule XIV of the Companies Act, 1956.

Depreciation on additions and deletions to assets during the year is charged to revenue pro rata to the period of their use.

Leasehold Improvements are amortized over the estimated useful life or unexpired period of lease (whichever is lower) on a straight line basis.

Mask Tools are depreciated over a period of 2 years based on estimated useful life.

Computer Software is depreciated over a period of 5 years based on the technical evaluation about their useful economic life. These rates are higher than those prescribed in Schedule XIV of the Companies Act, 1956.

Assets costing less than Rs.5,000/- individually have been fully depreciated in the year of purchase.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

f. Foreign Exchange Transactions

i. Initial Recognition: Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

ii. Conversion: Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

iii. Exchange Differences: Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise except those arising on liabilities pertaining to fixed assets acquired from outside India, which are adjusted with the cost of the fixed assets.

iv. Foreign Operations: The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself. Exchange differences arising on a monetary item forming part of net investment in a non-integral foreign operation is accumulated in foreign currency translation reserve until disposal of the net investments.

g. Investments

Investments are classified into current investments and long-term investments. Current Investments are carried at the lower of cost and fair value, and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.

h. Retirement benefits

i. Provident Fund: The Company contributes to the employees' provident fund (a defined contribution benefit) maintained under the Employees Provident Fund scheme by the Central Government.

ii. Gratuity: The Company Contributes to LIC Group Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation as on the balance sheet date. Contributions made to the fund are expensed in the year.

iii. Leave Encashment: Liabilities with regard to the Leave Encashment are determined by actuarial valuation as on the balance sheet date.

i. Earnings per share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard 20 "Earnings Per Share". Basic earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period. Diluted earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

j. Provisions

A provision is recognised when the Company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions except those disclosed elsewhere in the financial statements, are not discounted to their present value and are determined based on best estimate required to settle the obligation at the each Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

k. Miscellaneous Expenditure

Preliminary expenses and expenditure in connection with issue of shares are written off over a period of five years.

3. Contingent Liabilities:

i. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for: Rs. 44,092/- (as at 31 March 2006 Rs. 11,250/-).

ii. On account of Bank Guarantee given by bankers **:** Rs. 712,761/- (as at 31 March 2006 Rs. 618,040/-)

iii. On account of Bond executed by the Company to Government of India towards exemption of customs Duty on Imported Equipment and Excise Duty on Indigenous Equipment**:** Rs. 2,525,000/- (as at 31 March 2006 Rs. 2,525,000/-)

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

4. Share Capital

Increase in Share Capital for the Year is on account of the following allotments:

Particulars	No. of Shares	Price Per Share
On exercise of Employee Stock Options	1,500	26.75
On exercise of Employee Stock Options	6,000	30.50
On exercise of Employee StockOptions	6,000	31.00
Total	**13,500**	

5. Convertible Warrants

During the year under review, the Company has allotted 1,500,000 convertible warrants at a price of Rs.31 each. The said warrants represent a right to acquire 1,500,000 equity shares of Rs.10 each at a price of Rs.31 per share. The warrants can be exercised at any time on or before 28 June 2008. The warrants were issued for an upfront consideration of Rs. 4,650,000. Non-exercise of warrants on or before 28 June 2008 will result in forfeiture of upfront consideration.

6. Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. Pursuant to the scheme of Amalgamation, the Company continues to carry on the business of erstwhile Verasity Technologies and treats it as an overseas branch office. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2007. Hence, no provision has been made in the books of account for the tax liability for the year as well as for the deferred taxes as per the Accounting Standard - 22 on Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India.

Fringe Benefits Tax (FBT) payable under the provisions of section 115WC of the Income-tax Act, 1961 is in accordance with the Guidance Note on Accounting for Fringe Benefits Tax issued by the ICAI regarded as an additional income tax and considered in determination of the profits/(losses) for the year.

7. Employee Stock Option Plans

As per the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 issued by the Securities and Exchange Board of India, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the options is to be recognized and amortized on a straight-line basis over the vesting period.

The Company has established six schemes Employee Stock Option Plan, MosChip Stock Option Plan 2001, MosChip Stock Option Plan 2002, MosChip Stock Option Plan 2004, MosChip Stock Option Plan 2005 (MI) and MosChip Stock Option Plan 2005 (WOS) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares and 500,000 equity shares respectively. Of these the Employee Stock Options Plan was established when the Company was unlisted and consequently, the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 are not applicable to the options granted under this Plan.

Stock Options Outstanding under the Employee Stock Option Plan

Particulars	**Year ended 31 March 2007**	Year ended 31 March 2006
Options outstanding at the beginning of the year	**162,500**	310,840
Granted during the year	**50,000**	4,000
Forfeited during the year	**54,200**	77,500
Exercised during the year	**58,700**	74,840
Outstanding at the end of the year	**99,600**	162,500

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	**Year ended 31 March 2007**	Year ended 31 March 2006
Options outstanding at the beginning of the year	**165,625**	287,000
Granted during the year	**-**	40,000
Forfeited during the year	**49,750**	53,000
Exercised during the year	**6,000**	108,375
Outstanding at the end of the year	**109,875**	165,625

Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	**Year ended 31 March 2007**	Year ended 31 March 2006
Options outstanding at the beginning of the year	**399,579**	556,029
Granted during the year	**101,000**	14,000
Forfeited during the year	**196,450**	62,074
Exercised during the year	**7,500**	108,376
Outstanding at the end of the year	**296,629**	399,579

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	**Year ended 31 March 2007**	Year ended 31 March 2006
Options outstanding at the beginning of the year	**725,000**	75,000
Granted during the year	**338,000**	723,000
Forfeited during the year	**261,000**	72,000
Exercised during the year	**-**	1,000
Outstanding at the end of the year	**802,000**	725,000

Stock Options Outstanding under the MosChip Stock Option Plan 2005-MI

Particulars	**Year ended 31 March 2007**	Year ended 31 March 2006
Options outstanding at the beginning of the year	**-**	-
Granted during the year	**462,000**	-
Forfeited during the year	**50,000**	-
Exercised during the year	**-**	-
Outstanding at the end of the year	**412,000**	-

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Stock Options Outstanding under the MosChip Stock Option Plan 2005-WOS

Particulars	**Year ended 31 March 2007**	Year ended 31 March 2006
Options outstanding at the beginning of the year	**-**	-
Granted during the year	**500,000**	-
Forfeited during the year	**-**	-
Exercised during the year	**-**	-
Outstanding at the end of the year	**500,000**	-

8. Earnings Per Share

The Company reports basic and diluted earnings per equity share in accordance with AS-20, "Earnings Per Share".

Basic earnings per equity share has been computed by dividing net loss after tax by the weighted average number of equity shares outstanding during the applicable periods. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the applicable periods. The reconciliation between basic and diluted earnings per equity share is as follows:

(Amount in Rupees except share data)

	Year ended 31 March 2007	Year ended 31 March 2006
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before extraordinary and prior period item	**(63,244,731)**	(65,598,342)
Net Profit/(Loss) for the period after extraordinary and prior period item	**(59,311,049)**	(65,615,961)
Weighted average number of equity shares	**43,382,564**	42,569,215
EPS before extraordinary and prior period item	**(1.46)**	(1.54)
EPS after extraordinary and prior period item	**(1.37)**	(1.54)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before extraordinary and prior period item	**(63,244,731)**	(65,598,342)
Net Profit/(Loss) for the period after extraordinary and prior period item	**(59,311,049)**	(65,615,961)
Adjustments	**Nil**	Nil
Diluted Net Profit/(Loss) for the period before extraordinary and prior period item	**(63,244,731)**	(65,598,342)
Diluted Net Profit/(Loss) for the period after extraordinary and prior period item	**(59,311,049)**	(65,615,961)
Weighted average number of equity shares	**43,382,564**	42,569,215
Diluted Potential weighted average number of equity shares	**Nil**	490
Weighted average number of diluted equity shares	**43,382,564**	42,569,705
EPS before extraordinary and prior period item	**(1.46)**	(1.54)
EPS after extraordinary and prior period item	**(1.37)**	(1.54)

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

9. Directors' Remuneration:

(Amounts in Rupees)

	Year ended 31 March 2007	Year ended 31 March 2006
1. Salary and allowances	**7,400,000**	5,332,064
2. No Provision for Commission to Whole Time Directors has been made in the books, as there is no profit in accordance with Section 198 of the Companies Act, 1956.		

10. Related Party disclosures

A. List of Related Parties

Description of Relationship	Name of Related Parties	Designation
Subsidiary	MosChip Semiconductor Technology, USA.	——-
Key Management Personnel	K. Ramachandra Reddy	Chairman & CEO
	C. Dayakar Reddy	Managing Director
	Vivek Bhargava (Vacated office on 31 August 2006)	CFO
Relative of Key Management Personnel	K. Meghna Reddy (Vacated office on 31 October 2006)	Executive

B. Transactions and balances due to / from related parties:

(Amounts in Rupees)

Nature of Transaction	Transactions during the year	Balance as on 31 March 2007
Transactions with Subsidiary		
Reimbursement of expenses / Payable	409,457	76,465
Reimbursement of expenses / Receivable	698,352	65,937
Interest received / Receivable	646,227	Nil
Sales / Receivable	44,873,261	21,279,036
Loan Refunded /Balance loan Receivable	17,848,000	Nil
Transactions with Key management personnel		
Remuneration to Chairman & CEO	3,700,000	Nil
Remuneration to Managing Director	3,700,000	Nil
Remuneration to Chief Financial Officer	735,140	Nil
Transactions with Relatives of Key management personnel		
Salary to Relative of Key management personnel	19,000	Nil

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

11. Additional information as required under Part II of Schedule VI of the Companies Act, 1956:

(Amounts in Rupees)

Particulars	**Year ended 31 March 2007 Rs.**	Year ended 31 March 2006 Rs.
A. C I F Value of Imports :		
Capital Goods	**10,465,823**	4,522,422
Computer Software	**Nil**	19,654,654
B. Expenditure in Foreign currency		
Software Charges	**1,575,288**	3,506,702
Traveling Expenses	**1,600,303**	2,810,438
Salaries	**Nil**	1,506,409
Professional Charges	**Nil**	4,439,250
Consumables	**2,408,544**	1,556,722
GDR Issue Expenses	**Nil**	10,473,960
Other Expenses	**572,058**	3,388,365
C. Earnings in Foreign Exchange - Sales Revenue	**52,091,226**	49,898,022

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

12. Segment Reporting

The Company recognizes ASIC design as its only primary segment since its operations during the year consists of ASIC design and sale/license of related intellectual property developed by it. Accordingly revenues from sale/license of software (designs/intellectual property) comprise the primary basis of segmental information set out in these Financial Statements. Secondary segmental reporting is performed on the basis of the geographical location of customers

a. Business Segment Information:

Particulars	**Year ended 31 March 2007 Rs.**	Year ended 31 March 2006 Rs.
Revenue		
Sales to external customers	**52,091,226**	49,898,022
Segment Profit / (loss)	**(73,380,339)**	(83,710,229)
Other Income	**10,464,811**	18,426,283
Profit / (loss) before Tax	**(62,915,528)**	(65,283,946)
Fringe Benefit Tax	**329,203**	314,396
Profit / (loss) after Tax before Extraordinary and Prior Period Item	**(63,244,731)**	(65,598,342)
Extraordinary and Prior Period Item	**(3,933,682**)	17,619
Net profit/(loss)	**(59,311,049)**	(65,615,961)
Other Segment Information		
Depreciation	**14,990,694**	27,873,292
Non-cash expenses other than depreciation	**3,018,288**	2,839,642
Particulars of Segment Assets and Liabilities		
Segment Assets	**106,437,904**	91,497,107
Investments	**415,579,087**	375,579,087
Cash and Bank Deposits	**84,853,823**	183,947,226
Other Assets	**1,577,885**	7,778,326
Total Assets	**608,448,699**	658,801,746
Segment Liabilities	**7,359,740**	6,243,236
Secured Loans	**Nil**	Nil
Total Liabilities	**7,359,740**	6,243,236

b. Geographic Segment Information:

Revenue		
North America	**51,176,326**	46,155,422
Others	**914,900**	3,742,600
Carrying amount of segment fixed assets		
India	**137,187,663**	126,091,523
North America	**21,119,596**	21,119,596
Additions to fixed assets		
India	**38,485,196**	29,374,594
North America	**Nil**	1,177,200

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

13. Amounts paid/payable to Auditors:

	Year ended 31 March 2007 Rs.	Year ended 31 March 2006 Rs.
As Auditors	**84,270**	77,140
For Tax Audit	**39,326**	27,550
For Certification	**67,347**	102,510
Total	**190,943**	207,200

14. Utilization of Global Depository Receipts (GDR) Proceeds

The following statement shows the total funds raised through issue of Global Depository Receipts, the amounts utilized up to 31 March 2007 and the balance available as on that date:

Particulars	Rs.	Rs.
Issue Proceeds		
- Share Capital	91,074,540	
- Share Premium	227,230,977	
Total Issue Proceeds		**318,305,517**
Utilization		
GDR Issue Expenses	14,090,368	
Equity Investment in MosChip USA	69,390,000	
Payments for purchase of fixed assets	69,009,290	
Working Capital /Business Operations	81,820,668	
Total Funds Utilized		**234,310,326**
Funds Available		
Deposits with Banks		
-In Current accounts	22,962,691	
-In Fixed Deposit accounts	21,032,500	
Investments with Mutual Funds	40,000,000	
Total Funds Available		**83,995,191**

15. Extraordinary and Prior Period Item

a. Due to a fire which occurred in part of the premises of the Company on 5 November 2006, certain fixed assets were destroyed. The Company has received an interim payment of Rs.80 lakhs (Insurance Policy on Replacement Cost basis) from Insurance Company against the replacement cost of assets that were destroyed . The Company has accordingly recognized the extraordinary income of Rs.18.21 lakhs that is over and above the written down value of destroyed assets and customs duty liability on account of debonding the destroyed assets. The Company has disclosed the amount as an ‘Extraordinary item’ in the profit and loss account.

b. Extraordinary and Prior Period item includes Rs. 22.33 lakhs on account of write back of excess depreciation provision on Computer Software pertaining to financial year 2005-2006.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

16. Fixed Assets discarded

Computer Software having Gross Block of Rs.12,755,325/- and Accumulated Depreciation of Rs.12,577,986/- as on 31.03.2007, were retired from active use as no further benefit was expected. Therefore, these were discarded at the end of the year. On discarding, Rs.177,339/- was debited to "Loss on Fixed Assets Sold/Discarded" account.

17. Quantitative Details

The Company is engaged in the development of computer software. The production and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and the information as required under Paragraphs 3 and 4C of Part II of Schedule VI of the Companies Act, 1956.

18. Regrouping/ Reclassification

The figures for previous year have been regrouped / reclassified wherever necessary.

Per and subject to our report of even date		For and on behalf of the Board of Directors
For **Gokhale & Co.,** Chartered Accountants		
Chandrashekhar Gokhale Partner	**C. Dayakar Reddy** Managing Director	**G. Prasad** Director
Place: Hyderabad Date : 28 June 2007	**A. Ramesh** Director	**Raj Kumar Singh** Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

		31 March 2007 Rs.	31 March 2006 Rs.
A.	**Cash Flow from Operating Activities**		
	Net Profit before Tax , Prior period and Extraordinary item	**(62,915,528)**	(65,283,946)
	Adjustments for:		
	Depreciation	**14,990,694**	27,873,292
	GDR issue expenses written off	**2,818,068**	2,818,069
	Interest Income	**(7,902,689)**	(10,560,831)
	Loss on fixed assets sold/discarded	**200,220**	1,517
	Profit on sale of investments	**(2,560,845)**	(5,113,349)
	Baddebts Written off	**228,500**	-
	Provision for Retirement Benefits	**(168,434)**	-
	Foreign Exchange adjustments	**220,481**	92,506
	Operating Profit before changes in working capital	**(55,089,533)**	(50,172,742)
	(Increase)/Decrease in Sundry Debtors	**(13,210,402)**	(2,772,664)
	(Increase)/Decrease in Loans and Advances	**19,965,583**	11,417,263
	Increase/(Decrease) in Current liabilities	**(7,986)**	(13,533,950)
	(Increase)/Decrease in Bank Guarantee Deposits with Bankers	**(94,721)**	(16,790)
	Cash generated from operations	**(48,437,059)**	(55,078,883)
	Income-tax paid	**1,305,663**	376,568
	Cash generated from operations before Extra Ordinary and Prior period items	**(49,742,722)**	(55,455,451)
	Extra Ordinary Income	**(8,000,000)**	17,619
	Net Cash from Operating Activities [A]	**(41,742,722)**	(55,473,070)
B.	**Cash flow from Investing Activities:**		
	Purchase of Fixed Assets	**(38,921,826)**	(30,551,794)
	Sale proceeds of Fixed Assets	**9,500**	133,600
	Purchase of Investments	**(271,500,000)**	(507,059,989)
	Interest received	**14,103,130**	3,064,739
	Sale of Investments	**234,060,845**	446,709,458
	Net Cash used for Investing Activities [B]	**(62,248,351)**	(87,703,986)
C.	**Cash flow from Financing Activities:**		
	Net proceeds from Issue of Share Capital	**99,305**	93,259,118
	Securities Premium	**274,125**	231,897,563
	Convertible Warrants	**4,650,000**	-
	Subsidy From State Govt	**-**	250,000
	GDR issue Expenses	**-**	(10,713,960)
	Net Cash from Financing Activities [C]	**5,023,430**	314,692,721

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	31 March 2007 Rs.	31 March 2006 Rs.
Net Increase/(Decrease) in cash & cash equivalents [A+B+C]	**(98,967,643)**	171,515,665
Cash and Cash equivalents at the beginning of the Period	**183,329,186**	11,906,027
Cash and Cash equivalents at the end of the period	**84,361,543**	183,421,692
Note: Cash and Cash equivalents at the beginning of the year		
Cash and Bank balances	**183,947,226**	12,507,277
Less: Deposits with Bankers towards Bank Guarantee	**618,040**	601,250
	183,329,186	11,906,027
Cash and Cash equivalents at the end of the year		
Cash and Bank balances	**84,853,823**	183,947,226
Add: Foreign Exchange adjustments	**220,481**	92,506
Less: Deposits with Bankers towards Bank Guarantee	**712,761**	618,040
	84,361,543	183,421,692

Per and subject to our report of even date

For **Gokhale & Co.,**
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhar Gokhale
Partner

Place: Hyderabad
Date : 28 June 2007

C. Dayakar Reddy
Managing Director

A. Ramesh
Director

G. Prasad
Director

Raj Kumar Singh
Company Secretary

PART - IV BALANCE SHEET ABSTRACT AND COMPANIES GENERAL BUSINESS PROFILE

1	**Registration Details**		
	Registration No.	:	32184
	State Code	:	01
	Balance Sheet Date	:	31 March 2007
2.	**Capital raised during the year (Amount in Rs. Thousands):**		
	Public Issue	:	Nil
	Right Issue	:	Nil
	Bonus Issue	:	Nil
	Private Issue	:	135
3	**Position of Mobilisation and development of Funds: (Amount in Rs. Thousands) :**		
	Total Liabilities	:	1,099,840
	Total Assets	:	1,099,840
	Source of Funds:		
	Paid up Capital	:	433,835
	Share Application Money	:	129
	Reserves and Surplus	:	665,875
	Secured Loans	:	Nil
	Unsecured Loans	:	Nil
	Application of Funds		
	Net Fixed Assets	:	73,278
	Investments	:	415,580
	Net Current Assets	:	112,231
	Misc. Expenditure	:	8,454
	Accumulated Losses	:	490,297
4	**Performance of Company (Amount in Rs. Thousands):**		
	Turnover	:	62,556
	Total Expenditure	:	125,472
	Profit/(Loss) Before Tax	:	-58,982
	Profit After Tax	:	-59,311
	Earnings Per Share in Rs. (Basic)	:	-1.46
	Dividend Rate %	:	Nil
5.	**Generic Names of Three Principal Products/Services of Company (As per Monetary terms):**		
	Item Code (ITC Code)	:	8491.90
	Product Description	:	DEVELOPMENT AND EXPORT OF SOFTWARE

For **Gokhale & Co.,**
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhar Gokhale
Partner

Place: Hyderabad
Date : 28 June 2007

C. Dayakar Reddy
Managing Director

A. Ramesh
Director

G. Prasad
Director

Raj Kumar Singh
Company Secretary

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMAPNY

1	Name of subsidiary	:	MosChip Semiconductor Technology, USA
2	Financial year ended	:	Year ended 31 March 2007
3	Holding Company's Interest	:	100%
4	Shares held by the holding company In the subsidiary's common stock	:	19,192,404 shares
5	The net aggregate of profits(losses) For the current financial year of the Subsidiary 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	:	US $ 580,646
6	The net aggregate of profits or losses for the previous financial years of the Subsidiary 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	:	US $ (163,664)

For **Gokhale & Co.,**
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhar Gokhale
Partner

C. Dayakar Reddy
Managing Director

G. Prasad
Director

Place: Hyderabad
Date : 28 June 2007

A. Ramesh
Director

Raj Kumar Singh
Company Secretary

DIRECTORS' REPORT

To
The Shareholders of MosChip Semiconductor Technology USA,

Your Directors present this report for the Financial Year 2006-2007.

Financial Results

(USD in Millions)

Particulars	**2006-07**	2005-06
Semiconductor Sales	**5.690**	4.604
Operating Profit/(Loss) before Depreciation	**0.782**	0.243
Less : Depreciation	**0.268**	0.212
Operating Profit/(Loss)	**0.514**	0.031
Add : Other Income	**0.067**	0.012
Net Profit/(Loss) Before Tax	**0.581**	0.043

Your Company achieved total revenues of USD 5.758 million for the financial year ended 31 March 2007, an increase of 25% over the year ended 31 March 2006.

The gross profit for the financial year ended 31 March 2007 was USD 3.128 million, an increase of 46% over the previous financial year.

The net profit for the financial year ended 31 March 2007 increased by 12.5 times over the previous financial year.

Outlook

The outlook for the global semiconductor industry remains positive. Sales from PCI products are expected to remain stable as the need for UARTs is stable and many motherboards have dropped the UART and Printer Port support. The planned launch of a PCI Express product in October 2007 is expected to consolidate our position in this segment.

The USB products have shown steady progress. There has been renewed demand for MCS 7830. MCS 7820 and MCS 7840 are expected to gain momentum. Another new product, MCS 8140, a highly integrated general purpose network processor that can be used in a variety of applications requiring network connectivity, was launched recently and has been well received by customers.

We expect to achieve a steady growth in our revenues during the current financial year.

Acknowledgements

Your Directors appreciate the support extended by the bankers, vendors, clients and employees.

For and on behalf of the Board of Directors

K.Ramachandra Reddy
CEO

23 July 2007

INDEPENDENT AUDITORS' REPORT

To the Stockholders of MosChip Semiconductor Technology, USA

We have audited the accompanying balance sheet of MosChip Semiconductor Technology, USA (a California corporation) as of 31 March 2007 and the related statements of net income, accumulated deficit, and cash flows for the year then ended. 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 the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MosChip Semiconductor Technology, USA as of 31 March 2007 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 Corporation

Bryce Forney, CA CPA License #76310

Pleasant Hill, California

15 May 2007

BALANCE SHEET

Amount in US $

	As At 31 March 2007
Assets	
Current assets	
Cash	1,480,967
Accounts receivable	984,077
Related party receivable	1,750
Inventory	460,019
Total current assets	2,926,813
Deposits	18,742
Property and equipment	
Furniture & Fixtures	7,000
Equipment	1,430,563
	1,437,563
Accumulated depreciation	(542,224)
	895,339
Total assets	3,840,894
Liabilities	
Current liabilities	
Accounts payable	432,092
Related party payable	489,001
Accrued liabilities	39,465
Total current liabilities	960,558
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	163,664
Total stockholders' equity	2,880,336
	3,840,894

STATEMENT OF NET INCOME AND ACCUMULATED DEFICIT

Amount in US $

	For the year ended 31 March 2007
Revenue	
Sales	5,690,581
Cost of goods sold	2,507,648
Shipping and handling	54,675
Gross Profit	3,128,258
Expenses	
Selling, general, and administrative	1,304,284
Research and development	1,027,843
Depreciation	267,947
Interest	14,182
Total operating expenses	2,614,256
Operating income	514,002
Other income/ (expense)	
Interest income	67,229
Income before income taxes	581,231
Current income tax	585
Net income	580,646
Accumulated deficit, 31 March 2006	(744,310)
Accumulated deficit, 31 March 2007	(163,664)

STATEMENT OF CASH FLOWS

Amount in US $

	For the year ended 31 March 2007
Cash flows from operating activities	
Net income	580,646
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	267,947
(Increase) decrease in:	
Accounts receivable	(428,302)
Inventory	(89,431)
Deposit	(14,800)
Notes receivable	(1,750)
Increase (decrease) in:	
Accounts payable	109,140
Accrued liabilities	30,113
Related party payable	392,251
Net cash provided by operating activities	845,814
Cash flows from investing activities	
Purchases of property and equipment	(770,340)
Net cash used by investing activities	(770,340)
Cash flows from financing activities	
Debt reduction	(400,000)
Net cash provided by financing activities	(400,000)
Net decrease in cash	(324,526)
Cash, 31 March 2006	1,805,493
Cash, 31 March 2007	1,480,967
Supplemental disclosures of cash flow information	
Interest paid	14,182
Income taxes paid	585

NOTES TO FINANCIAL STATEMENTS

A. Summary of significant accounting policies:

- Nature of operations - MosChip Semiconductor Technology, USA (the Corporation),a California corporation, is a manufacturer of communication chips primarily sold within Hong Kong and Taiwan.
- 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 Corporation at times during operations has cash deposits in excess of $100,000. The Federal Deposit Insurance Corporation (FDIC) insures only the first $100,000 of funds at member banks.
- 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 two, three, 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 annually 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.

B. Operating lease - The Corporation leases its facilities under an operating lease agreement with an unrelated party.The base rent is $4,200 per month, plus a tax and insurance premium of approximately $1,626 per month, for a total of approximately $5,826. The Corporation subleases a portion of its facilities to an unrelated party. The Corporation also leases a residential apartment for the temporary residence of visiting vendors. The apartment rent is $1,525 per month. Rental expense for the year ended 31 March 2007 is $76,853.

C. Related party account payable - The Corporation has an account payable to MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The account payable represents engineering services provided by MosChip Semiconductor Technology Limited, India less reimbursable costs paid on behalf of MosChip Semiconductor Technology Limited, India. The account payable does not bear interest and is payable on demand. The balance of the account payable at 31 March 2007 is $489,001.

D. Related party transactions - The Corporation conducts business with MosChip Semiconductor Technology Limited, India, the sole shareholder of the Corporation. The Corporation provides products to MosChip Semiconductor Technology Limited, India as a customer on terms equivalent with those of other customers. The Corporation also licenses ASIC software exclusively from MosChip Semiconductor Technology Limited, India as part of its production process on terms equivalent withthose of other vendors.

Transactions are as follows:

Revenue due to related party transactions	$ 185
Expenses due to related party transactions	$ 1,061,263
Related party account payable	$ 489,001

E. Concentration of credit risk - The Corporation had a concentration of credit risk with respect to revenue and accounts receivable from major customers as follows:

NOTES TO FINANCIAL STATEMENTS

Number of major customers	3
Percentage of revenue from major customers	89%
Percentage of accounts receivable from major customers	91%

F. Deferred taxes - Deferred tax assets and liabilities consist of the following:

Deferred tax asset	$ 173,223
Valuation allowance	$ (173,223)
Deferred tax liability	-
Net deferred tax asset (liability)	$ -

G. Litigation - In 2005 ZF Micro Devices, Inc. commenced an action against the Corporation and others, alleging that the Corporation misappropriated its trade secrets, engaged in unfair competition, and induced other defendants to breach their duties of confidentiality in connection with certain technology to which ZF Micro Devices, Inc. claims rights. The Corporation has hired an attorney to defend it and has filed an Answer denying the allegations and asserting various affirmative defenses. Management firmly believes there is no merit to the claim. The ultimate outcome of this litigation is unknown at this time and management is unable to estimate any possible loss resulting from the outcome of this litigation.

Blank Space

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: H.No. 8-2-685/1/1, ROAD: 12, BANJARA HILLS, HYDERABAD - 500034.

ATTENDANCE SLIP

(To be handed over at the entrance of the meeting hall)

I here by record my presence at the EIGHTH ANNUAL GENERAL MEETING of the Company held at the **Regd. Office of the Company at H. No. 8-2-685/1/1, Road No:12, Banjara Hills, Hyderabad - 500 034** on **Saturday the 29 September 2007 at 10:30 hrs.**

NAME OF THE SHAREHOLDER (IN BLOCK LETTERS) ____________________

NAME OF THE PROXY (IN BLOCK LETTERS) ____________________

FOLIO NO.__________ DP.Id. No. __________ Client Id. No.__________ No. of Shares held.__________

SIGNATURE OF SHAREHOLDER____________________

SIGNATURE OF PROXY (1)____________________ PROXY (2) ____________________

Note: Please complete the attendance slip and hand it over at the entrance of the meeting hall. Joint Shareholders desiring to attend the meeting may obtain additional Attendance Slips on request provided the Company receives such request before 22 September 2007. No duplicate Attandance Slip will be issued at the Meeting Hall. You are requested to bring your copy of the Annual Report to the Meeting. **Kindly note that gifts will not be distributed at Annual General Meeting.**

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: H.No. 8-2-685/1/1, ROAD: 12, BANJARA HILLS, HYDERABAD - 500034.

PROXY FORM

FOLIO NO.__________ DP.Id No.__________ Client Id. No.__________ No. of Shares Held __________

I/We ____________________ residing at ____________________ being a member/

member of MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED hereby appoint ____________________

residing of ____________________ singature of proxy) __________ failing him/her __________

resident of ____________________ (signature of proxy) __________ as my/our Proxy to attend and

vote for me / us on my / our behalf at the **EIGHTH ANNUAL GENERAL MEETING** of the Company to be held at the **Regd. Office of the Company at H. No. 8-2-685/1/1, Road No:12, Banjara Hills, Hyderabad - 500 034.** on **Saturday the 29 September 2007 at 10:30 hrs.**

Affix Revenue Stamp of 0.30P and sign across

Dated __________ September, 2007

Notes:

a) The form should be signed across the stamp as per signatures registered with the company.

b) The proxy form duly completed must be deposited at the Registered Office of the Company not less than 48 hrs before the time fixed for holding the aforesaid meeting.

c) The proxy need not be a member of the Company.

d) Un-filled proxy form is liable to be rejected.Kindly ensure all blanks of the form is filled-in before its submission.