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## 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

### Sathya Kalyanasundaram

Chief Financial Officer

### 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 Ninth Annual General Meeting of MosChip Semiconductor Technology Limited will be held on Friday, the 29 August 2008 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 2008 and the Balance Sheet as on that date and the report of Auditors thereon.
2. To appoint a Director in place of Mr. G. Prasad, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Dr. M. Rammohan Rao, 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.

### SPECIAL BUSINESS

#### MosChip Employee Stock Option Plan - 2008

5. To consider and, if thought fit, to pass with or without modifications the following resolution as a Special resolution:

"RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the Company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include a

Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time to the present and future employees of the company selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Employees" which expression shall, unless repugnant to the context, mean and include the permanent Employees of the Company including those on deputation at the instance of the Company excluding the employees belonging to promoter group) such number of options as the Board may decide which could give rise to the issue of equity shares of nominal face value not exceeding Rs.3,00,00,000/- (Rupees Three Crores only) divided into 30,00,000 (Thirty Lakhs Only) equity shares of the face value of Rs.10/- each.

"RESOLVED FURTHER THAT the equity shares issued upon exercise of the options shall rank pari-passu in all respects with the existing equity shares."

"RESOLVED FURTHER THAT a document titled "MOSCHIP STOCK OPTION PLAN - 2008" tabled at the meeting and initialed by the Chairman for identification be and is hereby approved."

"RESOLVED FURTHER THAT without prejudice to the generality of the above, but subject to the terms as approved by the members, the Board / Compensation Committee or any committee of the Board, be and is hereby authorised to implement the MOSCHIP STOCK OPTION PLAN - 2008 ("Plan"), (with or without modifications and variations) in such manner as the Board / Compensation Committee / any committee of the Board may determine."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto."

"RESOLVED FURTHER THAT the said equity shares may be allotted in accordance with the plan framed in that behalf, directly to such employees or through a Trust, which may be set up in any permissible manner or to the trust to be held on behalf of such employees

and that the plan may also envisage for providing any financial assistance to the employees or the Trust to enable the employees / Trust to acquire, purchase or subscribe to the said equity shares of the company.”

“RESOLVED FURTHER THAT the Board / Compensation Committee or any Committee of the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Plan and to the Shares (including to amend or modify any of the terms thereof) issued herein without being required to seek any further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by authority of this resolution.”

6. To consider and, if thought fit, to pass with or without modifications the following resolution as a Special resolution:

“RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (“SEBI Guidelines”) issued by the Securities and Exchange Board of India (“SEBI”) and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 (“the Act”) (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include a Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time Stock Options under the “**MosChip Employee Stock Option Plan - 2008**” (proposed in the resolution under item no.5 above) to the present and future employees of the Subsidiary companies selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred

to as “the Eligible Employees” (which expression shall, unless repugnant to the context, mean and include the permanent Employees of the Subsidiary Companies of the Company (including foreign nationals), whether working in India or out of India from time to time, including any Director of the Subsidiary Company, whether whole time or otherwise, as the Board may decide.

“RESOLVED FURTHER THAT the equity shares issued upon exercise of the options shall rank pari-passu in all respects with the existing equity shares.”

“RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto.”

**MosChip Employee Stock Option Plan - 2008 (ALR)**

7. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

“RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (“SEBI Guidelines”) issued by the Securities and Exchange Board of India (“SEBI”) and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 (“the Act”) (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include a Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time to the present and future employees of the Company

selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Employees" (which expression shall, unless repugnant to the context, mean and include the permanent Employees of the company including those on deputation at the instance of the company excluding the employees belonging to promoter group) such number of options as the Board may decide which could give rise to the issue of equity shares of nominal face value not exceeding Rs.1,00,00,000/- (Rupees One Crore only) divided into 10,00,000 (Ten Lakhs only) equity shares of the face value of Rs. 10/- each.

"RESOLVED FURTHER THAT the equity shares issued upon exercise of the options shall rank pari-passu in all respects with the existing equity shares."

"RESOLVED FURTHER THAT a document titled "MOSCHIP STOCK OPTION PLAN - 2008 (ALR)" tabled at the meeting and initialed by the Chairman for identification be and is hereby approved."

"RESOLVED FURTHER THAT without prejudice to the generality of the above, but subject to the terms as approved by the members, the Board / Compensation Committee or any committee of the Board, be and is hereby authorised to implement the "MOSCHIP STOCK OPTION PLAN - 2008 (ALR)" ("Plan"), (with or without modifications and variations) in such manner as the Board / Compensation Committee / any Committee of the Board may determine."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto."

"RESOLVED FURTHER THAT the said equity shares may be allotted in accordance with the plan framed in that behalf, directly to such employees or through a Trust, which may be set up in any permissible manner or to the trust to be held on behalf of such employees and that the plan may also envisage for providing any financial assistance to the employees or the Trust to enable the employees / Trust to acquire, purchase or subscribe to the said equity shares of the company."

"RESOLVED FURTHER THAT the Board /

Compensation Committee or any Committee of the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Plan and to the Shares (including to amend or modify any of the terms thereof) issued herein without being required to seek any further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by authority of this resolution."

8. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

"RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include a Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time Stock Options under the "**MosChip Employee Stock Option Plan - 2008 (ALR)**" (out of the quantum proposed in the resolution under Item no.7 above) to the present and future employees of the Subsidiary companies selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Employees" (which expression shall, unless repugnant to the context, mean and include the permanent Employees of the Subsidiary Companies of the Company (including foreign nationals) whether working in India or out of India from time to time, including any Director of the Subsidiary

Company, whether whole time or otherwise, as the Board may decide.

"RESOLVED FURTHER THAT the equity shares issued upon exercise of the options shall rank pari-passu in all respects with the existing equity shares."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto."

**MosChip Employee Stock Option Plan - 2008 (DIRECTOR)**

9. To consider and, if thought fit, to pass with or without modifications the following resolution as a Special resolution:

"RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include a Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time to the present and future Directors of the company selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Directors" which expression shall, unless repugnant to the context, mean and include the non promoter directors such number of options as

the Board may decide which could give rise to the issue of equity shares of nominal face value not exceeding Rs. 1,00,00,000/- (Rupees One Crore only) divided into 10,00,000 (Ten Lakhs Only) equity shares of the face value of Rs.10/- each.

"RESOLVED FURTHER THAT the equity shares issued upon exercise of the options shall rank pari-passu in all respects with the existing equity shares."

"RESOLVED FURTHER THAT a document titled "MOSCHIP STOCK OPTION PLAN - 2008 (DIRECTOR)" tabled at the meeting and initialed by the Chairman for identification be and is hereby approved."

"RESOLVED FURTHER THAT without prejudice to the generality of the above, but subject to the terms as approved by the members, the Board / Compensation Committee or any committee of the Board, be and is hereby authorised to implement the MOSCHIP STOCK OPTION PLAN - 2008(DIRECTOR) ("Plan"), (with or without modifications and variations) in such manner as the Board / Compensation Committee / any committee of the Board may determine."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto."

"RESOLVED FURTHER THAT the said equity shares may be allotted in accordance with the plan framed in that behalf, directly to such Directors or through a Trust, which may be set up in any permissible manner or to the trust to be held on behalf of such Directors and that the plan may also envisage for providing any financial assistance to the Directors or the Trust to enable the Directors / Trust to acquire, purchase or subscribe to the said equity shares of the company."

"RESOLVED FURTHER THAT the Board / Compensation Committee or any Committee of the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Plan and to the Shares (including to amend or modify any of the terms thereof) issued herein without being required to seek any further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by authority of this resolution."



10. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

Amendment of MOSCHIP STOCK OPTION PLAN - 2001 to incorporate a Surrender Clause.

"RESOLVED THAT in accordance with the provisions contained in the Article of Associates and sections 79 A, 81 (1A) and all the other applicable provisions of the Companies Act, 1956 ("the Act") and the provisions contained in the Securities and Exchanged Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") (including any statutory modification(s) or re-enhancement of the Act or the Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the board of directors of the company (here in after referred to as "the board" which term be deemed to include any committees thereof), consent of the members be any is hereby accorded for the insertion of the following clause for surrender of options by the eligible employees who have been granted shares under the MOSCHIP STOCK OPTION PLAN - 2001 scheme of the company.

16. Surrender of Options:

1. An employee may surrender his vested / unvested options at any time during his employment with the company.
2. Any employee willing to surrender his options shall communicate the same to the Administrator in the prescribed Form A. Thereafter the surrendered options shall expire and stand terminated with effect from the date of surrender of options. Such options will be added back to the pool for future grants.

11. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

Amendment of MOSCHIP STOCK OPTION PLAN - 2002 to incorporate a Surrender Clause.

"RESOLVED THAT in accordance with the provisions contained in the Article of Associates and sections 79 A, 81 (1A) and all the other applicable provisions of the Companies Act, 1956 ("the Act") and the provisions contained in the Securities and Exchanged Board of

India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") (including any statutory modification(s) of the Act or the Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the board of directors of the company (here in after referred to as "the board" which term be deemed to include any committees thereof), consent of the members be any is hereby accorded for the insertion of the following clause for surrender of options by the eligible employees who have been granted shares under the MOSCHIP STOCK OPTION PLAN - 2002 scheme of the company.

14. Surrender of Options:

1. An employee may surrender his vested / unvested options at any time during his employment with the company.
2. Any employee willing to surrender his options shall communicate the same to the Administrator in the prescribed Form A. Thereafter the surrendered options shall expire and stand terminated with effect from the date of surrender of options. Such options will be added back to the pool for future grants.

12. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

Amendment of MOSCHIP STOCK OPTION PLAN - 2004 to incorporate a Surrender Clause.

"RESOLVED THAT in accordance with the provisions contained in the Article of Associates and sections 79 A, 81 (1A) and all the other applicable provisions of the Companies Act, 1956 ("the Act") and the provisions contained in the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") (including any statutory modification (s) of the Act or the Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the board of directors of the company (here in after referred to as "the board" which term be deemed to include any committees thereof), consent of the members be any is

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hereby accorded for the insertion of the following clause for surrender of options by the eligible employees who have been granted shares under the MOSCHIP STOCK OPTION PLAN - 2004 scheme of the company.

16. Surrender of Options:

1. An employee may surrender his vested / unvested options at any time during his employment with the company.
2. Any employee willing to surrender his options shall communicate the same to the Administrator in the prescribed Form A. Thereafter the surrendered options shall expire and stand terminated with effect from the date of surrender of options. Such options will be added back to the pool for future grants.

13. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

Amendment of MOSCHIP STOCK OPTION PLAN - 2005(MI) to incorporate a Surrender Clause.

"RESOLVED THAT in accordance with the provisions contained in the Article of Associates and sections 79 A, 81 (1A) and all the other applicable provisions of the Companies Act, 1956 ("the Act") and the provisions contained in the Securities and Exchanged Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") (including any statutory modification(s) of the Act or the Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the board of directors of the company (here in after referred to as "the board" which term be deemed to include any committees thereof), consent of the members be any is hereby accorded for the insertion of the following clause for surrender of options by the eligible employees who have been granted shares under the MOSCHIP STOCK OPTION PLAN - 2005(MI) scheme of the company.

16. Surrender of Options:

1. An employee may surrender his vested / unvested options at any time during his employment with the company.
2. Any employee willing to surrender his options shall communicate the same to the Administrator in the prescribed Form A. Thereafter the surrendered

options shall expire and stand terminated with effect from the date of surrender of options. Such options will be added back to the pool for future grants.

14. To consider and, if thought fit, to pass with or without modifications the following resolution as Special resolution:

Amendment of MOSCHIP STOCK OPTION PLAN - 2005(WOS) to incorporate a Surrender Clause.

"RESOLVED THAT in accordance with the provisions contained in the Article of Associates and sections 79 A, 81 (1A) and all the other applicable provisions of the Companies Act, 1956 ("the Act") and the provisions contained in the Securities and Exchanged Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") (including any statutory modification(s) of the Act or the Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the board of directors of the company (here in after referred to as "the board" which term be deemed to include any committees thereof), consent of the members be any is hereby accorded for the insertion of the following clause for surrender of options by the eligible employees who have been granted shares under the MOSCHIP STOCK OPTION PLAN - 2005(WOS) scheme of the company.

16. Surrender of Options:

1. An employee may surrender his vested / unvested options at any time during his employment with the company.
2. Any employee willing to surrender his options shall communicate the same to the Administrator in the prescribed Form A. Thereafter the surrendered options shall expire and stand terminated with effect from the date of surrender of options. Such options will be added back to the pool for future grants.

By Order of the Board of Directors

Hyderabad  
29 July 2008

**Raj Kumar Singh**  
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 22-08-2008 to 29-08-2008 (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 meeting, 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**

**Mr. G. Prasad**

Mr. Gajjala Prasad is a Chartered Accountant by profession. He is a partner of Nataraja Iyer and Co., Chartered Accountants based at Hyderabad. Mr. Prasad has got over

30 years of professional experience in audit and taxation matters of medium and large Corporates.

**Dr. M. Rammohan Rao**

Dr. M. Rammohan Rao is the Dean of Indian School of Business at Hyderabad. He was Professor Emeritus in the area of Quantitative Methods and Information Systems, Indian Institute of Management Bangalore (IIMB) till June 30, 2004. He was the Director of IIMB during the period March 1997 to May 2002. Dr. Rao holds a Ph.D. and M.S. in Industrial Administration from Carnegie Mellon University, Master of Engineering (Industrial) from Cornell University, and Bachelor of Engineering (Mechanical) from University of Madras. Prior to getting his Ph.D., he worked as an Associate Research Engineer at U.S. Steel Applied Research Lab in Pittsburgh, USA. Dr. Rao was a Research Fellow at the Centre for Operations Research and Econometrics at Leuven, Belgium and also at the International Institute of Management, Berlin. He has taught at the University of Rochester, University of Tennessee, and was a Tenured Professor at New York University. Dr. Rao has published over 85 articles in various professional journals and has been a consultant to several companies. His teaching and research interests are in the area of Optimization and Financial Derivatives. Dr. Rao was the President of the Operations Research Society of India. Dr. Rao is the recipient of the Fulkerson Prize awarded to him in August 2000. The prize is sponsored by the Mathematical Programming Society and the American Mathematical Society. The Indian Institute of Materials Management has conferred on him the Chief Executive of the Year 2000-2001 Award for his outstanding achievements and significant contribution to the Materials Management Profession. He has been awarded the 2002 Institute of Marketing & Management Award for Excellence as Top Management Educator. He is a member of the Advisory Council of Citigroup and Cornucopia Private Limited. He is a member of the Board in Satyam Computer Services Limited, Krishna Fabrications Private Limited, Mazagaon Docks Limited and Bharat Electronics Limited. He is the Chairman of the Board of APIDC Venture Capital Limited. He is the Chairman of Audit Committee of Satyam Computer Services Limited and Bharat Electronics Limited.

By Order of the Board of Directors

Hyderabad  
29 July 2008

**Raj Kumar Singh**  
Company Secretary

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**EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**
**Item No. 5 & 6: MosChip Employee Stock Option Plan - 2008:**

In order to reward, motivate and retain the key performers and also to tap the talented personnel in the field of Semiconductor, the business of the Company and its Subsidiaries, the Board of Directors at its meeting held on 29 July 2008, have approved and proposed, for the approval of the shareholders, issue of Stock Options to the eligible employees of the company and its Subsidiaries under new Plan.

"The MosChip Stock Option Plan - 2008" would be in conformity with the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, (herein after referred to as "SEBI Guidelines") laid down by the Securities and Exchange Board of India (SEBI) in force and shall adhere to any amendments to the said Guidelines made from time to time.

The object of the plan is to attract, retain and encourage the talented personnel and to enable such personnel to participate in the long-term growth of the company and its Subsidiary Companies and to seek the convergence of interest of shareholders and eligible employees such that eligible employees consciously work towards value creation for the shareholders.

The salient features of the employee stock option scheme is as under:

**a) TOTAL NUMBER OF OPTIONS / SHARES TO BE ISSUED UNDER THE PLAN:**

Total of 30,00,000 options for the employees of the Company and the Subsidiary Companies would be available for being granted under the plan.

**b) IDENTIFICATION OF CLASSES OF EMPLOYEES ENTITLED TO PARTICIPATE IN THE PLAN:**

The present and future employees of the company and its Subsidiary Companies (including foreign nationals), but excluding the employees who belong to the promoter or promoter group, will be entitled to participate in the Plan subject to the applicable regulatory requirements and guidelines issued by SEBI in force.

**c) REQUIREMENT OF VESTING AND PERIOD OF VESTING:**

Except in case of demise or permanent incapacity, continuation of the employee in the service of the company and its Subsidiaries shall be a primary requirement of the vesting. The Compensation committee shall formulate the other requirements of vesting, which may, inter alia, include efficiency or productivity criteria. The vesting period may vary from allottee to allottee based on various attending circumstances, and shall be at the exclusive discretion of the Compensation Committee, but shall never be less than the minimum vesting period stipulated, if any, under provisions of any attending statutory enactments.

The vesting period shall commence after twelve months from the date of grant of the option. The stock options could be granted at a time or in tranches and could vest in tranches as per the discretion of the Board / Compensation Committee of the Board.

In the event of death of any employee while in employment, all the options granted to him till such date shall vest in the legal heirs or nominees of the deceased employee, and in the event of permanent incapacity while in employment, all the options granted to him as on the date of permanent incapacitation shall vest in him on that date.

**d) MAXIMUM PERIOD WITHIN WHICH THE OPTIONS SHALL BE VESTED:**

The maximum period within the options to be vested shall be four years from the date of grant.

**e) EXERCISE PRICE / PRICING FORMULA:**

The Exercise Price for each option shall be determined by the Administrator at the time of grant of options based on the market price as per the SEBI Guidelines from time to time or such other price as it may deem fit, from time to time. The market price means, "the closing price of the shares of the Company on a day preceding the date of grant of options on Bombay Stock Exchange Limited."

Provided that in no case shall the per share Exercise price of an option be less than the face value on the date of grant.

**f) EXERCISE PERIOD AND THE PROCESS OF EXERCISE:**

The employees of the Company and its Subsidiaries shall exercise their options within 5 years from the date of vesting or such other period fixed by the Compensation Committee.

The employees of the Company and its Subsidiaries can exercise the options by submitting an application in the prescribed format after which the shares would be allotted.

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Options not exercised within the specified period will lapse.

**g) APPRAISAL PROCESS FOR DETERMINING THE ELIGIBILITY:**

The Compensation Committee will evolve the criteria for the eligibility of an employee of the Company and its Subsidiaries for granting options under the plan, which inter alia, includes length of service, grade, performance, merit, future potential contribution, leadership qualities, qualification and conduct of the employee of the Company and its Subsidiaries.

**h) MAXIMUM NUMBER OF OPTIONS TO BE ISSUED PER EMPLOYEE AND IN AGGREGATE:**

No employee shall, during any fiscal year of the Company and its Subsidiaries, be granted Options equal to or exceeding 1 % of the issued equity share capital of the company and its subsidiaries existing at the time of grant of option. The overall options to be granted in this plan shall be limited to 30 lakhs equity shares. All lapsed options i.e., unexercised options due to resignations etc., are eligible for fresh grants.

**i) CONFIRMATION OF ACCOUNTING POLICIES STIPULATED IN THE GUIDELINES:**

The Company shall conform to the accounting policies stipulated by the SEBI under SEBI Guidelines.

**j) METHOD OF VALUATION:**

The Company shall use the Intrinsic value method to value its options. The difference between the employee compensation cost computed under intrinsic value method and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Director's Report and the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Director's Report.

Pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Companies Act, 1956 and as per the SEBI guidelines, consent of members, by way of Special Resolutions is required for the issue of shares to employees of the Company and its subsidiaries, who may or may not be existing shareholders. Hence, the Board of Directors recommends the resolution for approval of Members.

None of the Directors are interested or concerned in the above resolution.

**Item No. 7 & 8: MosChip Employee Stock Option Plan - 2008 (ALR):**

In order to reward, motivate and retain the key performers

and also to tap the talented personnel in the field of Semiconductor, the business of the Company and its Subsidiaries, the Board of Directors at its meeting held on 29 July 2008, have approved and proposed, for the approval of the shareholders, issue of Stock Options to the eligible employees of the company and its Subsidiaries under new Plan.

"MosChip Stock Option Plan - 2008 (ALR)" would be in conformity with the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, (herein after referred to as "SEBI Guidelines") laid down by the Securities and Exchange Board of India (SEBI) in force and shall adhere to any amendments to the said Guidelines made from time to time.

The object of the plan is to attract, retain and encourage the talented personnel and to enable such personnel to participate in the long-term growth of the company and its Subsidiary Companies through an accelerated stock option plan and to seek the convergence of interest of shareholders and eligible employees such that eligible employees consciously work towards value creation for the shareholders.

The salient features of the employee stock option scheme is as under:

**a) TOTAL NUMBER OF OPTIONS / SHARES TO BE ISSUED UNDER THE PLAN:**

Total of 10,00,000 options for the employees of the Company and the Subsidiary Companies would be available for being granted under the plan.

**b) IDENTIFICATION OF CLASSES OF EMPLOYEES ENTITLED TO PARTICIPATE IN THE PLAN:**

The present and future employees of the company and its Subsidiary Companies (including foreign nationals), but excluding the employees who belong to the promoter or promoter group, will be entitled to participate in the Plan subject to the applicable regulatory requirements and guidelines issued by SEBI in force.

**c) REQUIREMENT OF VESTING AND PERIOD OF VESTING:**

Except in case of demise or permanent incapacity, continuation of the employee in the service of the company and its Subsidiaries shall be a primary requirement of the vesting. The Compensation committee shall formulate the other requirements of vesting, which may, inter alia, include

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efficiency or productivity criteria. The vesting period may vary from allottee to allottee based on various attending circumstances, and shall be at the exclusive discretion of the Compensation Committee, but shall never be less than the minimum vesting period stipulated, if any, under provisions of any attending statutory enactments.

The vesting period shall commence after twelve months from the date of grant of the option. The stock options could be granted at a time or in tranches and could vest in tranches as per the discretion of the Board / Compensation Committee of the Board.

In the event of death of any employee while in employment, all the options granted to him till such date shall vest in the legal heirs or nominees of the deceased employee, and in the event of permanent incapacity while in employment, all the options granted to him as on the date of permanent incapacitation shall vest in him on that date.

**d) MAXIMUM PERIOD WITHIN WHICH THE OPTIONS SHALL BE VESTED:**

The maximum period within the options to be vested shall be two years from the date of grant.

**e) EXERCISE PRICE / PRICING FORMULA:**

The Exercise Price for each option shall be determined by the Administrator at the time of grant of options based on the market price as per the SEBI Guidelines from time to time or such other price as it may deem fit, from time to time. The market price means, "the closing price of the shares of the Company on a day preceding the date of grant of options on Bombay Stock Exchange Limited."

Provided that in no case shall the per share Exercise price of an option be less than the face value on the date of grant.

**f) EXERCISE PERIOD AND THE PROCESS OF EXERCISE:**

The employees of the Company and its Subsidiaries shall exercise their options within 5 years from the date of vesting or such other period fixed by the Compensation Committee.

The employees of the Company and its Subsidiaries can exercise the options by submitting an application in the prescribed format after which the shares would be allotted. Options not exercised within the specified period will lapse.

**g) APPRAISAL PROCESS FOR DETERMINING THE ELIGIBILITY:**

The Compensation Committee will evolve the criteria for the

eligibility of an employee of the Company and its Subsidiaries for granting options under the plan, which inter alia, includes length of service, grade, performance, merit, future potential contribution, leadership qualities, qualification and conduct of the employee of the Company and its Subsidiaries.

**h) MAXIMUM NUMBER OF OPTIONS TO BE ISSUED PER EMPLOYEE AND IN AGGREGATE**

No employee shall, during any fiscal year of the Company and its Subsidiaries, be granted Options equal to or exceeding 1 % of the issued equity share capital of the company and its subsidiaries existing at the time of grant of option. The overall options to be granted in this plan shall be limited to 10 lakh equity shares. All lapsed options i.e., unexercised options due to resignations etc., are eligible for fresh grants.

**i) CONFIRMATION OF ACCOUNTING POLICIES STIPULATED IN THE GUIDELINES**

The Company shall conform to the accounting policies stipulated by the SEBI under SEBI Guidelines,

**j) METHOD OF VALUATION:**

The Company shall use the Intrinsic value method to value its options. The difference between the employee compensation cost computed under intrinsic value method and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Director's Report and the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Director's Report.

Pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Companies Act, 1956 and as per the SEBI guidelines, consent of members, by way of Special Resolutions is required for the issue of shares to employees, who may or may not be existing shareholders. Hence, the Board of Directors recommends the resolution for approval of Members.

None of the Directors are interested or concerned in the above resolution.

**Item No. 9: MosChip Stock Option Plan - 2008 (DIRECTOR)**

In order to fairly compensate the Directors of the Company, the Board of Directors at its meeting held on 29 July 2008, have approved and proposed, for the approval of the shareholders, issue of Stock Options to the eligible employees of the company under a new Plan.

"The MosChip Stock Option Plan - 2008 (DIRECTOR)"

would be in conformity with the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, laid down by the Securities and Exchange Board of India (SEBI) in force and shall adhere to any amendments to the said Guidelines made from time to time.

The object of the plan is to fairly compensate the Directors of the Company to enable them to take fair decisions to benefit the long-term growth of the company and to seek the convergence of interest of shareholders such that the Directors consciously work towards value creation for the shareholders.

The salient features of the Plan are mentioned below:

**a) TOTAL NUMBER OF OPTIONS / SHARES TO BE ISSUED UNDER THE PLAN:**

The maximum number of shares which shall be subject to options under the Scheme shall be 10,00,000 equity shares of face value of Rs.10/- each.

**b) IDENTIFICATION OF DIRECTORS ENTITLED TO PARTICIPATE IN THE PLAN:**

All the Directors of the Company excluding Promoter Directors will be eligible for options in this plan.

Provided that, Directors who are either promoters or belong to the promoter group as defined in the SEBI Guidelines shall not be eligible under this Plan.

Further, a director who either by himself or through his relative or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the company shall not be eligible to participate in the plan.

**c) REQUIREMENT OF VESTING AND PERIOD OF VESTING:**

Except in case of demise or permanent incapacity, continuation as a director of the company shall be a primary requirement of the vesting. The vesting period may vary from allottee to allottee based on various attending circumstances, and shall be at the exclusive discretion of the Compensation Committee, but shall never be less than the minimum vesting period stipulated, if any, under provisions of any attending statutory enactments.

The vesting period shall commence after twelve months from the date of grant of the option. The stock options could be granted at a time or in tranches and could vest in tranches as per the discretion of the Board / Compensation Committee of the Board.

In the event of death of any director, all the options granted to him till such date shall vest in the legal heirs or nominees of the deceased director, and in the event of permanent incapacity, all the options granted to him as on the date of permanent incapacitation shall vest in him on that date.

**d) MAXIMUM PERIOD WITHIN WHICH THE OPTIONS SHALL BE VESTED:**

The maximum period within which the options to be vested shall be two years from the date of grant.

**e) EXERCISE PRICE / PRICING FORMULA:**

The Exercise Price for each option shall be determined by the Administrator at the time of grant of options based on the market price as per the SEBI Guidelines from time to time or such other price as it may deem fit, from time to time. The market price means, "the closing price of the shares of the Company on a day preceding the date of grant of options on Bombay Stock Exchange Limited."

Provided that in no case shall the per share Exercise price of an option be less than the face value on the date of grant.

**f) EXERCISE PERIOD AND THE PROCESS OF EXERCISE:**

The Exercise period will commence from the date of vesting and will expire within 5 years.

**g) APPRAISAL PROCESS FOR DETERMINING THE ELIGIBILITY:**

The eligibility would depend on the period for which the office of Director is held by him and such other factors as the Compensation Committee may think appropriate. The Compensation Committee at its discretion may extend the benefits of the Scheme to a new entrant also.

**h) MAXIMUM NUMBER OF OPTIONS TO BE ISSUED PER DIRECTOR AND IN AGGREGATE**

No Director shall be granted, in any fiscal year of the company, options not equal or exceeding 1% of the existing issued equity share capital of the company. However, in case the number of options granted to any director exceeds 1% of the issued capital of the company, then approval of shareholders by way of separate resolution in the general meeting shall be obtained by the company. The overall options to be granted in this plan shall be limited to 10 lakhs equity shares. All lapsed options i.e., unexercised options due to resignations etc., are eligible for fresh grants.

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i) CONFIRMATION OF ACCOUNTING POLICIES STIPULATED IN THE GUIDELINES

The company shall conform to the accounting policies stipulated by the SEBI guidelines or any other appropriate authority in force and as are applicable to the account of options granted under this Plan.

j) METHOD OF VALUATION:

The Company shall use the Intrinsic value method to value its options. The difference between the employee compensation cost computed under intrinsic value method and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Director's Report and the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Director's Report.

Pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Companies Act, 1956 and as per the SEBI guidelines, consent of members, by way of Special Resolutions is required for the issue of shares to directors, who may or may not be existing shareholders. Hence, the Board of Directors recommends the resolution for approval of Members.

None of the Directors are interested or concerned in the above resolution except to the extent of options that may be granted to them.

**Item No. 10 - 14:**

1. The Company has been granting stock options to eligible employees under the MosChip Stock Option Plan - 2001, 2002, 2004, 2005(MI) and 2005(WOS) plans. Majority of these options were issued at significantly higher prices when compared to the current market price. Due to the recent fall in the market price of the equity shares of the Company, the stock options issued to a large number of employees have become unattractive. The Company has received requests from employees for surrendering the unexercised portion of the stock options.
2. The MosChip Stock Option Plan - 2001, 2002, 2004, 2005(MI) and 2005(WOS) Plan do not have a provision for voluntarily surrender of the options granted to the employees.
3. As per the SEBI Guidelines, a separate resolution is required to be passed if there is a variation in the terms of the Employee Stock Option Scheme.
4. None of the directors are interested in this resolution.
5. Your directors, therefore, recommend the resolution 10-14 to be passed as special resolution by the members.

By Order of the Board of Directors

Hyderabad  
29 July 2008

**Raj Kumar Singh**  
Company Secretary



**DIRECTORS' REPORT**

To the Members,

Your Directors have pleasure in presenting the Ninth Annual Report together with the Audited Accounts (including consolidated accounts) of the company for the year ended 31 March 2008.

**Financial Results**

(Rs. In Lakhs)

	Year ended 31 March 2008		Year ended 31 March 2007	
	Standalone	Consolidated	Standalone	Consolidated
Total Income	672.68	2438.05	625.56	2773.92
Operating Profit before Depreciation & Tax	-811.65	-758.13	-479.25	-84.47
Less: Depreciation	128.62	340.93	149.91	270.74
Profit before Tax	-940.27	-1099.06	-629.16	-355.21
Less: provision for FBT	4.34	4.34	3.29	3.29
Profit after Tax before extraordinary and prior period item	-944.61	-1103.40	-632.45	-358.50
Less: Extraordinary and prior period item	-38.87	-38.87	-39.34	-39.34
Profit after tax after extraordinary and prior period item	-905.74	-1064.53	-593.11	-319.16
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	-2.18	-2.54	-1.46	-0.83
Diluted	-2.18	-2.54	-1.46	-0.83
After extraordinary and prior period item				
Basic	-2.09	-2.45	-1.37	-0.74
Diluted	-2.09	-2.45	-1.37	-0.74

**Operations**

The consolidated income of the Company was Rs.24.38 crores and the consolidated loss was Rs. 10.65 crores.

**MosChip India**

The Company's products, which were launched by the US subsidiary during the last two years, are under volume production and have generated royalty income during the year under review. The Company has also earned revenue from development of Intellectual Property and development of custom products for its customers.

**MosChip USA, a wholly owned subsidiary**

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded nearly 3.3 percent growth in revenue from USD 5.758 million in 2006-07 to USD 5.95 million during the year ended March 31, 2008.

**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 2007-08:

Particulars	No. of Shares	Price Per Share
On exercise of Employee Stock Options	2,000	26.75
Total	2,000	

In view of the above allotments, the total outstanding paid-up equity share capital of the company has increased from 4,33,83,517 equity shares from the previous year 2006-07 to 4,33,85,517 equity shares as on date.

**Marketing and distribution**

The manufacturing and sale of products developed by the company is handled by MosChip USA, which has a worldwide distribution network for its semiconductor products. The company has signed up an additional distributor in Japan and a new distributor in Korea in 2008 to enable wider marketing and sales penetration in these markets. In addition the company is leveraging its presence in Hong Kong with closer access to key markets in China, Taiwan and South East Asia. Investment in sales personnel in Taiwan as well as planned investment in Field Application resources in China will enable the company to grow the existing customer base in its key Asian markets by improving on its top class applications and system design support. A broad product portfolio enables access to the fast growing consumer electronics and home networking markets. Ongoing Europe and US based design-wins are contributing to increased customer awareness.

**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. G. Prasad and Dr. M. Rammohan Rao, 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 Boards clarification**

Pursuant to the provisions of Sub-Section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 30th June 2008 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.113,928,333/- of MosChip Semiconductor Technology,

USA, at book value, as on 31st March 2008 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 31st March 2008 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**

In terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, the particulars of employees are set out in Annexure to this Report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act read with the Clause 32 of the Listing Agreement, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

**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 – C 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 2007-08 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.

**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  
29 July 2008

**C. Dayakar Reddy**  
Managing Director

**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 2007-08 are as under.

	Plan 2001	Plan 2002	Plan 2004	Plan 2005 (MI)	Plan 2005 (WOS)
(a) Options granted during the year	87,000	329,000	523,000	118,000	400,000
(b) The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue.				
(c) Options Vested	65,875	142,629	177,000	91,500	18,750
(d) Options exercised	Nil	2,000	Nil	Nil	Nil
(e) The total number of shares arising as a result of exercise of options:	Nil	2,000	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)	16,000	122,500	464,000	46,000	425,000
(g) Variation of terms of options	Nil	Nil	Nil	Nil	Nil
(h) Money realized by exercise of options	Nil	53,500	Nil	Nil	Nil
(i) Total number of options in force	170,875	501,129	861,000	484,000	475,000
(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) Bhanu Nanduri (an employee of Wholly Owned Subsidiary)		Nil	Nil	Nil	400,000
2) Sameer Sanyal (an employee of Wholly Owned Subsidiary)		Nil	75,000	Nil	Nil
(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.-2.09			

(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 would still be nil. The Basic and Diluted Earnings Per Share would thus not change as a result.

(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. 30.50  
 Weighted average fair value of options: Rs. 13.22

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:

- Risk free interest rate was assumed between 7.2903% and 8.3500% depending on the timing of grant and vesting period of the option, for the options granted during the year.
- The expected life of the option is taken as the vesting period of the option.
- 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.

Date of Grant	Std Deviation	Date of Grant	Std Deviation	Date of Grant	Std Deviation
21/08/2002	92.67%	23/09/2005	59.77%	29/03/2007	52.26%
31/10/2002	91.48%	24/01/2006	58.53%	25/04/2007	51.82%
29/01/2003	80.30%	10/04/2006	63.62%	28/06/2007	47.56%
27/06/2003	67.24%	18/05/2006	64.05%	31/07/2007	47.22%
19/02/2004	76.37%	30/06/2006	65.85%	26/10/2007	52.93%
26/08/2004	73.93%	04/09/2006	59.50%	26/11/2007	54.10%
18/11/2004	69.61%	27/10/2006	53.03%	30/01/2008	64.70%
31/01/2005	65.11%	06/11/2006	53.64%	24/03/2008	67.64%
30/06/2005	53.39%	18/01/2007	56.30%		

- Since the company has been making losses, no dividend payment were assumed.
- 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, Rs.24.80 on 29 March 2007, Rs.24.90 on 25 April 2007, Rs.22.85 on 28 June 2007, Rs.21.25 on 31 July 2007, Rs.23.35 on 26 October 2007, Rs.24.40 on 26 November 2007, Rs.25.95 on 30 January 2008 and Rs.13.45 on 24 March 2008 being the previous days closing price preceding the date of grant of options.

For and on behalf of the Board of Directors

Hyderabad  
 29 July 2008

**C. Dayakar Reddy**  
 Managing Director

**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 three 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 has also come back and worked very well. This product is shipping in volume & few new customers have completed evaluation and will be placing orders soon.

**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 2008	Year ended 31 March 2007
Foreign Exchange earnings	61,477,432	52,091,226
Foreign Exchange outgo	16,361,313	17,354,571

For and on behalf of the Board of Directors

Hyderabad  
29 July 2008

**C. Dayakar Reddy**  
Managing Director



**ANNEXURE 'C'**

**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 the first publicly traded fabless semiconductor Company from India with specific focus on cutting edge products. MosChip leverages its engineering skills to develop custom products and IP development.

As a fabless semiconductor Company, MosChip is focused on product design while manufacturing of products is outsourced. The product design and ASIC software development is generally done by MosChip, but is also jointly developed with MosChip USA at certain times. The software is licensed to/used by MosChip USA, which subcontracts the manufacturing to ASIC Service Providers and sells the chip through its distribution networks 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. 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 stood at \$256 billion in 2007, an increase of 3 percent from the \$248 billion reported in 2006.

The major drivers for semiconductor technology continue to be consumer electronics, such as cell phones, personal computers and HDTV sets. According to JP Morgan, personal computers still account for approximately 40% of all semiconductor consumption – shipments of such computers grew by approximately 14% and are expected to grow by another 13% in 2008. In addition, shipments of mobile handsets grew to 1.2 billion units in 2007 with an expected increase of 10% - 15% in 2008. The SIA also added that MP3/PMP player unit sales continue to grow at nearly 20 percent a year. LCD TV units grew by more than 50 percent, and digital camera units grew by 20 percent.

Average selling prices (ASPs) for all products have continued their downward trends. Lesser revenue growth among semiconductor manufacturers is aptly demonstrated by the pricing pressures faced due to the arrivals of faster, smaller and cheaper semiconductors every year. The speed of an average desktop has improved dramatically while the costs of the desktop have continued to dip. According to the SIA, rapidly declining prices coupled with increases in performance and functionality provides consumers with additional computing power at lower prices resulting in higher productivity.

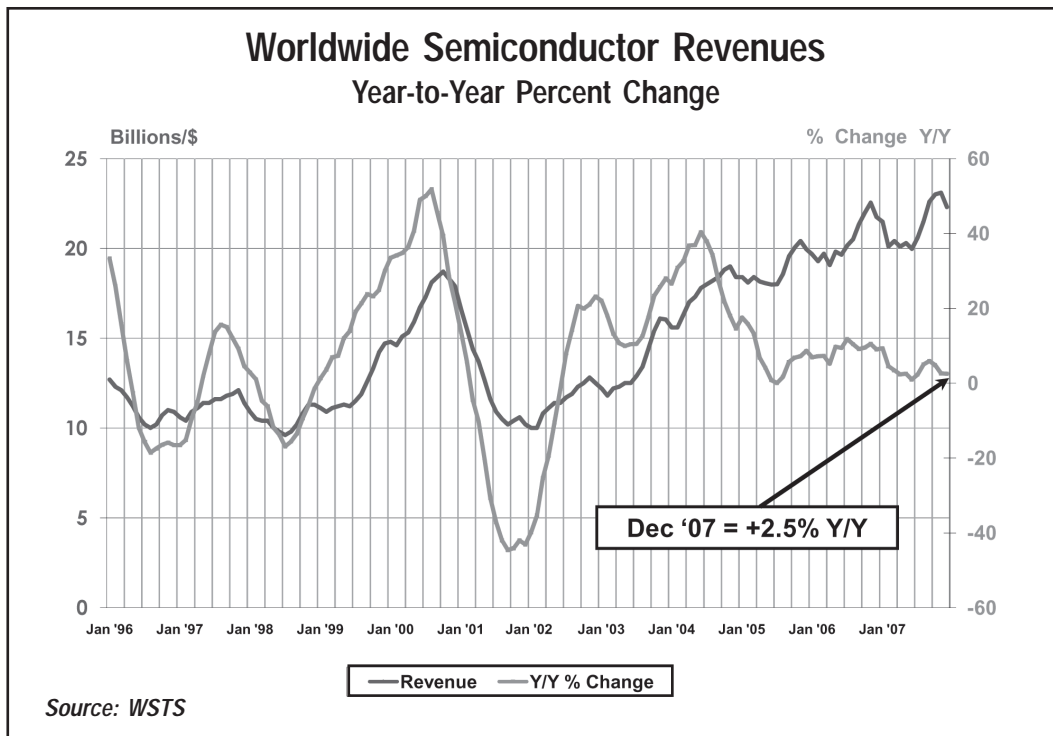
**Growth**

World Semiconductor Trade Statistics (WSTS) projects that in the long run the Asia Pacific region continues to be the fastest growing geographical area, due to the dynamics of both strongly rising domestic demand and the continuing manufacturing shift to this region. Year on year growth of semiconductor revenues continue to maintain the trends of the recent past as highlighted in the charts below.

Spring 2008	Amounts in US\$M				Year on Year Growth in %			
	2007	2008	2009	2010	2007	2008	2009	2010
Americas	42,336	43,151	45,559	49,612	-5.7	1.9	5.6	8.9
Europe	40,971	42,225	44,157	47,308	2.7	3.1	4.6	7.1
Japan	48,845	52,456	54,328	58,203	5.2	7.4	3.6	7.1
Asia Pacific	123,492	129,864	139,196	153,059	6.0	5.2	7.2	10.0
<b>Total World - \$M</b>	<b>255,645</b>	<b>267,696</b>	<b>283,239</b>	<b>308,182</b>	<b>3.2</b>	<b>4.7</b>	<b>5.8</b>	<b>8.8</b>
Discrete Semiconductors	16,809	17,761	18,254	19,582	1.3	5.7	2.8	7.3
Optoelectronics	15,901	17,551	19,079	21,134	-2.3	10.4	8.7	10.8
Sensors	5,126	5,066	5,430	5,834	-4.0	-1.2	7.2	7.4
Integrated Circuits	217,810	227,317	240,476	261,632	4.0	4.4	5.8	8.8
Analog	36,453	37,140	38,914	42,212	-1.3	1.9	4.8	8.5
Micro	56,211	59,241	63,439	68,014	4.2	5.4	7.1	7.2
Logic	67,292	76,285	78,178	83,139	11.9	13.4	2.5	6.3
Memory	57,854	54,651	59,946	68,267	-1.1	-5.5	9.7	13.9
<b>Total Products - \$M</b>	<b>255,645</b>	<b>267,696</b>	<b>283,239</b>	<b>308,182</b>	<b>3.2</b>	<b>4.7</b>	<b>5.8</b>	<b>8.8</b>

Source: WSTS

Note: Numbers in the table are rounded to whole millions of dollars, which may cause totals by region and totals by product group to differ slightly



**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.

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 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.

As compared to PCI, the bandwidth of a PCI Express link can be scaled by adding signal pairs to form multiple lanes between the two devices. The specification supports x1, x4, x8, and x16 lane widths and stripes the byte data across the links accordingly. Once the two agents at each end of the PCI Express link negotiate lane widths and frequency of operation, the striped data bytes are transmitted with 8b/10b encoding.

Future implementations of PCI Express will raise the channel communication frequency to even higher levels. For example, a second generation of PCI Express could increase the communication frequency by a factor of 2 or more.

Because it is a point-to-point architecture, the entire bandwidth of each PCI Express bus is dedicated to the device at the end of the link. Multiple PCI Express devices can be active without interfering with each other.

In contrast to PCI, PCI Express has minimal sideband signals and the clocks and addressing information are embedded in the data. Because PCI Express is a serial technology with few sideband signals, it provides a very high bandwidth per I/O connector pin compared to PCI. This is designed to result in more efficient, smaller, and cheaper connectors.

**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 highend 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.

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.

USB saw continued worldwide success in 2007, with more than 2.6 billion devices shipping in the PC, PC peripheral, consumer electronics (CE), communications, and automotive segments. USB's star is expected to maintain its rise, with close to 4 billion devices expected to ship in 2012. 2008 is expected to be a pivotal marker of USB's achievements as well, as the number of high-speed USB-enabled device shipments will surpass those of low- and full-speed devices. The CE segment has been a strong driver of this success, with continued adoption of USB in digital cameras, portable digital media players, and digital televisions.

The major buzz in the USB ecosystem is the impending arrival of the SuperSpeed USB specification. The USB 3.0 version of the specification, when implemented, is anticipated to deliver actual speeds of approximately 3Gbps, a rate significantly higher than that of high-speed USB. This speed is expected to be harnessed primarily by data- and media-intensive peripherals and consumer electronics, such as external hard-disk drives, portable digital media players, and digital cameras, as well as the PCs that these devices connect to. Products incorporating SuperSpeed USB are expected to arrive on the market in late 2009, and shipments of SuperSpeed USB-enabled products are expected to multiply twenty-fold by 2012.

#### **Opportunities**

##### **PCI Express**

The emergence of the PCI Express is throwing up new market opportunities as the market migrates to the new standard. Moschip released a industry first PCI Express part in Jan 2008 which was well received with design wins, Going forward MosChip is working on a couple of PCI Express products that is expected to be released late 2008.

##### **USB**

This is a fast growing market with tremendous opportunity as every PC that was shipped in 2006 had USB connectivity. The Consumer Electronics market has also adopted USB as a key connectivity option, this presents additional opportunities with USB bridging solutions. USB On-the-go is also emerging to meet the challenge for connecting devices together without the PC.

##### **Network Processors**

Moschip Network Appliance Processors are targeted at the Consumer NAS, Small Office Home Office (SOHO), Point of Sales (POS), Digital Signage and Docking station markets. These high end, integrated ASICs can be designed as Host Processors as well as Co-processors depending on the application. These powerful ASICs showcase Gigabit Ethernet, PCI express, USB and display processing support.

##### **AV processors**

Audio Video processors, a new product line aimed the high end consumer electronics market. The targeted applications are Digital Camcorders, Digital Video Recorders with HDD, Digital TVs with built in recorders and Video Surveillance equipment. These high end ASICs can be used a Host Processors or co-processors to enable secure Audio/Video content management and storage. Key features supported enable high definition video stream management, content protection and digital rights management.

#### **Outsourcing**

American and European companies, in a bid to cut 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.

#### **Outlook**

The paragraphs below summarize the management views on the outlook for the current financial year -

##### **Strong customer demand for products and emergence of new technology**

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 products later this year will help us to retain our market position in this segment.

##### **Healthy organic growth potential**

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.

MosChip expects to achieve at least 30% growth in the consolidated revenues during the current year. In an effort to achieve profitability by the end of the 2008-09 financial year, we have invested in senior engineering and sales personnel to design and market the latest in a series of cutting edge products. The engineering capability of MosChip is extremely mature and repeatedly proven by delivering many products into production without any rework. The team has also handled projects that have more than 6 million transistors in a single chip & delivered along with it software that is several millions of bytes.

##### **Identification of new opportunities for inorganic growth**

MosChip is also looking to grow inorganically by identifying acquisition opportunities and tie ups for licensing arrangements that can complement the product and technology mix that

MosChip offers, specifically in areas of ASIC design, software drivers and custom application development.

MosChip has been approached by multiple companies seeking the participation in growth of a leader in the fabless semiconductor space. MosChip's core engineering capabilities, combined with the existing customer bases of these organizations will open a plethora of opportunities to market MosChip products to a larger customer group. In addition, the complementary engineering and marketing efforts will lead to greater penetration into newer markets.

MosChip is evaluating opportunities for the right fit in the engineering, product, and licensing and services areas. We expect to close at least 2-3 arrangements in the current financial year resulting in a positive impact on the bottom line by the end of the year. In addition, the revenue streams of the acquired/licensed products will be fully integrated into the financials for the following years, thereby offering additional opportunities for inorganic growth and capital investment in emerging semiconductor technologies.

**Outsourcing opportunities in the engineering design area may offer key revenue potential.**

The market for outsourcing of design and engineering services to other providers is in the nascent space. MosChip believes that this offers the opportunity to enter into key arrangements with large organizations to design and develop products and software for semiconductor and related products. MosChip's excellence and leadership in the engineering services area offers a key competitive advantage in addition to lower cost structures as compared to larger organizations.

**Risks and concerns**

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

**Semiconductor products are difficult to manufacture without defects.**

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 design or manufacturing difficulties, identifying quality problems can occur only by analyzing 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.

**Future success depends upon the continued services of key personnel, many of whom would be difficult to replace.**

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.

**Long product development process and sales cycle result in incurrence of expenses up front before revenues from the investment are realized.**

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.

**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.

**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 led 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 130 employees. All the employees are located at Hyderabad, India. Of these 110 are technical employees and the rest are marketing and support staff.

MosChip firmly 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.



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## 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 2,000 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 43,383,517 shares during the previous year to 43,385,517 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*

Last year 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. The warrants issued are convertible into Equity Shares within a period of 18 months from the date of allotment of warrants. The Convertible warrants lapsed on 21 June 2008.

##### *Share Premium*

The share premium account increased by Rs. 33,500 during the financial year upon allotment of 2,000 equity shares of Rs. 10 each as per details provided elsewhere in the Directors' Report.

#### 4. Fixed Assets

During the year under review, fixed assets having Gross Block of Rs.9,451,272/- and Accumulated Depreciation of Rs.6,986,158/- as on 31.03.2008, were retired from active use as no further benefit was expected. More details are given in Note 13.2.14 of Notes on Accounts

Company has also eliminated fixed assets amounting to Rs. 2,650,833/- from Gross block and Rs. 1,497,298/- from Accumulated depreciation on account of assets that were destroyed by fire. More details are given in Note 13.2.13 of Notes on Accounts.

Additions to fixed assets increased by 3.5% during the financial year.

#### 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 in 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. 889,185/- are given as security for issue of bank guarantees.

#### 8. Sundry Debtors

The entire amount of Sundry Debtors of Rs. 11,875,155/- is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA.

#### 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. 2,835,000 is the balance amount of interest free loan given to the Trust as a part of the ESOP scheme of the Company.

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**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. 829,994/- represents all current liabilities.

**11. Provisions**

Provision of Rs. 4,223,589 includes provision for Leave Encashment amounting to Rs. 2,401,061 and Rs. 1,788,532 towards Gratuity and Rs. 33,996 towards Fringe benefits 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. 3,414,185 (previous year Rs. 3,237,761) for the year ended 31 March 2008.

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. 61,477,432 as against Rs. 52,091,226 during the previous year. Of this Rs. 56,550,221 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. 145,967,891 as against Rs. 110,480,871 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. 439,350/-.

**18. Loss for the year**

The loss for the year after tax but before extraordinary and prior period item is Rs. 94,461,673 compared to the previous year loss of Rs. 63,244,731.

The loss for the year after tax after extraordinary and prior period item is Rs. 90,574,236 compared to the previous year loss of Rs. 59,311,049.

**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. - 2.18 before taking into consideration extraordinary and prior period item and Rs. -2.09 after taking into consideration extraordinary and prior period item. More details on computation of EPS are given in Note 13.2.5 of Notes on Accounts.

**20. Foreign Exchange Difference**

An amount of Rs. 197,618 has been considered as unrealized loss and an amount of Rs. 4,101,170 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 13.2.7 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 2008 amounted to Rs. 9,629,505. The

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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 13.2.4 of Notes on Accounts and Annexure - A to Directors Report.

For and on behalf of the Board of Directors

Hyderabad  
29 July 2008

**C. Dayakar Reddy**  
Managing Director

## 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 2008****Table - 1**

Category	No. of Directors
Executive Directors (Promoter Directors )	02
Non-Executive Independent Directors	04
Total	06

**b) Attendance of each director at the Board meetings held during the year 2007-08 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	06	04	Yes
Mr. C. Dayakar Reddy	06	05	Yes
Mr. Alur Ramesh	06	05	No
Prof. Vijaya Chandru	06	01	No
Mr. G. Prasad	06	06	Yes
Dr. M. Rammohan Rao	06	01	No

**c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2007-08****Table - 3**

Name of the Director	Board		Committee	
	Chairman	Member	Chairman	Member
Mr. K. Ramachandra Reddy	Nil	Nil	Nil	Nil
Mr. C. Dayakar Reddy	Nil	01	Nil	Nil
Mr. Alur Ramesh	Nil	12	Nil	01
Prof. Vijaya Chandru	01	04	Nil	Nil
Dr. M. Rammohan Rao	01	05	02	04
Mr. G. Prasad	Nil	Nil	Nil	Nil

- d) No. of Board Meetings held and dates on which they were held during 2007-08

Table - 4

Quarter	No. of Meetings	Dates on which held
Apr - June	02	24 April 2007, 28 June 2007
Jul - Sep	02	31 July 2007, 24 August 2007
Oct - Dec	01	26 October 2007
Jan - Mar	01	30 January 2008
<b>Total</b>	<b>06</b>	

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 re-constituted on 30 June 2003 and 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 Agreements entered with The Stock Exchange, Mumbai and The Hyderabad 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 2007-08

Five meetings of the Audit Committee were held during the year 2007-08. Mr. G. Prasad and Mr. A. Ramesh attended all five meetings. Dr. M. Rammohan Rao and Prof. Vijaya Chandru attended one meeting each.

### 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 re-constituted on 30 June 2003 and 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 2007-08

No meeting was held during the year 2007-08 as no remuneration packages were contemplated for Non-Executive directors during the year and there was no revision of remuneration package of Executive directors.

Besides, sitting fee for attending Board and Committee meetings, no special compensation to Non-Executive directors are envisaged during the year 2007-08.

## CORPORATE GOVERNANCE REPORT

### d) Details of remuneration to all the directors

Table - 5

Sl. No.	Name	Designation	Salary in Rs.	Performance Incentives Rs.	Commission in Rs.	Total In Rs.	Notice period	Sevearance Fee in Rs.	Sitting Fee in Rs.	Stock Options
01	K.Ramachandra Reddy	Chairman	4,550,000	Nil	Nil	4,550,000	NA	NA	Nil	Nil
02	C. Dayakar Reddy	M.D.	4,550,000	Nil	Nil	4,550,000	NA	NA	Nil	Nil
03	A. Ramesh	Director	NA	NA	NA	NA	NA	NA	39,000	Nil
04	G. Prasad	Director	NA	NA	NA	NA	NA	NA	42,000	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	8,000	Nil

### 5. Shareholders / Investors Grievance Committee

This Committee was re-constituted on 30 June 2003 and 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 2007-08

During the year 2007-08, in total 02 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 transfer was pending.

### Details of Shareholders complaints during the year 2007-08

Table - 6

Sl.No.	Nature of Complaint/Request	Received	Disposed	Pending
01	Change / Correction of address	02	02	Nil
02	Loss/Issue of duplicate Share Certificate	Nil	Nil	Nil
03	Non-receipt of Share Certificate	Nil	Nil	Nil
04	Others	Nil	Nil	Nil
	TOTAL	02	02	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
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.
Eighth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad - 500 034	29 September 2007 at 10.30 hrs.

**7. Disclosures**

- a) During the year 2007-08 the Company has entered into related party transactions worth Rs.64,240,963/- (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/Financial Express/Financial Chronicle in English and Andhra Bhoomi/Andhra Prabha 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 made available on the Company's website [www.moschip.com](http://www.moschip.com).
- Management's Discussion and Analysis forms part of the Annual Report.

**9. General Shareholder Information**

- AGM - Date, Time and Venue : 29 August 2008, 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 2008-09

First Quarter Results	:	29 July 2008
Second Quarter & Half-yearly Results	:	Between 20 & 31 October 2008
Third Quarter Results	:	Between 20 & 31 January 2009
Fourth Quarter & Annual Results (Audited in lieu of un-audited results)	:	Between 20 & 30 June 2009



## CORPORATE GOVERNANCE REPORT

- Date of Book Closure : 22 to 29 August, 2008 (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.

Equity Shares of the Company were de-listed from the Hyderabad Stock Exchange Limited with effect from 17th December 2004.

- Stock Code  
The Stock Exchange, Mumbai : 532407 / MOSCHIP SEMI
- Market Price data : High / Low during each month in the Financial Year 2007-08 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 07	27.25	24.00	14383.72	12425.52
May 07	25.70	22.90	14576.37	13554.34
Jun 07	23.90	20.95	14683.36	13946.99
Jul 07	26.80	21.15	15868.85	14638.88
Aug 07	23.45	19.00	15542.40	13779.88
Sep 07	29.85	20.50	17361.47	15323.05
Oct 07	30.30	20.30	20238.16	17144.58
Nov 07	29.45	20.80	20204.20	18182.83
Dec 07	40.00	24.10	20498.11	18886.40
Jan 08	55.55	23.75	21206.77	15332.42
Feb 08	27.30	20.85	18895.34	16457.74
Mar 08	22.20	13.00	17227.56	14677.24

- 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 2008 is shown in Table-9.  
Distribution of Shareholding as on 31 March 2008:

Table - 9

Sl.No	Category		No. of members		No. of shares		% of equity	
	From	To	Physical	Electronic	Physical	Electronic	Physical	Electronic
1	1	500	84	24422	14868	5579950	0.03	12.86
2	501	1000	04	4280	3400	3761846	0.01	8.67
3	1001	2000	03	2004	5300	3227785	0.01	7.44
4	2001	3000	05	660	13000	1741744	0.03	4.01
5	3001	4000	00	266	0	975431	0.00	2.25
6	4001	5000	04	309	20000	1492485	0.05	3.44
7	5001	10000	02	328	14590	2487985	0.03	5.73
8	10001	Above	20	292	3388211	20658922	7.81	47.62
	Total		122	32561	3459369	39926148	7.97	92.03
<b>Grand Total</b>			<b>32683</b>		<b>43385517</b>		<b>100.00</b>	

● **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 2008, 92.03% of the outstanding equity shares of the company are in electronic form.

The Company's shares are being traded in the Stock Exchange, Mumbai (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 / Warrants / Convertible Debentures during the year 2007-08. 1,500,000 Convertible Warrants issued by the Company on 21 December 2006 lapsed on 21 June 2008.

● **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 - 10

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: +91-2334-9439, Email: [investorrelations@moschip.com](mailto: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](mailto:sta@sathguru.com) Web: [www.sathguru.com](http://www.sathguru.com)

For and on behalf of the Board of Directors

Hyderabad  
29 July 2008

**C. Dayakar Reddy**  
Managing Director

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**ANNEXURE 'D'**

**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 2008, 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 2008, 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 LD Reddy & Co.,**  
Company Secretaries

Hyderabad  
18 July 2008

**(L. Dhanamjaya Reddy)**  
Proprietor  
C.P. No. 3752

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**ANNEXURE 'E'**

**CEO'S DECLARATION**

The Members,

MosChip Semiconductor Technology Limited.

I, K. Ramachandra Reddy, CEO and Chairman 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  
29 July 2008

**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 Semiconductor Technology, USA as at 31 March 2008 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. 113,928,333/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2008 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 2008;
- b) the Consolidated Profit & Loss Account for the year ended 31 March 2008 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 2008.

For Gokhale & Co  
Chartered Accountants

**Chandrashekhar Gokhale**

Place : Hyderabad  
Date : 30 June 2008

Partner  
Membership No 23839

**CONSOLIDATED BALANCE SHEET  
AS AT 31 MARCH 2008**

	Schedule No.	As at 31 March 2008 Rs.	As at 31 March 2007 Rs.
<b>SOURCES OF FUNDS:</b>			
<b>SHAREHOLDERS' FUNDS:</b>			
Share Capital	1	433,855,170	433,835,170
Share Application Money		129,415	129,415
Reserves and Surplus	2	650,879,147	661,733,201
Total		<u>1,084,863,732</u>	<u>1,095,697,786</u>
<b>APPLICATION OF FUNDS:</b>			
<b>FIXED ASSETS:</b>			
Gross Block	3	229,731,556	208,289,259
Less: Depreciation		<u>132,397,394</u>	<u>109,133,452</u>
Net Block		97,334,162	99,155,807
Capital work in progress		13,905,150	13,204,255
Goodwill		235,817,338	235,817,338
<b>INVESTMENTS</b>	4	58,764,550	91,241,173
<b>NET CURRENT ASSETS:</b>			
<b>CURRENT ASSETS, LOANS AND ADVANCES:</b>			
Interest accrued on Deposits		57,973	1,577,885
Inventories	5	19,708,486	20,079,818
Sundry Debtors	6	42,736,662	42,955,035
Cash and Bank Balances	7	23,331,792	96,947,371
Loans and Advances	8	<u>17,063,338</u>	<u>14,007,919</u>
<b>GROSS CURRENT ASSETS</b>		<b>102,898,251</b>	<b>175,568,028</b>
Less: Current Liabilities and provisions	9	<u>36,196,349</u>	<u>27,994,021</u>
<b>NET CURRENT ASSETS</b>		<b>66,701,902</b>	<b>147,574,007</b>
<b>MISCELLANEOUS EXPENDITURE</b>	10	<b>5,636,163</b>	<b>8,454,231</b>
<b>PROFIT AND LOSS ACCOUNT</b>		<b>606,704,467</b>	<b>500,250,975</b>
<b>NOTES TO ACCOUNTS</b>	15		
Total		<u>1,084,863,732</u>	<u>1,095,697,786</u>

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

**Chandrashekar Gokhale**  
Partner  
Membership No 23839

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

Place: Hyderabad  
Date : 30 June 2008

**Raj Kumar Singh**  
Company Secretary

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2008**

	Schedule No.	For the year ended 31 March 2008 Rs.	For the year ended 31 March 2007 Rs.
<b>I INCOME:</b>			
Sales Revenue	11	236,164,257	264,538,243
Other Income	12	7,641,478	12,854,217
		<u>243,805,735</u>	<u>277,392,460</u>
<b>II EXPENDITURE:</b>			
Material Cost, Software and Product Development Expenses	13	217,636,432	200,945,161
Sales, General and Administration Expenses	14	99,517,246	84,894,251
Depreciation		34,093,876	27,074,010
		<u>351,247,554</u>	<u>312,913,422</u>
<b>III Profit/(Loss) Before Tax</b>		(107,441,819)	(35,520,962)
Less: Fringe Benefit Tax		433,996	329,203
<b>Profit/(Loss) After Tax Before Exceptional Item</b>		(107,875,815)	(35,850,165)
Less: Fringe Exceptional Item*		2,465,114	0
<b>Profit/(Loss) After Tax After Exceptional Item Before Extraordinary and Prior Period Item</b>		(110,340,929)	(35,850,165)
Less: Extra Ordinary and Prior Period Items@		(3,887,437)	(3,933,682)
<b>Profit/(Loss) After Tax After Extraordinary and Prior Period Item</b>		(106,453,492)	(31,916,483)
Add: Balance brought forward from previous year		(500,250,975)	(468,334,492)
<b>Balance carried to Balance Sheet</b>		<u>(606,704,467)</u>	<u>(500,250,975)</u>
<b>IV Earnings Per Share (EPS)</b>			
Equity Share of face value Rs.10/- each			
<b>Before Extraordinary and Prior Period Items</b>			
Basic		(2.54)	(0.83)
Diluted		(2.54)	(0.83)
<b>After Extraordinary and Prior Period Items</b>			
Basic		(2.45)	(0.74)
Diluted		(2.45)	(0.74)
<b>Number of shares used in computing EPS</b>			
Basic		43,383,856	43,382,564
Diluted		43,383,856	43,382,564

Ref Note 15.2.2 & 15.2.3 of 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

**Chandrashekhhar Gokhale**

Partner

Membership No 23839

Place: Hyderabad

Date : 30 June 2008

**K. Ramachandra Reddy**

Chairman & CEO

**C. Dayakar Reddy**

Managing Director

**Raj Kumar Singh**

Company Secretary



**SCHEDULES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

	As At 31 March 2008 Rs.	As At 31 March 2007 Rs.
<b>SCHEDULE 1</b>		
SHARE CAPITAL:		
<u>Authorised:</u>		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	<u>550,000,000</u>	<u>550,000,000</u>
<u>Issued:</u>		
45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	<u>451,005,890</u>	<u>451,005,890</u>
<u>Subscribed and Paid-up:</u>		
43,385,517 (Previous Year 43,383,517) equity shares of Rs.10/- each	<u>433,855,170</u>	<u>433,835,170</u>
(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 Veracity Technologies, Inc with the Company)		
<b>SCHEDULE 2</b>		
RESERVES AND SURPLUS:		
Foreign Currency Translation Reserve	(15,029,773)	(4,142,219)
Capital Reserve	1,250,000	1,250,000
Convertible Warrants	4,650,000	4,650,000
Securities Premium		
Opening Balance	659,975,420	659,701,295
Additions	<u>33,500</u>	<u>274,125</u>
Closing Balance	<u>660,008,920</u>	<u>659,975,420</u>
	<u>650,879,147</u>	<u>661,733,201</u>

**SCHEDULES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

		(Amount in Rupees)										
		GROSS BLOCK					DEPRECIATION					NET BLOCK
S. No.	Description	Balance at 01.04.07	Additions during the year	Adjustments during the year@	Deletions during the year*	Balance as at 31.03.08	For the year	Adjustments during the year**	Deletions during the year*	Balance as at 31.03.08	Balance as at 31.03.08	Balance as at 31.03.07
1.	Computers	36,732,836	1,574,977	(761,843)	8,182,670	29,363,300	5,092,890	(207,978)	7,125,620	13,939,286	15,424,014	20,552,842
2.	Electrical Installation	4,027,542	53,086	-	1,781,953	2,298,675	164,572	137	549,113	471,910	1,826,765	3,171,228
3.	Plant and Machinery	29,516,128	225,377	(743,677)	853,386	28,144,442	458,378	(244,248)	270,741	22,320,258	5,824,184	7,139,259
4.	Software	57,317,004	6,322,612	603,220	-	64,242,836	5,338,236	103,152	-	47,063,993	17,178,843	15,649,399
5.	Furniture and Fittings	10,223,332	128,392	(246,234)	970,692	9,134,798	728,612	(89,025)	378,882	3,214,320	5,920,478	7,269,717
6.	Office Equipment	6,505,813	1,163,035	(228,510)	443,129	6,997,209	420,049	(258,946)	211,007	3,059,111	3,938,098	3,396,798
7.	Vehicles	84,257	-	-	-	84,257	8,535	-	-	46,910	37,347	45,882
8.	Lab Equipment	13,530,028	1,601,939	1,192,004	258,104	16,065,867	728,996	369,976	56,158	1,370,872	14,694,995	13,192,970
9.	Leasehold Improvements	3,262,699	675,982	-	-	3,938,681	824,205	-	-	1,155,355	2,783,326	2,931,549
10.	Mask Tools	47,089,620	26,185,640	(3,813,769)	-	69,461,491	20,329,403	(1,902,481)	-	39,755,379	29,706,112	25,761,163
	TOTAL	208,289,259	37,931,040	(3,998,809)	12,489,934	229,731,556	34,093,876	(2,238,413)	8,591,521	132,397,394	97,334,162	99,155,807
	Previous Year	194,602,631	67,613,649	(468,190)	53,458,831	208,289,259	27,074,010	(2,889,111)	48,002,115	109,133,452	99,155,807	-

Note:

@ Adjustments for the year includes Rs. 3,998,809/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

\*\* Adjustments for the year includes Rs. 2,096,403/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

\* Change in classification of asset

Refer Note 15.2.2, 15.2.3 & 15.2.9 of Notes to Accounts

**SCHEDULES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

	As At 31 March 2008 Rs.	As At 31 March 2007 Rs.
<b>SCHEDULE 4</b>		
INVESTMENTS:		
<b>Current</b>		
<b>Non-Trade, Unquoted, At Cost</b>		
Nil (Previous Year 2715362.161) Units of Rs.10/- each in Principal Cash Management Fund	-	40,000,000
45943.020 (Previous Year Nil) Units of Rs. 1000/- in Reliance Mutul Fund	50,000,000	0
SVB Securities Liquid Fund	<u>8,764,550</u>	<u>51,241,173</u>
	<u>58,764,550</u>	<u>91,241,173</u>
<b>SCHEDULE 5</b>		
INVENTORIES:		
Finished Goods	<u>19,708,486</u>	<u>20,079,818</u>
	<u>19,708,486</u>	<u>20,079,818</u>
<b>SCHEDULE 6</b>		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	-	-
Others	<u>42,736,662</u>	<u>42,955,035</u>
	<u>42,736,662</u>	<u>42,955,035</u>
<b>SCHEDULE 7</b>		
CASH AND BANK BALANCES:		
Cash on hand	66,766	48,877
Balance with Scheduled Banks		
- In Current accounts	3,383,230	62,870,978
- In fixed deposit accounts (Rs.889,185/- (Previous Year Rs.712,761/-) pledged towards margin on Bank Guarantee)	889,185	21,752,209
Balances with Non-Scheduled Bank in Current Accounts	<u>18,992,611</u>	<u>12,275,307</u>
	<u>23,331,792</u>	<u>96,947,371</u>

**SCHEDULES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

	As At 31 March 2008 Rs.	As At 31 March 2007 Rs.
<b>SCHEDULE 8</b>		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	2,367,568	3,147,976
MosChip Employees Trust	2,835,000	3,130,000
Other Advances and Receivables	6,090,619	3,195,717
Prepaid Expenses	4,255,299	3,018,982
Prepaid Income Tax	1,514,852	1,515,244
	<u>17,063,338</u>	<u>14,007,919</u>
<b>SCHEDULE 9</b>		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	-	-
Others	31,026,259	23,043,515
	<u>31,026,259</u>	<u>23,043,515</u>
PROVISIONS:		
Leave Encashment	2,992,007	2,076,784
Gratuity	1,788,532	2,258,788
Expenses	355,555	610,731
Fringe Benefit Tax (net)	33,996	4,203
	<u>5,170,090</u>	<u>4,950,506</u>
	<u>36,196,349</u>	<u>27,994,021</u>
<b>SCHEDULE 10</b>		
MISCELLANEOUS EXPENDITURE:		
(To the extent not written off or adjusted)		
GDR Issue Expenses	5,636,163	8,454,231
	<u>5,636,163</u>	<u>8,454,231</u>

**SCHEDULES FORMING PART OF  
CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	For the year ended 31 March 2008 Rs.	For the year ended 31 March 2007 Rs.
<b>SCHEDULE 11</b>		
SALES:		
Software Sales	-	7,217,965
Semiconductor Sales	235,936,627	257,316,167
Misc. Sales	227,630	4,111
	<u>236,164,257</u>	<u>264,538,243</u>
<b>SCHEDULE 12</b>		
OTHER INCOME:		
Interest Earned (Gross) (Tax Deducted at Source Rs.479,758/- (previous year Rs.980,663/-))	2,128,021	7,256,462
Miscellaneous Income	-	1,277
Profit on Sale of Investments	5,513,457	5,596,478
	<u>7,641,478</u>	<u>12,854,217</u>
<b>SCHEDULE 13</b>		
MATERIAL COST, SOFTWARE AND PRODUCT DEVELOPMENT EXPENSES:		
Materials, Finished and Processed Stocks	103,923,305	112,321,527
Freight Expenses	1,865,395	2,471,180
Salaries and Other Allowances to Employees	70,797,182	53,123,672
Contribution to PF, ESI & Gratuity	132,326	161,140
Staff Welfare Expenses	5,620,389	4,113,882
Directors' Remuneration	4,550,000	3,700,000
Professional Charges - Technical	360,846	479,409
Rent	10,514,746	6,682,334
Electricity Charges	2,306,631	1,627,098
Consumables	7,969,787	6,031,546
Repairs & Maintenance	837,849	945,100
Research and Development Expenses	3,217,941	2,404,478
Software Charges	4,030,131	5,244,929
Communication Expenses	719,521	498,380
Computer Maintenance	790,383	1,140,486
	<u>217,636,432</u>	<u>200,945,161</u>

**SCHEDULES FORMING PART OF  
CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	For the year ended 31 March 2008 Rs.	For the year ended 31 March 2007 Rs.
<b>SCHEDULE 14</b>		
SALES, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and Other Allowances to Employees	35,411,404	30,423,996
Contribution to PF, ESI & Gratuity	157,464	98,071
Directors' Remuneration	4,550,000	3,700,000
Directors' Sitting Fee	97,000	60,000
Printing and Stationery	107,098	605,200
Postage, Telegrams and Telephones	1,742,055	1,644,874
Rent	2,523,539	2,033,754
Fees, Rates and Taxes	1,797,844	647,240
Vehicle Maintenance	68,838	56,865
Repairs and Maintenance	201,083	326,567
Travelling and Conveyance	12,093,786	10,015,995
Marketing Expenses	4,635,770	4,920,392
Advertisement Expenses	3,421,748	3,436,837
Payments to Auditors	634,788	1,003,528
Insurance	3,591,491	3,029,891
Professional charges	15,372,424	11,237,623
Electricity Charges	553,592	495,204
Recruitment Expenses	834,050	1,287,256
General Expenses	4,460,423	6,144,671
Penalties	4,738	23,750
Bad Debts Written Off	-	228,500
Loss on Fixed Assets Sold/Discarded	141,255	208,160
Realised Loss on Forex Fluctuation	4,101,170	96,761
Unrealised Loss on Forex Fluctuation	197,618	331,983
Improvements to leased premises	-	19,065
GDR Issue Expenses Written Off	2,818,068	2,818,068
	<u>99,517,246</u>	<u>84,894,251</u>



**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**SCHEDULE 15**

**NOTES TO ACCOUNTS**

**15. Company overview**

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.

**15.1. Significant Accounting Policies**

**15.1.1 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 2008.

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.

**15.1.2 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.

**15.1.3 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.

**15.1.4 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.

**15.1.5 Revenue Recognition**

Revenue from product sales is recognised on dispatch of material.

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. Interest income is recognized on accrual basis.

**15.1.6 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

cost and accumulated depreciation. On elimination or removal any gain or loss is included in the results of operations.

### 15.1.7 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., except as stated in Note 15.2.9

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.

### 15.1.8 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.

### 15.1.9 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.

### 15.1.10 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.

### 15.1.11 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.

### 15.1.12 Miscellaneous Expenditure

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

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**15.2 Notes on Accounts**

**15.2.1 Contingent Liabilities**

(Amount in Rupees)

Particulars	As at 31 March	
	2008	2007
Estimated amount of unexecuted capital contracts not provided	25,268,375	15,695,442
Outstanding Bank Guarantee given by bankers	889,185	712,761
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of Customs Duty	2,525,000	2,525,000

**15.2.2 Extraordinary Item**

During the year, Company has received the final payment of Rs. 50.05 lakhs from Insurance Company against the replacement cost of assets that were destroyed in fire on 5 November 2006. The Company has accordingly recognized the extraordinary income of Rs. 38.51 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.

**15.2.3 Exceptional Item**

During the year, Company has undertaken physical verification of all fixed assets in line with the requirements of AS-28 on Impairment of Assets. Based on verification fixed assets having Gross Block value of Rs. 9,451,272/- and Accumulated Depreciation of Rs. 6,986,158/- were retired from active use as no further benefit was expected. Therefore, these fixed assets were discarded on 31 December 2007. On discarding, Rs. 2,465,114/- was debited to "Fixed Assets Discarded" account. The amount being material in nature has been disclosed under "Exceptional Item" for the year under review.

**15.2.4 Earning 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 08	Year ended 31 March 07
<b>BASIC EARNINGS/ (LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(107,875,815)	(35,850,165)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(106,453,492)	(31,916,483)
Weighted average number of equity shares	43,383,856	43,382,564
EPS before extraordinary and prior period item	(2.54)	(0.84)
EPS after extraordinary and prior period item	(2.45)	(0.74)
<b>DILUTED EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(107,875,815)	(35,850,165)
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(106,453,492)	(31,916,483)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(107,875,815)	(35,850,165)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(106,453,492)	(31,916,483)
Weighted average number of equity shares	43,383,856	43,382,564
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	43,383,856	43,382,564
EPS before extraordinary and prior period item	(2.54)	(0.84)
EPS after extraordinary and prior period item	(2.45)	(0.74)

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**15.2.5 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 2008	
	Software Rs.	ASICs Rs.
<b>Revenue</b>		
Sales to external customers	-	236,164,257
<b>Segment Profit / (loss)</b>	(158,739,389)	43,656,092
Other Income	5,790,642	1,850,836
Profit / (loss) before Tax	(152,948,747)	45,506,928
Fringe Benefit Tax	433,996	—
Exceptional Item	2,465,114	—
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(155,847,857)	45,506,928
Extraordinary and Prior Period Income	(3,887,437)	—
Net profit/(loss)	(151,960,420)	45,506,928
<b>Other Segment Information</b>		
Depreciation	12,862,746	21,231,130
Non-cash expenses other than depreciation	2,959,323	—
<b>Particulars of Segment Assets and Liabilities</b>		
Segment Assets	77,738,608	113,009,190
Investments	50,000,000	8,764,550
Cash and Bank Deposits	4,503,756	18,828,036
Other Assets	57,973	—
Total Assets	132,300,337	140,601,776
Segment Liabilities	5,053,583	31,142,766
Total Liabilities	5,053,583	31,142,766

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**b. Geographic Segment Information:**

Particulars	Year ended 31 March 2008
<b>Revenue</b>	
Hong Kong	131,517,046
Taiwan	64,123,490
Rest of World	40,523,721
<b>Carrying amount of segment fixed assets</b>	
India	130,041,341
North America	113,595,365
<b>Additions to fixed assets</b>	
India	5,343,612
North America	29,726,144

**15.2.6 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 Veracity 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 2008. 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 Accounts 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.

**15.2.7 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. 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 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	99,600	162,500
Granted during the year	190,000	50,000
Forfeited during the year	15,900	54,200
Exercised during the year	29,900	58,700
Outstanding at the end of the year	243,800	99,600

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Stock Options Outstanding under the MosChip Stock Options Plan - 2001

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	109,875	165,625
Granted during the year	87,000	-
Forfeited during the year	26,000	49,750
Exercised during the year	0	6,000
Outstanding at the end of the year	170,875	109,875

### Stock Options Outstanding under the MosChip Stock Options Plan - 2002

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	269,629	399,579
Granted during the year	329,000	101,000
Forfeited during the year	112,500	196,450
Exercised during the year	2,000	7,500
Outstanding at the end of the year	511,129	296,629

### Stock Options Outstanding under the MosChip Stock Options Plan - 2004

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	802,000	725,000
Granted during the year	523,000	338,000
Forfeited during the year	464,000	261,000
Exercised during the year	0	-
Outstanding at the end of the year	861,000	802,000

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

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	412,000	-
Granted during the year	118,000	462,000
Forfeited during the year	46,000	50,000
Exercised during the year	0	-
Outstanding at the end of the year	484,000	412,000

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

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	500,000	-
Granted during the year	400,000	500,000
Forfeited during the year	425,000	-
Exercised during the year	0	-
Outstanding at the end of the year	475,000	500,000



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15.2.8 Gratuity Plan

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days (last drawn salary) for each employed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amount recognised in the balance sheet for the respective plans:

(Amount in Rupees)

	Year ended 31 March 2008
	Rs.
<b>Gratuity cost for the period</b>	
Current Service Cost	597,113
Interest cost on defined benefit obligation	203,333
Expected Return on Plan Assets	(77,466)
Net Actuarial losses/(gain) recognised in year	445,191
<b>Net Gratuity cost</b>	<b>1,126,948</b>
<b>Balance Sheet</b>	
Reconciliation of present value of the obligation and the fair value of plan assets	
Fair Value of Plan Assets at the end of the year	3,654,732
Present Value of the funded obligation at the end of the year	1,866,200
Assets/(Liability) recognised in the balance sheet	(1,788,532)
<b>Change in the present value of defined benefit obligation are as follows:</b>	
<b>Present value of obligations at the beginning of year</b>	<b>2,766,368</b>
Current Service Cost	597,413
Interest Cost	203,333
Actuarial (gain)/loss	445,191
Benefits paid	(357,273)
<b>Present value of obligations as at the end of year</b>	<b>3,654,732</b>
<b>Change in the fair value of plan assets are as follows:</b>	
Fair Value of Plan Assets at beginning of year	507,580
Expected return on plan assets	77,466
Actuarial gain/(Loss)	41,223
Contributions	1,597,204
Benefits paid	(357,273)
<b>Fair Value of Plan Assets at end of year</b>	<b>1,866,200</b>

The principal assumptions used in determining gratuity and other post employment benefit obligations for the company's plan are as follows:

Discount Rate - 8.70%

Expected rate of return on assets - 7.50%

The fund is administered by Life Insurance Corporation of India "LIC". The Overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The previous year comparative for the above are not disclosed since the revised standard has been implemented from April 1, 2006.

### 15.2.9 Differences in accounting policies and estimates

Depreciation on certain fixed assets of subsidiary is provided at rates which are different from the rates used by the parent Company. The estimates of useful life on which different rates are followed as follows:

Asset Description	Estimates useful life
Equipment	5 years
Furniture & Fixtures	7 years
Computer Software	3 years

Had the Subsidiary followed the depreciation rates in line with that of parent company, depreciation for the year ended 31 March, 2008 would have been lower by Rs. 314,443/- and loss for the period would have been lower by Rs. 314,443/-.

### 15.2.10 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  
Membership No. 23839

Place: Hyderabad  
Date : 30 June 2008

For and on behalf of the Board of Directors

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

**Raj Kumar Singh**  
Company Secretary

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

	31 March 2008	31 March 2007
	Rs.	Rs.
<b>A. Cash Flow from Operating Activities:</b>		
Net Profit before tax, Exceptional Prior period and Extraordinary item	(109,906,933)	(35,520,962)
<b>Adjustments for:</b>		
Depreciation	34,093,876	27,074,010
GDR issue expenses written off	2,818,068	2,818,068
Interest Income	(2,128,021)	(7,256,462)
Loss on Sale of Fixed Assets	141,255	208,160
Profit on sale of investments	(5,513,457)	(5,596,478)
Bad debts Written off	-	228,500
Provision for Retirement Benefits	(17,365)	(147,085)
Foreign Exchange adjustments	35,359	220,481
<b>Operating Profit before changes in working capital</b>	<b>(80,477,218)</b>	<b>(17,971,768)</b>
(Increase)/Decrease in Sundry Debtors	218,373	(14,659,267)
(Increase)/Decrease in Inventories	371,332	(3,540,532)
(Increase)/Decrease in Loans and Advances	(3,055,811)	165,927
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	(176,424)	(94,721)
Increase/(Decrease) in Current liabilities	8,202,328	6,031,144
<b>Cash from operations before Tax, Exceptional, Extra Ordinary and Prior Period items</b>	<b>(74,917,420)</b>	<b>(30,069,217)</b>
Income-tax paid	399,608	1,305,663
<b>Cash from operations before Exceptional, Extra Ordinary and Prior Period items</b>	<b>(75,317,028)</b>	<b>(31,374,880)</b>
Fixed Assets Discarded/(Exceptional Item)	2,465,114	0
Extra Ordinary Income	(5,004,638)	(8,000,000)
<b>Net cash from operating Activities [A]</b>	<b>(67,847,276)</b>	<b>(23,374,880)</b>
<b>B. Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets	(38,631,935)	(71,901,255)
Sale proceeds of Fixed Assets	113,725	9,500
Interest received on Fixed Deposits	3,647,933	13,456,903
Purchase of Current Investments	(263,000,000)	(231,500,000)
Sale of Current Investments	268,513,457	237,096,478
Foreign currency translation adjustment for non-integral operation	(9,082,671)	(4,369,467)
<b>Net Cash used for Investing Activities [B]</b>	<b>(38,439,491)</b>	<b>(80,982,677)</b>
<b>C. Cash flow from Financing Activities:</b>		
Net proceeds from Issue of Share Capital	20,000	99,305
Securities Premium	33,500	274,125
Convertible Warrants	0	4,650,000
<b>Net Cash from Financing Activities [C]</b>	<b>53,500</b>	<b>5,023,430</b>

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

	31 March 2008	31 March 2006
	Rs.	Rs.
D. Exchange differences on translation of foreign currency cash	(35,359)	(220,481)
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	(106,268,626)	(76,432,600)
Cash and Cash equivalents at the beginning of the year	187,475,783	263,908,383
Cash and Cash equivalents at the end of the year	<u>81,207,457</u>	<u>187,475,783</u>
<b>Supplementary Information</b>		
Cash and Cash Equivalents as per Balance Sheet	82,096,342	188,188,544
Less: Fixed Deposits towards Bank Guarantee considered as investments	889,185	712,761
	<u>81,207,157</u>	<u>187,475,783</u>

Per and subject to our report of even date

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

**Chandrashekhhar Gokhale**  
Partner  
Membership No. 23839

Place: Hyderabad  
Date : 30 June 2008

For and on behalf of the Board of Directors

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing 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 2008 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.375,579,087/- 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 113,928,333/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2008 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 2008 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on 31 March 2008 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 2008
  - ii) In the case of the Profit & Loss Account, of the Loss of the company for the year ended on 31 March 2008; and
  - iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on 31 March 2008.

For Gokhale & Co  
Chartered Accountants

**Chandrashekhhar Gokhale**

Place : Hyderabad  
Date : 30 June 2008

Partner  
Membership No 23839

## 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

**Chandrashekhhar Gokhale**

Place : Hyderabad  
Date : 30 June 2008

Partner  
Membership No 23839

## BALANCE SHEET AS AT 31 MARCH 2008

	Schedule No.	As at 31 March 2008 Rs.	As at 31 March 2007 Rs.
<b>SOURCES OF FUNDS:</b>			
<b>SHAREHOLDERS' FUNDS:</b>			
Share Capital	1	433,855,170	433,835,170
Share Application Money		129,415	129,415
Reserves and Surplus	2	665,908,920	665,875,420
Total		<u>1,099,893,505</u>	<u>1,099,840,005</u>
<b>APPLICATION OF FUNDS:</b>			
<b>FIXED ASSETS:</b>			
Gross Block	3	151,160,937	158,307,259
Less: Depreciation		<u>89,594,567</u>	<u>85,465,352</u>
Net Block		61,566,370	72,841,907
Capital work in progress		-	436,630
<b>INVESTMENTS</b>	4	425,579,087	415,579,087
<b>NET CURRENT ASSETS:</b>			
<b>CURRENT ASSETS,</b>			
<b>LOANS AND ADVANCES:</b>			
Interest accrued on Deposits		57,973	1,577,885
Sundry Debtors	5	11,875,155	21,279,036
Cash and Bank Balances	6	4,503,756	84,853,823
Loans and Advances	7	<u>14,857,533</u>	<u>11,880,331</u>
GROSS CURRENT ASSETS		31,294,417	119,591,075
Less: Current Liabilities and provisions	8	<u>5,053,583</u>	<u>7,359,740</u>
<b>NET CURRENT ASSETS</b>		26,240,834	112,231,335
<b>MISCELLANEOUS EXPENDITURE</b>	9	5,636,163	8,454,231
<b>PROFIT AND LOSS ACCOUNT</b>		580,871,051	490,296,815
<b>NOTES TO ACCOUNTS</b>	13		
Total		<u>1,099,893,505</u>	<u>1,099,840,005</u>

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  
Membership No. 23839

K. Ramachandra Reddy  
Chairman & CEO

C. Dayakar Reddy  
Managing Director

Place: Hyderabad  
Date : 30 June 2008

Raj Kumar Singh  
Company Secretary



**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2008**

	Schedule No.	For the year ended 31 March 2008 Rs.	For the year ended 31 March 2007 Rs.
<b>I INCOME:</b>			
Sales Revenue		61,477,432	52,091,226
Other Income	10	5,790,642	10,464,811
		<u>67,268,074</u>	<u>62,556,037</u>
<b>II EXPENDITURE:</b>			
Software and Product Development Expenses	11	106,660,855	80,649,005
Sales, General and Administration Expenses	12	39,307,036	29,831,866
Depreciation		12,862,746	14,990,694
		<u>158,830,637</u>	<u>125,471,565</u>
<b>III Profit/(Loss) Before Tax</b>		<b>(91,562,563)</b>	<b>(62,915,528)</b>
Less: Fringe Benefit Tax		433,996	329,203
<b>Profit/(Loss) After Tax Before Extraordinary Item</b>		<b>(91,996,559)</b>	<b>(63,244,731)</b>
Less: Exceptional Item*		2,465,114	-
<b>Profit/(Loss) After Tax After Exceptional Item Before Extraordinary and Prior Period Item</b>		<b>(94,461,673)</b>	<b>(63,244,731)</b>
Less: Extra Ordinary and Prior Period Items*		(3,887,437)	(3,933,682)
<b>Profit/(Loss) After Tax and Exceptional After Extraordinary and Prior Period Item</b>		<b>(90,574,236)</b>	<b>(59,311,049)</b>
Add: Balance brought forward from previous year		(490,296,815)	(430,985,766)
<b>Balance carried to Balance Sheet</b>		<b>(580,871,051)</b>	<b>(490,296,815)</b>
<b>IV Earnings Per Share (EPS)</b>			
Equity Share of face value Rs.10/- each			
<b>Before Extraordinary and Prior Period Items</b>			
Basic		(2.18)	(1.46)
Diluted		(2.18)	(1.46)
<b>After Extraordinary and Prior Period Items</b>			
Basic		(2.09)	(1.37)
Diluted		(2.09)	(1.37)
<b>Number of shares used in computing EPS</b>			
Basic		43,383,856	43,382,564
Diluted		43,383,856	43,382,564

\* Refer Note 13.2. 13 & 13.2.14 of 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

Membership No. 23839

Place: Hyderabad

Date : 30 June 2008

**K. Ramachandra Reddy**

Chairman & CEO

**C. Dayakar Reddy**

Managing Director

**Raj Kumar Singh**

Company Secretary

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

	As At 31 March 2008 Rs.	As At 31 March 2007 Rs.
<b>SCHEDULE 1</b>		
SHARE CAPITAL:		
<u>Authorised:</u>		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	<u>550,000,000</u>	<u>550,000,000</u>
<u>Issued:</u>		
45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	<u>451,005,890</u>	<u>451,005,890</u>
<u>Subscribed and Paid-up:</u>		
43,385,517 (Previous Year 43,383,517) equity shares of Rs.10/- each	<u>433,855,170</u>	<u>433,835,170</u>
(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 Veracity Technologies, Inc with the Company)		
<b>SCHEDULE 2</b>		
RESERVES AND SURPLUS:		
Capital Reserve	1,250,000	1,250,000
Convertible Warrants	4,650,000	4,650,000
Securities Premium		
Opening Balance	659,975,420	659,701,295
Additions	<u>33,500</u>	<u>274,125</u>
	<u>660,008,920</u>	<u>659,975,420</u>
	<u>665,908,920</u>	<u>665,875,420</u>

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

**SCHEDULE 3**  
**FIXED ASSETS**

(Amount in Rupees)

S. No.	DESCRIPTION	GROSS BLOCK				DEPRECIATION				NET BLOCK		
		Balance at 01.04.07	Additions during the year@	Adjustments during the year@	Deletions during the year*	Balance as at 31.03.08	For the Year	Deletions during the year*	Adjustments during the year@	Balance as at 31.03.08	Balance as at 31.03.07	
1.	Computers	36,732,836	1,574,977	(761,843)	8,182,670	29,363,300	5,092,890	7,125,620	(207,978)	13,939,286	15,424,014	20,552,842
2.	Electrical Installation	4,027,542	53,086	-	1,781,953	2,298,675	164,572	549,113	137	471,910	1,826,765	3,171,228
3.	Plant and Machinery	29,516,128	225,377	(748,677)	853,386	28,144,442	458,378	270,741	(244,248)	22,320,258	5,824,184	7,139,259
4.	Software	57,317,004	239,752	533,500	-	58,090,256	4,750,905	-	95,433	46,288,943	11,801,313	15,694,399
5.	Furniture and Fittings	9,917,782	128,392	(219,984)	970,692	8,855,498	713,118	378,882	(67,154)	2,967,320	5,888,178	7,217,544
6.	Office Equipment	3,918,983	844,107	-	443,129	4,319,961	301,147	211,007	(79,176)	1,033,713	3,286,248	2,896,234
7.	Vehicles	84,527	-	-	-	84,257	8,535	-	-	46,910	37,347	45,882
8.	Lab Equipment	13,530,028	1,601,939	1,192,004	258,104	16,065,867	728,996	56,158	360,976	1,370,872	14,694,995	13,192,970
9.	Leasehold Improvements	3,262,699	675,982	-	-	3,938,681	824,205	-	-	1,155,355	2,783,326	2,931,549
	Total	158,307,259	5,343,612	-	12,489,934	151,160,937	12,862,746	8,591,521	(142,010)	89,594,567	61,566,370	72,841,907
	Previous Year	147,211,119	38,485,196	-	27,389,056	158,307,259	14,990,694	21,940,280	2,232,959	85,465,352	72,841,907	-

@ Change in classification of asset

\* Refer Note 13.2.13 & 13.2.14 of Notes to Accounts

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

	As At 31 March 2008 Rs.	As At 31 March 2007 Rs.
<b>SCHEDULE 4</b>		
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
	<u>375,579,087</u>	<u>375,579,087</u>
Current Non-Trade, Unquoted, At Cost		
Nil (Previous Year 2715362.161) Units of Rs.10/- each in Principal Cash Management Fund	0	40,000,000
45943.020 (Previous Year Nil) Units of Rs. 1000/- each in Reliance Mutual Fund	50,000,000	0
	<u>50,000,000</u>	<u>40,000,000</u>
Aggregate market value of the non-trade investments as on 31 March 2008 is Rs. 50,062,822/- (Previous Year Rs. 40,000,000/-)	<u>425,579,087</u>	<u>415,579,087</u>
<b>SCHEDULE 5</b>		
SUNDRY DEBTORS: (Unsecured, Considered Good)		
Outstanding for a period exceeding six months	-	-
Others	11,875,155	21,279,036
	<u>11,875,155</u>	<u>21,279,036</u>
<b>SCHEDULE 6</b>		
CASH AND BANK BALANCES:		
Cash on hand	66,766	48,877
Balance with Scheduled Banks		
- In Current accounts	3,383,230	62,870,978
- In fixed deposit accounts (Rs. 889,185/- (Previous Year Rs. 712,761/-) pledged towards margin on Bank Guarantee)	889,185	21,752,209
Bank of America, USA (Maximum amount outstanding during the period Rs. 265,989/- (previous year Rs. 241,273/-)	164,575	181,759
	<u>4,503,756</u>	<u>84,853,823</u>

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

	As At 31 March 2008 Rs.	As At 31 March 2007 Rs.
<b>SCHEDULE 7</b>		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash or in kind or for value to be received)		
Deposits	1,052,863	1,020,388
MosChip Employees Trust	2,835,000	3,130,000
Other Advances and Receivables	6,090,619	3,195,717
Prepaid Expenses	3,364,199	3,018,982
Prepaid Income Tax	1,514,852	1,515,244
	<u>14,857,533</u>	<u>11,880,331</u>
<b>SCHEDULE 8</b>		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	-	-
Others	829,994	3,233,674
	<u>829,994</u>	<u>3,233,674</u>
PROVISIONS:		
Leave Encashment	2,401,061	1,863,075
Gratuity	1,788,532	2,258,788
Fringe Benefit Tax (Net of Advance Tax)	33,996	4,203
	<u>4,223,589</u>	<u>4,126,066</u>
	<u>5,053,583</u>	<u>7,359,740</u>
<b>SCHEDULE 9</b>		
MISCELLANEOUS EXPENDITURE:		
(To the extent not written off or adjusted)		
GDR Issue Expenses	5,636,163	8,454,231
	<u>5,636,163</u>	<u>8,454,231</u>

**SCHEDULES FORMING PART OF  
PROFIT AND LOSS ACCOUNT**

	For the year ended 31 March 2008 Rs.	For the year ended 31 March 2007 Rs.
<b>SCHEDULE 10</b>		
OTHER INCOME:		
Interest Earned (Gross)	2,128,021	7,902,689
(Tax Deducted at Source Rs. 479,758/- (previous year Rs. 980,663/-))		
Miscellaneous Income	-	1,277
Profit on Sale of Investments	3,662,621	2,560,845
	<u>5,790,642</u>	<u>10,464,811</u>
<b>SCHEDULE 11</b>		
SOFTWARE AND PRODUCT DEVELOPMENT EXPENSES:		
Salaries and Other Allowances to Employees	71,109,090	52,622,355
Contribution to PF, ESI & Gratuity	1,313,364	662,457
Staff Welfare Expenses	5,119,624	3,783,554
Directors' Remuneration	4,550,000	3,700,000
Professional Charges - Technical	360,846	479,409
Rent	7,765,730	4,282,043
Electricity Charges	2,003,246	1,339,045
Consumables	8,061,071	6,065,367
Repairs & Maintenance	837,849	830,980
Software Charges	4,030,131	5,244,929
Communication Expenses	719,521	498,380
Computer Maintenance	790,383	1,140,486
	<u>106,660,855</u>	<u>80,649,005</u>

**SCHEDULES FORMING PART OF  
PROFIT AND LOSS ACCOUNT**

	For the year ended 31 March 2008 Rs.	For the year ended 31 March 2007 Rs.
<b>SCHEDULE 12</b>		
SALES, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and Other Allowances to Employees	7,428,694	6,280,472
Contribution to PF, ESI & Gratuity	157,464	98,071
Directors' Remuneration	4,550,000	3,700,000
Directors' Sitting Fee	97,000	60,000
Printing and Stationery	87,121	185,093
Postage, Telegrams and Telephones	1,102,420	1,020,697
Rent	1,863,775	1,303,231
Fees, Rates and Taxes	118,479	136,201
Vehicle Maintenance	55,276	56,865
Repairs and Maintenance	201,083	291,835
Traveling and Conveyance	5,956,283	4,741,625
Advertisement Expenses	236,263	178,305
Payments to Auditors	212,001	190,943
Insurance	1,621,782	846,766
Professional charges	3,927,863	2,468,857
Electricity Charges	480,779	407,536
Recruitment Expenses	605,883	1,287,256
General Expenses	3,074,659	2,859,766
Penalties	4,738	23,750
Marketing Expenses	267,362	-
Bad Debts Written Off	-	228,500
Loss on Fixed Assets Sold/Discarded	141,255	200,220
Realised Loss on Forex Fluctuation	4,101,170	96,761
Unrealised Loss on Forex Fluctuation	197,618	331,983
Improvements to leased premises	-	19,065
GDR Issue Expenses Written Off	2,818,068	2,818,068
	<u>39,307,036</u>	<u>29,831,866</u>



## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### SCHEDULE 13

#### 13. Significant accounting policies and notes on accounts

##### Company overview

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.

#### 13. 1. Significant Accounting Policies

##### 13. 1.1 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.

##### 13. 1.2 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.

##### 13. 1.3 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.

##### 13. 1.4 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.

##### 13. 1.5 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.

##### 13. 1.6 Foreign Exchange Transactions

i. **Initial Recognition:** Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

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.

### 13. 1.7 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.

### 13. 1.8 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.

### 13. 1.9 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.

### 13. 1.10 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.

### 13. 1.11 Miscellaneous Expenditure

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

### 13. 2 Notes on Accounts

#### 13. 2.1 Contingent Liabilities:

(Amount in Rupees)		
As at 31 March		
Particulars	2008	2007
Estimated amount unexecuted on capital contracts not provided	Nil	44,092
Outstanding Bank Guarantee given by bankers	889,185	712,761
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty	2,525,000	2,525,000

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 13. 2.2 Share Capital

During the year under review, the Company has allotted 2,000 equity shares of Rs. 10/- each at a price of Rs. 26,75/- per share to the employees upon exercise of Stock Options

### 13. 2.3 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 Veracity 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 2008. 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.

### 13. 2.4 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 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	99,600	162,500
Granted during the year	190,000	50,000
Forfeited during the year	15,900	54,200
Exercised during the year	29,900	58,700
Outstanding at the end of the year	243,800	99,600

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	109,875	165,625
Granted during the year	87,000	-
Forfeited during the year	26,000	49,750
Exercised during the year	-	6,000
Outstanding at the end of the year	170,875	109,875

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	296,629	399,579
Granted during the year	329,000	101,000
Forfeited during the year	112,500	196,450
Exercised during the year	2,000	7,500
Outstanding at the end of the year	511,129	296,629

### Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	802,000	725,000
Granted during the year	523,000	338,000
Forfeited during the year	464,000	261,000
Exercised during the year	-	-
Outstanding at the end of the year	861,000	802,000

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

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	412,000	-
Granted during the year	118,000	462,000
Forfeited during the year	46,000	50,000
Exercised during the year	-	-
Outstanding at the end of the year	484,000	412,000

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

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
Options outstanding at the beginning of the year	500,000	-
Granted during the year	400,000	500,000
Forfeited during the year	425,000	-
Exercised during the year	-	-
Outstanding at the end of the year	475,000	500,000

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 13. 2.5 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 2008	Year ended 31 March 2007
<b>BASIC EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(91,996,559)	(63,244,731)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(90,574,236)	(59,311,049)
Weighted average number of equity shares	43,383,856	43,382,564
EPS before extraordinary and prior period item	(2.18)	(1.46)
EPS after extraordinary and prior period item	(2.09)	(1.37)
<b>DILUTED EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(91,996,559)	(63,244,731)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(90,574,236)	(59,311,049)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(91,996,559)	(63,244,731)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(90,574,236)	(59,311,049)
Weighted average number of equity shares	43,383,856	43,382,564
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	43,383,856	43,382,564
EPS before extraordinary and prior period item	(2.18)	(1.46)
EPS after extraordinary and prior period item	(2.09)	(1.37)

### 13. 2.6 Directors' Remuneration:

(Amount in Rupees)

	Year ended 31 March 2008	Year ended 31 March 2007
1. Salary and allowances	9,100,000	7,400,000
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.		

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 13. 2.7 Related Party disclosures

#### A. List of Related Parties

Description of Relationship	Name of Related Parties	Designation
<b>Subsidiary</b>	MosChip Semiconductor Technology, USA.	—
<b>Key Management Personnel</b>	K. Ramachandra Reddy	Chairman & CEO
	C. Dayakar Reddy	Managing Director

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

(Amount in Rupees)

Nature of Transaction	Transactions during the year	Balance as on 31 March 2008
<b>Transactions with Subsidiary</b>		
Reimbursement of expenses / Payable	1,162,179	Nil
Reimbursement of expenses / Receivable	1,601,352	Nil
Sales / Receivable	61,477,432	11,875,155
<b>Transactions with Key management personnel</b>		
Remuneration to Chairman & CEO	4,550,000	Nil
Remuneration to Managing Director	4,550,000	Nil

### 13. 2.8 Additional information as required under Part II of Schedule VI of the Companies Act, 1956:

(Amount in Rupees)

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
<b>A. C I F Value of Imports :</b>		
Capital Goods	1,621,443	10,465,823
<b>B. Expenditure in Foreign currency</b>		
Software Charges	3,745,342	1,575,288
Traveling Expenses	2,110,331	1,600,303
Professional Charges	117,209	Nil
Consumables	4,238,794	2,408,544
Other Expenses	218,878	572,058
<b>C. Earnings in Foreign Exchange - Sales Revenue</b>	61,477,432	52,091,226

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 13. 2.9 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: (Amount in Rupees)

Particulars	Year ended 31 March 2008	Year ended 31 March 2007
<b>Revenue</b>		
Sales to external customers	61,477,432	52,091,226
<b>Segment Profit / (loss)</b>	<b>(97,353,205)</b>	<b>(73,380,339)</b>
Other Income	5,790,642	10,464,811
Profit / (loss) before Tax	<b>(91,562,563)</b>	<b>(62,915,528)</b>
Fringe Benefit Tax	433,996	329,203
Exception Item	2,465,114	-
Profit / (loss) after Tax before Extraordinary and Prior Period Item	<b>(94,461,673)</b>	<b>(63,244,731)</b>
Extraordinary and Prior Period Item	<b>(3,887,437)</b>	<b>(3,933,682)</b>
Net profit/(loss)	<b>(90,574,236)</b>	<b>(59,311,049)</b>
<b>Other Segment Information</b>		
Depreciation	12,862,746	14,990,694
Non-cash expenses other than depreciation	2,959,323	3,018,288
<b>Particulars of Segment Assets and Liabilities</b>		
Segment Assets	88,299,058	106,437,904
Investments	425,579,087	415,579,087
Cash and Bank Deposits	4,503,756	84,853,823
Other Assets	57,973	1,577,885
Total Assets	518,439,874	608,448,699
Segment Liabilities	5,053,583	7,359,740
Total Liabilities	5,053,583	7,359,740

#### b. Geographic Segment Information:

<b>Revenue</b>		
North America	61,477,432	51,176,326
Others	Nil	914,900
<b>Carrying amount of segment fixed assets</b>		
India	130,041,341	137,187,663
North America	21,119,596	21,119,596
<b>Additions to fixed assets</b>		
India	5,343,612	38,485,196
North America	Nil	Nil



## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 13. 2.10 Amounts paid/payable to Auditors:

(Amount in Rupees)

	Year ended 31 March 2008	Year ended 31 March 2007
As Auditors	101,124	84,270
For Tax Audit	39,326	39,326
For Certification	71,551	67,347
<b>Total</b>	<b>212,001</b>	<b>190,943</b>

### 13. 2.11 Gratuity Plan

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the respective plans:

(Amount in Rupees)

	Year ended 31 March 2008
<b>Gratuity cost for the period</b>	
Current Service Cost	597,113
Interest cost on defined benefit obligation	203,333
Expected Return on Plan Assets	(77,466)
Net Actuarial losses/(gain) recognised in year	445,191
<b>Net Gratuity cost</b>	<b>1,126,948</b>
<b>Balance Sheet</b>	
Reconciliation of present value of the obligation and the fair value of plan assets	
Fair Value of Plan Assets at the end of the year	3,654,732
Present Value of the funded obligation at the end of the year	1,866,200
Asset/(Liability) recognised in the balance sheet	(1,788,532)
<b>Change in the present value of defined benefit obligation are as follows:</b>	
Present value of obligations at the beginning of year	2,766,368
Current Service Cost	597,113
Interest Cost	203,333
Actuarial (gain)/loss	445,191
Benefits paid	(357,273)
<b>Present value of obligations as at the end of year</b>	<b>3,654,732</b>
<b>Change in the fair value of plan assets are as follows:</b>	
Fair Value of Plan Assets at beginning of year	507,580
Expected return on plan assets	77,466
Actuarial gain/(loss)	41,223
Contributions	1,597,204
Benefits paid	(357,273)
<b>Fair Value of Plan Assets at end of year</b>	<b>1,866,200</b>

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

The principal assumptions used in determining gratuity and other post employment benefit obligations for the company's plan are as follows:

Discount Rate - 8.70%

Excepted rate of return on assets - 7.50%

The fund is administered by Life Insurance Corporation of India ("LIC"). The overall expected rate of return assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

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

The previous year comparative for the above are not disclosed since the revised standard has been implemented from April 1, 2006.

### 13. 2.12 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 2008 and the balance available as on that date:

Particulars	Rs.	Rs.
<b>Issue Proceeds</b>		
- Share Capital	91,074,540	
- Share Premium	227,230,977	
<b>Total Issue Proceeds</b>		<b>318,305,517</b>
<b>Utilization</b>		
GDR Issue Expenses	14,090,368	
Equity Investment in MosChip USA	69,390,000	
Payments for purchase of fixed assets	72,848,744	
Working Capital /Business Operations	161,976,405	
<b>Total Funds Utilized</b>		<b>318,305,517</b>
<b>Funds Available</b>		<b>Nil</b>

### 13. 2.13 Extraordinary Item

During the year, Company has received the final payment of Rs. 50.05 lakhs from Insurance Company against the replacement cost of assets that were destroyed in fire on 5 November 2006. The Company has accordingly recognized the extraordinary income of Rs. 38.51 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.

### 13. 2.14 Exceptional Item

During the year, Company has undertaken physical verification of all fixed assets in line with the requirements of AS-28 on Impairment of Assets. Based on verification fixed assets having Gross Block value of Rs. 9,451,272/- and Accumulated Depreciation of Rs. 6,986,158/- were retired from active use as no further benefit was expected. Therefore, these fixed assets were discarded on 31 December 2007. On discarding, Rs. 2,465,114/- was debited to "Fixed Assets Discarded" account. The amount being material in nature has been disclosed under 'Exceptional Item' for the year under review.

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**SIGNIFICANT ACCOUNTING POLICIES AND  
NOTES TO ACCOUNTS**

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**13. 2.15 Dues to Micro and Small Enterprises (SME):**

In terms of Section 22 of the Micro, Small and Medium Enterprises Development Act, 2006 (SME Act) the outstanding payable to Micro and Small enterprises, as defined under the SME Act, are required to be disclosed in the prescribed format. However, such Enterprises are required to be registered under the SME Act.

There are no dues to any small scale industrial undertaking and micro, small & medium enterprises which are outstanding for more than 30 days of 45 days respectively at the Balance Sheet date. This information has been determined to the extent such parties have been identified on the basis of information available with the company.

**13. 2.16 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.

**13. 2.17 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

**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839

Place: Hyderabad  
Date : 30 June 2008

For and on behalf of the Board of Directors

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

**Raj Kumar Singh**  
Company Secretary

**CASH FLOW STATEMENT FOR THE  
YEAR ENDED 31 MARCH 2008**

	31 March 2008 Rs.	31 March 2007 Rs.
<b>A. Cash Flow from Operating Activities</b>		
Net Profit Before Tax, Exceptional, Prior period and Extraordinary item	(94,027,677)	(62,915,528)
<b>Adjustments for:</b>		
Depreciation	12,862,746	14,990,694
GDR issue expenses written off	2,818,068	2,818,068
Interest Income	(2,128,021)	(7,902,689)
Loss on fixed assets sold/discarded	141,255	200,220
Profit on sale of investments	(3,662,621)	(2,560,845)
Baddebts Written off	-	228,500
Provision for Retirement Benefits	1,099,836	(168,434)
Foreign Exchange adjustments	35,359	220,481
<b>Operating Profit before changes in working capital</b>	<b>(82,861,055)</b>	<b>(55,089,533)</b>
(Increase)/Decrease in Sundry Debtors	9,403,881	(13,210,402)
(Increase)/Decrease in Loans and Advances	(2,977,594)	19,965,583
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	(176,424)	(94,721)
Increase/(Decrease) in Current liabilities	(2,403,680)	(7,986)
<b>Cash generated from operations before Tax, Exceptional, Extra Ordinary and Prior Period items</b>	<b>(79,014,872)</b>	<b>(48,437,059)</b>
Income-tax paid	399,608	1,305,663
<b>Cash from operations before Exceptional, Extra Ordinary and Prior period items</b>	<b>(79,414,480)</b>	<b>(49,742,722)</b>
Exceptional Item	2,465,114	-
Extra Ordinary Income	(3,887,437)	(8,000,000)
<b>Net Cash from Operating Activities [A]</b>	<b>(73,061,929)</b>	<b>(41,742,722)</b>
<b>B. Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets	(4,906,982)	(38,921,826)
Sale proceeds of Fixed Assets	113,725	9,500
Interest received on Fixed Deposits	3,647,933	14,103,130
Purchase of Investments	(263,000,000)	(271,500,000)
Sale of Investments	266,662,621	234,060,845
<b>Net Cash used for Investing Activities [B]</b>	<b>(2,517,297)</b>	<b>(22,248,351)</b>
<b>C. Cash flow from Financing Activities:</b>		
Proceeds from Issue of Share Capital	20,000	99,305
Securities Premium	33,500	274,125
Convertible Warrants	-	4,650,000
<b>Net Cash from Financing Activities [C]</b>	<b>53,500</b>	<b>5,023,430</b>

**CASH FLOW STATEMENT FOR THE  
YEAR ENDED 31 MARCH 2008**

	31 March 2008 Rs.	31 March 2007 Rs.
D. Exchange differences on translation of foreign currency cash	(35,359)	(220,481)
<b>Net Increase/(Decrease) in cash &amp; cash equivalents [A+B+C+D]</b>	<b>(70,526,491)</b>	<b>(59,188,124)</b>
Cash and Cash equivalents at the beginning of the Period	<u>124,141,062</u>	<u>183,329,186</u>
Cash and Cash equivalents at the end of the period	<u><u>53,614,571</u></u>	<u><u>124,141,062</u></u>
<b>Supplementary Information</b>		
Cash and Cash Equivalents as per Balance Sheet	<u>54,503,756</u>	124,853,823
Less: Fixed Deposits towards Bank Guarantee considered as investments	<u>889,185</u>	<u>712,761</u>
	<u><u>53,614,571</u></u>	<u><u>124,141,062</u></u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,  
Chartered Accountants**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839**K. Ramachandra Reddy**  
Chairman & CEO**C. Dayakar Reddy**  
Managing DirectorPlace: Hyderabad  
Date : 30 June 2008**Raj Kumar Singh**  
Company Secretary

## PART - IV BALANCE SHEET ABSTRACT AND COMPANIES GENERAL BUSINESS PROFILE

<b>1 Registration Details</b>	
Registration No.	: 32184
State Code	: 01
Balance Sheet Date	: 31 March 2008
<b>2. Capital raised during the year (Amount in Rs. Thousands):</b>	
Public Issue	: Nil
Right Issue	: Nil
Bonus Issue	: Nil
Private Issue	: 20
<b>3 Position of Mobilisation and development of Funds: (Amount in Rs. Thousands) :</b>	
Total Liabilities	: 1,099,893
Total Assets	: 1,099,893
Source of Funds:	
Paid up Capital	: 433,855
Share Application Money	: 129
Reserves and Surplus	: 665,909
Secured Loans	: Nil
Unsecured Loans	: Nil
Application of Funds	
Net Fixed Assets	: 61,566
Investments	: 425,579
Net Current Assets	: 26,240
Misc. Expenditure	: 5,636
Accumulated Losses	: 580,872
<b>4 Performance of Company (Amount in Rs. Thousands):</b>	
Turnover	: 67,267
Total Expenditure	: 157,408
Profit/(Loss) Before Tax	: -90,141
Profit After Tax	: -90,575
Earnings Per Share in Rs. (Basic)	: -2.18
Dividend Rate %	: Nil
<b>5. Generic Names of Three Principal Products/Services of Company (As per Monetary terms):</b>	
Item Code (ITC Code)	: 8491.90
Product Description	: DEVELOPMENT AND EXPORT OF SOFTWARE

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  
Membership No 23839**K. Ramachandra Reddy**  
Chairman & CEO**C. Dayakar Reddy**  
Managing DirectorPlace: Hyderabad  
Date : 30 June 2008**Raj Kumar Singh**  
Company Secretary

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

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1	Name of subsidiary	:	MosChip Semiconductor Technology, USA
2	Financial year ended	:	Year ended 31 March 2008
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 \$ (398,845)
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 \$ (562,509)

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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  
Membership No 23839

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

Place: Hyderabad  
Date : 30 June 2008

**Raj Kumar Singh**  
Company Secretary

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## DIRECTORS' REPORT

To  
The Shareholders of MosChip Semiconductor Technology USA,  
Your Directors present this report for the Financial Year 2007-08.

### Financial Results

(USD in Millions)

Particulars	2007-08	2006-07
Semiconductor Sales	5.895	5.690
Operating Profit/(Loss) before Depreciation	0.086	0.782
Less : Depreciation	0.531	0.268
Operating Profit/(Loss)	(0.444)	0.514
Add : Other Income	0.045	0.067
Net Profit/(Loss) Before Tax	(0.399)	0.581

Your Company achieved total revenues of USD 5.95 million for the financial year ended 31 March 2008, an increase of 3.3% over the year ended 31 March 2007.

The gross profit for the financial year ended 31 March 2008 was USD 3.130 million.

### Outlook

The USB products have 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 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 products later this year will help us to retain our market position in this segment.

### 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 2008

## INDEPENDENT AUDITORS' REPORT

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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 March 31, 2008 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MosChip Semiconductor Technology, USA as of March 31, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Forney Accountancy**

Bryce Forney, CPA (CA License #76310)

### **Pleasant Hill, California**

14 May 2008

## BALANCE SHEET

	(Amount in US \$)
	As At 31 March 2008
<b>Assets</b>	
<b>Current assets</b>	
Cash	701,544
Accounts receivable	1,071,094
Inventory	493,947
Prepaid expenses	22,333
Total current assets	<u>2,288,918</u>
Deposits	22,950
<b>Property and equipment</b>	
Furniture & Fixtures	7,000
Equipment	2,156,489
Software	154,200
	<u>2,317,689</u>
Accumulated depreciation	<u>(1,072,752)</u>
	<u>1,244,937</u>
<b>Total assets</b>	<u><u>3,556,805</u></u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	731,208
Related party payable	295,770
Accrued liabilities	48,336
Total current liabilities	<u>1,075,314</u>
<b>Stockholders' equity</b>	
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	562,509
Total stockholders' equity	<u>2,481,491</u>
	<u><u>3,556,805</u></u>

**STATEMENT OF NET INCOME  
AND ACCUMULATED DEFICIT**

(Amount in US \$)

	For the year ended 31 March 2008
<b>Revenue</b>	
Sales	5,894,781
Cost of goods sold	2,718,277
Shipping and handling	46,488
	<u>3,130,016</u>
<b>Gross Profit</b>	
<b>Expenses</b>	
Selling, general, and administrative	1,562,895
Research and development	1,480,475
Depreciation	530,528
	<u>3,573,898</u>
<b>Total operating expenses</b>	
Operating loss	(443,882)
Other income	
Interest income	45,837
	<u>(398,045)</u>
<b>Income before income taxes</b>	
Current income tax	800
	<u>(398,845)</u>
<b>Net loss</b>	
Accumulated deficit, beginning	(163,664)
	<u>(562,509)</u>
Accumulated deficit, ending	

## STATEMENT OF CASH FLOWS

	(Amount in US \$)
	For the year ended 31 March 2008
<b>Cash flows from operating activities</b>	
Net loss	(398,845)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	530,528
(Increase) decrease in:	
Accounts receivable	(87,017)
Related party receivable	1,750
Inventory	(33,928)
Prepaid expenses	(22,333)
Deposit	(4,208)
Increase (decrease) in:	
Accounts payable	299,116
Accrued liabilities	8,871
Related party payable	(193,231)
<b>Net cash provided by operating activities</b>	<u>100,703</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(880,126)
<b>Net cash used by investing activities</b>	<u>(880,126)</u>
Net decrease in cash	(779,423)
Cash, beginning	<u>1,480,967</u>
Cash, ending	<u><u>701,544</u></u>
Supplemental disclosures of cash flow information	
Income taxes paid	800

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**NOTES TO FINANCIAL STATEMENTS**


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**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.

- A. Operating lease - The Corporation leases its facilities under an operating lease agreement with an unrelated party. The rent is \$5,250 per month. 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 \$1,570 per month. Rent expense for the year ended March 31, 2008 is \$76,398.
- B. 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 March 31, 2008 is \$295,770.
- C. Related party transactions - The Corporation conducts business with MosChip Semiconductor Technology Limited, India, the sole shareholder of the Corporation. The Corporation purchases engineering services and also exclusively licenses ASIC software from MosChip Semiconductor Technology Limited, India, as part of its production process on terms equivalent with those of other vendors.

Transactions are as follows:

Expenses due to related party transactions	\$ 1,547,500
Related party account payable	\$ 295,770

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

Number of major customers	2
Percentage of revenue from major customers	83%
Percentage of accounts receivable from major customers	91%

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NOTES TO FINANCIAL STATEMENTS

E. Deferred taxes - The deferred tax asset consists of the following:

Deferred tax asset	\$ 330,334
Valuation allowance	\$ (330,334)
Deferred tax liability	-
Net deferred tax asset	<u>\$ -</u>

F. 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.

G. Going concern - These financial statements are presented on the basis that the Corporation is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The accompanying financial statements show that operations have resulted in an accumulated deficit. The Corporation anticipates launching new products that are expected to increase revenue in the periods subsequent to these financial statements.

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## 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 NINTH 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 Friday the 29 August 2008 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 August 2008. No duplicate Attendance 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 \_\_\_\_\_ (signature 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 **NINTH 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 Friday the 29 August 2008 at 10:30 hrs.**

Dated \_\_\_\_\_ August, 2008

Notes:

- The form should be signed across the stamp as per signatures registered with the company.
- 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.
- The proxy need not be a member of the Company.
- Un-filled proxy form is liable to be rejected. Kindly ensure all blanks of the form is filled-in before its submission.

Affix  
Revenue  
Stamp  
of 0.30P and  
sign across