

MOSCHIP

11th Annual Report 2009-2010



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

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BOARD OF DIRECTORS

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

COMMITTEES OF THE BOARD

Audit

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

Remuneration

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

Shareholders / Investor Grievance

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

Raj Kumar Singh

Company Secretary

REGISTERED OFFICE

H. No: 8-2-685/1/1, Road No. 12,
Banjara Hills, Hyderabad - 500034.
Tel : 040-6622-9292
Fax : 040-6622-9393

BANKERS

IndusInd Bank Limited
Corporation Bank
HDFC Bank Limited
ICICI Bank Limited
UCO 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, Punjagutta,
Hyderabad - 500 034
Tel : 040-2335-6975 / 040-2335-6507
Fax : 040-4005-0554

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Eleventh Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on Thursday, the 30th September 2010 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 2010 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 M/s Gokhale & Co., Chartered Accountants, Hyderabad as Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorize Board of Directors or any of its Committee(s) to fix their remuneration.

By Order of the Board of Directors

Hyderabad
26 August 2010

Raj Kumar Singh
Company Secretary

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 DIRECTOR 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 29 years of professional experience in audit and taxation matters of medium and large Corporates.

By Order of the Board of Directors

Hyderabad
26 August 2010

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 24-09-2010 to 30-09-2010 (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.

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Eleventh Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31st March 2010.

FINANCIAL RESULTS

(Rs. in Lakhs)

	Year ended 31 March 2010		Year ended 31 March 2009	
	Standalone	Consolidated	Standalone	Consolidated
Total Income	1707.00	2570.44	1054.29	2750.70
Operating Profit before Depreciation & Tax	(615.73)	(783.44)	(698.29)	(1089.88)
Less: Depreciation	115.39	496.85	114.28	438.37
Profit before Tax	(731.12)	(1280.29)	(813.01)	(1528.25)
Less: provision for FBT	0	0	3.80	3.80
Profit after Tax before extraordinary and prior period item	(731.12)	(1280.29)	(816.81)	(1532.05)
Less: Extraordinary and prior period item	(2.01)	(40.86)	(0.06)	(0.06)
Profit after tax after extraordinary and prior period item	(733.13)	(1321.15)	(816.75)	(1531.99)
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	(1.66)	(2.98)	(1.88)	(3.53)
Diluted	(1.66)	(2.98)	(1.88)	(3.53)
After extraordinary and prior period item				
Basic	(1.66)	(2.99)	(1.88)	(3.53)
Diluted	(1.66)	(2.99)	(1.88)	(3.53)

Operations

The consolidated income of the Company was Rs.25.70 Crores and the consolidated loss was Rs. 13.21 Crores.

MosChip India

The Company's products, which were launched during the last year, are ramping up in volume production and have started generating income during the year under review.

MosChip USA, a wholly owned subsidiary

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded revenue of USD 5.41 million.

Dividend

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

Increase in Share Capital

The Company has made a preferential allotment of 26,50,000 equity shares at Rs. 12.50/- per share to three (3) investors on 30 September 2009.

In view of the above allotment, the total outstanding paid-up equity share capital of the Company has increased from 4,33,85,517 equity shares from the previous year 2008-09 to 4,60,35,517 equity shares as on date.

Marketing and distribution

The sale of products developed by the Company is handled by MosChip USA, through its worldwide marketing and distribution networks. The Company has signed up new distributors in Asia and representatives in the North America during the last year. This distribution network is enabling a stronger presence in China and North America. In addition, the Company is also ramping up its Field Application Resources. The launch of 2 significant chips in MCS8142/44 and MCS9990 is seeing a lot of design activity in several vertical market segments and a few

customers have begun to ramp up the production. The major activity is in the consumer and SOHO markets. The company has not made any major investments into the marketing and sales due to the global economic slowdown most of last year.

MosChip's sales and marketing team focuses on end customers in the US & Asia Pacific regions as these areas are the most sophisticated to adopt new technologies quickly. The Company continues to work with distributors, third party sales and marketing organizations and also with potential end customers to define the appropriate requirements for the products under development. These requirements will include technical specifications, timing of product availability and price points. The sales and marketing channels are initially customer and engineering centric in order to facilitate the development of the system-level components with the greatest market demand.

Employee Stock Option Plan

During the year under report the Company has eight schemes in operation as mentioned below, for granting stock options to the employees, directors and employees of 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)
- (f) MosChip Stock Option Plan – 2008
- (g) MosChip Stock Option Plan – 2008(ALR)
- (h) MosChip Stock Option Plan – 2008(Director)

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

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, Director retires by rotation in the ensuing Annual General Meeting and being eligible, offers himself for re-appointment. Pursuant to the provisions of Clause 49 of the Listing Agreement entered with BSE, brief particular of the director is provided as an annexure to Notice convening Annual General Meeting.

Auditors

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

Qualification on the accounts and Board's Clarification

Pursuant to the provisions of sub-section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 14 May 2010 on the accounts of the Company and Board's clarification on the same are furnished below:

Qualification in Auditors Report

In the Balance Sheet, an amount of Rs 375,579,087/- is being reflected as investment made by the Company in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The subsidiary company has a negative net worth as per the audited financial statements as at March 31, 2010. No provision has been made by the company for the erosion in value of this investment.

Board's clarification

The Board is of the opinion that the difference between the investment amount and the net worth amount of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2010 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 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 2009-10 and of the 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

26 August 2010

**K. Ramachandra Reddy
Chairman & CEO**

ANNEXURE 'A' TO DIRECTORS REPORT

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 eight 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), MosChip Stock Option Plan – 2008, MosChip Stock Option Plan – 2008(ALR) and MosChip Stock Option Plan – 2008(Director)for issue and grant of stock options to its directors, 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 2009-10 are as under.

	2001	2002	2004	2005 (MI)	2005 (WOS)	2008	2008 (ALR)	2008 (D'TOR)
a) Options granted during the year	0	0	0	0	0	0	0	0
b) The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue							
c) Options Vested	28500	81750	79500	41000	200000	862068	152399	150000
d) Options exercised	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
e) The total number of shares arising as a result of exercise of options:	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
f) Options lapsed (As per the plan, options lapsed i.e. unexercised options on account of resignation et., shall become available for future grants under the existing plans)	64500	86000	197000	20000	0	1141559	306755	0
g) Variation of terms of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
h) Money realized by exercise of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
I) Total number of options in force	110000	316000	298000	112000	400000	868068	404799	300000
j) Employee wise details of options granted to								
1. Senior Managerial Personal					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					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			
4. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20.					(1.66)			

DIRECTORS' REPORT

- (l) The Company has not granted any options during the year under review. 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. 20.66
- Weighted average fair value of options: Rs. 6.49
- The company does not have any options where the market price was higher/lower than the exercise price.
- (n) The fair value of the options have been computed using the Black Scholes method, where the following assumptions were made:
- a) The expected life of the option is taken as the vesting period of the option.
 - b) 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%	10/04/2006	63.62%	26/10/2007	52.93%
31/10/2002	91.48%	18/05/2006	64.05%	26/11/2007	54.10%
29/01/2003	80.30%	30/06/2006	65.85%	30/01/2008	64.70%
27/06/2003	67.24%	04/09/2006	59.50%	24/03/2008	67.64%
19/02/2004	76.37%	27/10/2006	53.03%	30/04/2008	69.88%
26/08/2004	73.93%	06/11/2006	53.64%	29/07/2008	71.30%
18/11/2004	69.61%	18/01/2007	56.30%	22/09/2008	69.10%
31/01/2005	65.11%	29/03/2007	52.26%	23/10/2008	68.65%
30/06/2005	53.39%	25/04/2007	51.82%	30/01/2009	55.97%
23/09/2005	59.77%	28/06/2007	47.56%	04/03/2009	54.76%
24/01/2006	58.53%	31/07/2007	47.22%		

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

26 August 2010

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'B'

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

1. Conservation of Energy

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

2. Technology Absorption on Form B

Research & Development (R&D)

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

The Company has been working on IP development for USB3.0 IP, Network Attached Storage, Smartcard based Unique ID (UID), Living Home Media Entertainment Box and Digital Signage. USB over IP, Networked USB, PCI-Express, SATA.

Benefits derived/expected from the R&D work

Due to the new IP's that have been developed, the Company has been able to leverage and create applications using our chips for various different vertical markets..

The USB3.0 is a new standard with a very high data rate of 4.8Megabits/second as compared to a USB2.0 speeds of 0.48MegaBits/second. This standard is getting adopted in the market and expected to be the defacto standard in 2011. The IP's we are developing for this standard will enable us to generate new products to address this market segment in 2011.

Future plan of action

The Company continues to invest in R&D for future products. Some newer market opportunities in storage & living room media stations create opportunities for new products. The Company plans to leverage the next generation SOC products with software for various applications. This opens up opportunities for new market segments & helps our customer differentiate by software value addition.

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 primarily 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 increase significantly during the current year.

The Company has 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 March 31, 2010	Year ended March 31, 2009
Foreign Exchange earnings	170,399,422	104,072,863
Foreign Exchange outgo	102,703,371	39,655,625

For and on behalf of the Board of Directors

26 August 2010

**K. Ramachandra Reddy
Chairman & CEO**

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 focuses 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. MosChip subcontracts the manufacturing to ASIC Service Providers. The resulting chips are imported by MosChip and sold to MosChip USA. MosChip USA then sells these chips to end customers around the world, through its worldwide distribution networks.

MosChip has launched multiple products over the last several years and addressed several vertical market segments. Several customers are engaged in active

design of the 2 products launched during the last year. Some of these customers have started ramping up in production. Moschip has also signed services agreements with US based companies.

Industry

The Global recession has impacted the semiconductor market quite severely in the financial year under review. However there has been a considerable improvement in the market sentiments over the last 2-3 months.

The World Semiconductor Trade Statistics (WSTS) forecasts the semiconductor market to grow by 28.6 percent to \$291 billion in 2010. In 2009, the semiconductor industry was affected by the global economic crisis, with contracting results at an -9.0 percent growth, totaling \$226.3 billion. In 2010, the industry is recovering with revived enterprise and consumer spending.

The new forecast presents a materially more optimistic outlook for the year 2010, with an increase of \$44 billion over the fall forecast. The industry is now expected to top \$320.2 billion in 2012, with a 3-year compound annual growth rate of 12.3% from 2009 to 2012.

Outlook

The following sections highlight management's assessment of product and revenue potential.

Healthy organic growth

MosChip has released 1 complex System on Chip products (SOCs) in this fiscal year. This ARM based solution; MCS8142 targeting the Network Storage, SOHO and Embedded Markets and the MCS8144 targeting display based Digital Signage, Network Storage, Media Docking markets. Moschip has obtained positive reviews to these products. The MCS8142 is being considered for many NAS designs in Asia and to date has many design-in and design win opportunities.

In addition MosChip will has released 2 more PCIe based controllers. The MCS9990 is a PCIe to multiple USB2.0 Host bridge controller which has many customers designing using this products.. Similarly the MCS9950 is a PCIe to Display Bridge Controller. Both these solutions are targeting the fast growth Embedded, SOHO and Consumer markets.

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 several complex projects that have more than 6 million transistors in a single chip & delivered along with it software that is several millions of bytes. We are able to leverage this strength and create opportunities in Services business.

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. The market is adopting PCIe rapidly and The demand of our PCI Express products in 2010-2011 will help us grow revenues and retain our market position in this segment.

Identification of new opportunities for inorganic growth

MosChip is also looking to grow inorganically by identifying 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.

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

The market for outsourcing of design and engineering services to other providers has taken off with a couple customers and will continue to grow.

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 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 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 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.

A case in point, as 2008-09 saw one of the strongest reductions in economic conditions in over 80 years. 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 80 employees. All the employees are located at Hyderabad, India. Of these 65 are technical employees and the rest are 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.

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 2,650,000 equity shares of Rs.10 each at a price of Rs.12.50 per share (including premium of Rs.2.50) to the subscribers on a preferential basis. The total paid-up equity share capital of the company is Rs.460,355,170 as on 31 March 2010.

There are no calls-in-arrears.

2. Share Application Money

Share application money primarily consists of the excess amount received from and repayable to investors against the shares allotted to them and an upfront consideration of Rs. 781,250 against issue of 250,000 convertible warrants at a price of Rs.12.50 each.

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

Due to non payment of balance amount within the stipulated time, the upfront amount received against issue of 15,00,000 warrants was forfeited and credited to Capital Reserve Account.

Share Premium

The additions during the year to share premium account consists of Rs.6,625,000 on account of allotment of 2,650,000 equity shares of Rs.10 each at a premium of Rs.2.50 per share on preferential basis.

4. Secured Loans

The Company has availed Export Packing Credit facility from UCO Bank and the facility is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and on personal guarantee of Chairman and Managing Director of the Company.

5. Unsecured Loans

The Company has obtained unsecured loan from director of an amount of Rs. 1 Crore at the rate of 10% interest payable. Similarly, the Company has also obtained interest bearing Inter Corporate Deposit of Rs. 1 Crore at the rate of 10% interest.

6. Fixed Assets

During the year under review, the Company has invested an amount of Rs.23.96 lakhs towards capital expenditure. Additions to fixed assets increased by 1.6% during the financial year under review.

7. 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.

8. Interest Accrued on Deposits

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

9. Cash and Bank Balances

The bank balances in India include both Rupee Accounts and Foreign Currency Accounts. Fixed Deposits of Rs. 907,433 are given as security for issue of bank guarantees.

10. Sundry Debtors

The entire amount of Sundry Debtors of Rs.34,651,216 is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA.

11. Loans and Advances

Deposits

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

Advance to MosChip Employees' Trust

Advance to MosChip Employees' Trust of Rs.2,795,000/- is the balance amount of interest free loan given to the Trust as a part of the ESOP scheme of the Company.

Advance to Suppliers

Advance to suppliers of Rs.59,811,813 is the amount paid to suppliers towards import of finished goods.

Other advances

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

During the year an amount of USD 430,000 has been given as loan to the wholly owned subsidiary. This loan is repayable at the end of 3 years from the date of disbursement of loan along with interest at the rate of 10% accruing on quarterly basis.

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.

12. Current Liabilities

Sundry Creditors

Sundry Creditors (Others) of Rs.5,143,015 represents all current liabilities.

Advance from Customers

The entire amount of Advance from Customers of Rs.7,450,226 is received from its wholly owned subsidiary MosChip Semiconductor Technology, USA against future exports.

13. Provisions

Provision of Rs. 3,471,887 includes provision for Leave Encashment amounting to Rs. 1,392,309 and Rs. 2,079,578 towards Gratuity.

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.

14. Guarantees

The Company has outstanding guarantees for various purposes amounting to Rs.3,432,433 (previous year Rs.3,414,185 for the year ended 31 March 2010).

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

Profit and Loss Account

15. Sales Revenue

The sales revenue for the year under review amounted to Rs.170,399,422 as against Rs.104,072,863 during the previous year. Of this Rs.125,644,828 was on account of export sales of finished goods (semiconductor chips) and the remaining amount was on account of software development and royalty charges billed to the wholly owned subsidiary.

16. Non Operating Income

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

17. Expenditure

The expenditure for the year under review amounted to Rs.232,273,139 as against Rs.175,302,077 during the previous year.

18. Depreciation

During the year, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each amounting to Rs. 11,539.

19. Loss for the year

The loss for the year after tax but before extraordinary and prior period item is Rs.73,289,367 compared to the previous year loss of Rs. 81,680,731.

The loss for the year after tax after extraordinary and prior period item is Rs.73,313,106 compared to the previous year loss of Rs.81,674,904.

20. Earnings Per Share

The Basic and Diluted Earnings per Share computed in accordance with the Accounting Standard 20 issued by the Institute of Chartered Accountants of India is Rs. -1.66 before taking into consideration extraordinary and prior period item and Rs. -1.66 after taking into consideration extraordinary and prior period item. More details on computation of EPS are given in Note 15.2.7 of Notes on Accounts.

21. Foreign Exchange Difference

An amount of Rs. 4,368,953 has been considered as unrealized loss and an amount of Rs. 1,091,412 as realized loss on foreign exchange fluctuation during the financial year under review on account of foreign exchange rate differences arising due to timing differences between accrual of income/expense and receipt/payment of the same.

22. Related Party Transactions

The transactions with the related parties other than employees are given in Note 15.2.9 of Notes on Accounts.

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

23. Leases

The Company has operating leases for Office Buildings. The rental expenses for operating leases for the year ended 31 March 2010 amounted to Rs.10,343,264. The Company has the right to terminate the lease agreement for Hyderabad office building by giving three months written notice.

24. 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 eight 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), MosChip Stock Option Plan 2005 (WOS), MosChip Stock Option Plan 2008, MosChip Stock Option Plan 2008(ALR) and MosChip Stock Option Plan 2008(Director) with 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 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 15.2.6 of Notes on Accounts and Annexure – A to Directors Report.

REPORT ON CORPORATE GOVERNANCE

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 comprise **60%** of the Board.

a) Composition and category of directors as on 31st March 2010

Table - 1

Category	No. of Directors
Executive Directors (Promoter Directors)	02
Non-Executive Independent Directors	03
Total	05

b) Attendance of each director at the Board meetings held during the year 2009- 10 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	06	Yes
Mr. Alur Ramesh	06	04	No
Prof. Vijaya Chandru	06	02	No
Mr. G. Prasad	06	06	No

c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2009-10

Table - 3

Name of the Director	Board		Committee	
	<i>Chairman</i>	<i>Member</i>	<i>Chairman</i>	<i>Member</i>
Mr. K. Ramachandra Reddy	Nil	Nil	Nil	Nil
Mr. C. Dayakar Reddy	Nil	01	Nil	Nil
Mr. Alur Ramesh	Nil	11	Nil	01
Prof. Vijaya Chandru	01	02	Nil	Nil
Mr. G. Prasad	Nil	Nil	Nil	Nil

d) No. of Board Meetings held and dates on which they were held during 2009-10

Table - 4

Quarter	No. of Meetings	Dates on which held
April - June	02	22 April 2009, 30 June 2009
July – September	02	27 July 2009, 20 August 2009
October – December	01	29 October 2009
January – March	01	28 January 2010
Total	06	

CORPORATE GOVERNANCE REPORT

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 19th 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 30th June 2003 and on 26th 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 Bombay Stock Exchange Limited, Mumbai, 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, name 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

c) Meetings and attendance during the year 2009-10

Four meetings of the Audit Committee were held during the year 2009-10. Mr. G. Prasad attended all four meetings. Mr. A. Ramesh attended three meetings and Prof. Vijaya Chandru attended one meeting.

4. Remuneration Committee

a) Brief description of terms of reference

To determine on behalf of Board and Shareholders, the Company's policy on specific remuneration packages for Executive directors and Non-Executive directors, including pension rights and any compensation payment. The Committee was re-constituted on 30th June 2003, and 26th August 2004.

b) Composition, name of members and Chairperson

The Remuneration Committee comprises of the following directors

1. Mr. G. Prasad -- Chairman
2. Mr. A. Ramesh -- Member
3. Prof. Vijaya Chandru -- Member

c) Attendance during the year 2009-10

One Meeting was held during the year 2009-10 on 27 July 2009 to approve the re-appointment of Mr. K. Ramachandra Reddy as Chairman & CEO of the Company and Mr. C. Dayakar Reddy as Managing Director of the Company.

Besides, sitting fee for attending Board and Committee meetings, no special compensation to Non-Executive directors are envisaged during the year 2009-10.

d) Details of remuneration to all the directors

Table - 5

Sl. No.	Name	Designation	Salary (In Rs.)	Performance Incentives (in Rs)	Commission (in Rs.)	Total (In Rs.)	Severance Fee (in Rs.)	Notice period	Sitting Fee (in Rs.)	Stock Options
01	K.Ramachandra Reddy	Chairman	40,50,000	Nil	Nil	40,50,000	NA	NA	Nil	Nil
02	C.Dayakar Reddy	M.D.	40,50,000	Nil	Nil	40,50,000	NA	NA	Nil	Nil
03	A. Ramesh	Director	NA	NA	NA	NA	NA	NA	26,000	1,00,000
04	G.Prasad	Director	NA	NA	NA	NA	NA	NA	36,000	1,00,000
05	Prof. Vijaya Chandru	Director	NA	NA	NA	NA	NA	NA	10,000	1,00,000

5. Shareholders / Investors Grievance Committee

This Committee was re-constituted on 30th June 2003 and on 26th 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, name 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

c) Name and Designation of Compliance Officer

Mr. Raj Kumar Singh --- Company Secretary

d) No. of Shareholders Complaints received during the year 2009-10

During the year 2009-10, 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 was no complaint that was 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 2009-10

Table - 6

Sl. No.	Nature of Complaint/Request	Received	Disposed	Pending
1	Change / Correction of address	01	01	Nil
2	Loss/Issue of duplicate Share Certificate	Nil	Nil	Nil
3	Non-receipt of Share Certificate	Nil	Nil	Nil
4	Non-receipt of Refund order/dividend warrant	01	01	Nil
5	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
Eighth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	29 th September 2007 at 10.30 hrs.
Ninth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	29 th August 2008 at 10.30 hrs
Tenth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 th September 2009 at 10.30 hrs.

7. Disclosures

- a) During the year 2009-10, the Company has entered into related party transactions worth Rs.225,604,466 (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 Financial Express in English and Prajashakti 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.

Management's Discussion and Analysis forms part of the Annual Report.

9. General Shareholder Information

AGM – Date, Time and Venue : 30th September 2010, 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 2010-11:

First Quarter Results	:	27 th July 2010
Second Quarter & Half-yearly Results	:	Between 20 th & 31 st October 2010
Third Quarter Results	:	Between 20 th & 31 st January 2011
Fourth Quarter & Annual Results	:	Between 20 th & 30 th May 2011
(Audited in lieu of un-audited results)		

- Date of Book Closure : 24st September 2010 to 30th September 2010
(both days inclusive)
- Dividend Payment Date : Not Applicable
- Listing on Stock Exchanges : Bombay Stock Exchange Limited
P J Towers, Dalal Street, Fort
Mumbai – 400 001.
- Stock Code
Bombay Stock Exchange Limited : 532407 / MOSCHIP SEMI
- Market Price data : High / Low during each month in the Financial Year 2009-10 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.

CORPORATE GOVERNANCE REPORT

Table -8

Month & Year	MOSCHIP		SENSEX	
	High	Low	High	Low
Apr 09	8.25	6.41	11,492.10	9,546.29
May 09	10.83	6.08	14,930.54	11,621.30
Jun 09	14.47	9.00	15,600.30	14,016.95
Jul 09	10.40	7.40	15,732.81	13,219.99
Aug 09	11.50	8.30	16,002.46	14,684.45
Sep 09	11.69	9.03	17,142.52	15,356.72
Oct 09	12.18	8.60	17,493.17	15,805.20
Nov 09	11.00	8.05	17,290.48	15,330.56
Dec 09	11.95	8.60	17,530.94	16,577.78
Jan 10	14.50	9.34	17,790.33	15,982.08
Feb 10	10.40	8.20	16,669.25	15,651.99
Mar 10	9.57	7.81	17,793.01	16,438.45

Registrar and Transfer Agents :

Sathguru Management Consultants Private Limited.

Plot No.15, Hindi Nagar, Punjagutta,
Hyderabad – 500 034. Tel: +91-40-2335-0586 / 2335-6507 /
2335-6975 Fax: +91-40-4004-0554
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 31st March 2010 is shown in *Table-9*

CORPORATE GOVERNANCE REPORT

Distribution of Shareholding as on 31st March 2010

Table -9

Sl.No	Category		No. of members		Equity Shares Amount		% of equity	
	From	To	Physical	Electronic	Physical	Electronic	Physical	Electronic
1	1	5000	79	22036	136680	50612560	0.03	10.99
2	5001	10000	02	4267	18000	37387970	0.00	8.12
3	10001	20000	00	2073	000	33455520	0.00	7.27
4	20001	30000	05	674	130000	17726440	0.03	3.85
5	30001	40000	00	305	000	11103520	0.00	2.41
6	40001	50000	03	330	150000	15936590	0.03	3.46
7	50001	100000	01	397	75900	30138090	0.02	6.55
8	100001	Above	22	317	60135110	203348790	13.06	44.17
Total			112	30399	60645690	399709480	13.17	86.83
Grand Total			30511		460355170		100.00	

Dematerialisation of shares and liquidity

As per SEBI guidelines on investors' protection, the Company's shares are to be traded only in dematerialized mode. Accordingly, the Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to establish electronic connectivity and facilitate scrip-less trading. As at the end of 31st March 2010, **86.83%** of the outstanding equity shares of the company are in electronic form.

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

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 -10:

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: +91-40-6622 9292 Fax: +91-6622 9393, Email : investorrelations@moschip.com

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

Sathguru Management Consultants Private Limited

Plot No.15, Hindi Nagar, Punjagutta, Hyderabad – 500 034

Contact Person: Mr. R. Chandrasekher – Sr. Divisional Manager (Capital Markets)

Tel: +91-40-2335-0586 / 2335-6507 / 2335-6975 Fax: +91-40-4004-0554,

Email: sta@sathguru.com Web: www.sathguru.com

For and on behalf of the Board of Directors

K. Ramachandra Reddy
Chairman & CEO

26 August 2010

ANNEXURE 'D'

CERTIFICATE ON CORPORATE GOVERNANCE

The Members

MosChip Semiconductor Technology Limited

1. We have examined the compliance of conditions of Corporate Governance by MosChip Semiconductor Technology Limited for the year ended 31 March 2010 as stipulated in Clause 49 of the Listing Agreement of the said company with Stock Exchange.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the review of the procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

3. In our opinion and to the best of our information and according to the explanations given to us and the representations made by the directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.
4. 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.

For LD Reddy & CO.,
Company Secretaries,

Hyderabad
05 August 2010

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

ANNEXURE 'E'

CEO'S DECLARATION

The Members,
MosChip Semiconductor Technology Limited.

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

26 August 2010

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 2010 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. In the Balance Sheet, an amount of Rs 37,55,79,087 is being reflected as investment made by the company in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The subsidiary company has a negative network as per the audited financial statements as at March 31, 2010. No provision has been made by the company for the erosion in value of this .

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.

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 2010 ;
- b) The Consolidated Profit & Loss Account for the year ended 31 March 2010 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 2010.

For Gokhale & Co.,
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Place: Hyderabad
Date: 14 May 2010

**CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2010**

CONSOLIDATED

	Schedule No.	As at 31 March 2010		As at 31 March 2009	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS:					
SHAREHOLDERS' FUNDS:					
Share Capital	1	460,355,170		433,855,170	
Share Application Money		991,838		115,123	
Reserves and Surplus	2	674,661,968		672,426,562	
Secured Loans	3	117,671,728		71,399,207	
Unsecured Loans	4	53,750,000		50,710,000	
Total		1,307,430,704		1,228,506,062	
APPLICATION OF FUNDS:					
FIXED ASSETS:					
Gross Block	5	311,602,504		274,524,171	
Less: Depreciation		228,087,456		191,731,873	
Net Block		83,515,048		82,792,297	
Capital work in progress		36,385,200		88,586,519	
Goodwill		235,817,338		235,817,338	
INVESTMENTS	6	134,720		151,582	
NET CURRENT ASSETS: CURRENT ASSETS, LOANS AND ADVANCES:					
Inventories	7	51,255,221		55,965,794	
Sundry Debtors	8	39,897,564		49,568,087	
Cash and Bank Balances	9	5,722,242		12,476,277	
Loans and Advances	10	19,125,898		16,321,221	
Interest accrued on Deposits		176,344		127,182	
GROSS CURRENT ASSETS		116,177,269		134,458,561	
Less: Current Liabilities and provisions	11	56,617,275	59,559,994	76,021,759	58,436,802
NET CURRENT ASSETS					
MISCELLANEOUS EXPENDITURE	12		0		2,818,095
PROFIT AND LOSS ACCOUNT			892,018,404		759,903,429
NOTES TO ACCOUNTS	17				
Total		1,307,430,704		1,228,506,062	

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 14 May 2010

Raj Kumar Singh

Company Secretary

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2010**

CONSOLIDATED

	Schedule No.	For the year ended 31 March 2010 Rs.	For the year ended 31 March 2009 Rs.
I INCOME:			
Sales Revenue	13	254,866,718	271,598,463
Other Income	14	2,177,172	3,471,592
		257,043,891	275,070,055
II EXPENDITURE:			
Material Cost, Software and Administrative Expenses	15	318,722,776	377,479,776
Financial Charges	16	16,665,249	6,577,943
Depreciation	5	49,684,761	43,837,280
		385,072,786	427,894,999
III Profit/(Loss) Before Tax		(128,028,896)	(152,824,944)
Less : Fringe Benefit Tax		0	379,845
Profit/(Loss) After Tax Before Exceptional Item		(128,028,896)	(153,204,789)
Less: Exceptional Item		4,062,340	0
Profit/(Loss) After Tax and Exceptional item Before Extraordinary and Prior Period Item		(132,091,236)	(153,204,789)
Less: Extra Ordinary and Prior Period Items		23,739	(5,827)
Profit/(Loss) After tax and After Extraordinary and Prior Period Item		(132,114,975)	(153,198,962)
Add: Balance brought forward from previous year		(759,903,429)	(606,704,467)
Balance carried to Balance Sheet		(892,018,404)	(759,903,429)
IV Earnings Per Share (EPS)			
Equity Share of face value Rs.10/- each			
Before Extraordinary and Prior Period Items			
Basic		(2.98)	(3.53)
Diluted		(2.98)	(3.53)
After Extraordinary and Prior Period Items			
Basic		(2.99)	(3.53)
Diluted		(2.99)	(3.53)
Number of shares used in computing EPS			
Basic		46,035,517	43,385,517
Diluted		46,035,517	43,385,517

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

K. Ramachandra Reddy

Chairman & CEO

C. Dayakar Reddy

Managing Director

Place Hyderabad

Date 14 May 2010

Raj Kumar Singh

Company Secretary

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

	As At 31 March 2010 Rs.	As At 31 March 2009 Rs.
SCHEDULE 1		
SHARE CAPITAL:		
<u>Authorised:</u> 55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	550,000,000	550,000,000
<u>Issued:</u> 47,750,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	477,505,890	451,005,890
<u>Subscribed and Paid-up:</u> 46,035,517 (Previous year 43,385,517) equity shares of Rs.10/- each	460,355,170	433,855,170
(Of the above 8,325,770 shares of Rs. 10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA) (Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Veracity Technologies, Inc with the Company)		
SCHEDULE 2		
RESERVES AND SURPLUS:		
Foreign Currency Translation Reserve	2,128,048	6,517,642
Capital Reserve	1,250,000	1,250,000
Forfeited share warrants	4,650,000	4,650,000
<u>Securities Premium</u>		
Opening Balance	660,008,920	660,008,920
Additions	6,625,000	0
	666,633,920	660,008,920
	674,661,968	672,426,562
SCHEDULE 3		
SECURED LOANS:		
Packing Credit	117,671,728	71,399,207
	117,671,728	71,399,207
SCHEDULE 4		
UNSECURED LOANS:		
Unsecured loans	53,750,000	50,710,000
	53,750,000	50,710,000

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

CONSOLIDATED

**SCHEDULE - 5
CONSOLIDATED FIXED ASSETS**

S.No	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK		
		Balance as at 01.04.2009	Additions during the year	Adjustments during the year	Deletions during the year	Balance as at 31.03.2010	For the year	Adjustments during the year	Deletions during the year	Balance as at 31.03.2010	Balance as at 31.03.2009	
1	Computers	30,123,316	231,426	0	41,500	30,313,242	3,418,529	0	13,509	21,034,784	9,278,458	12,493,552
2	Electrical Installation	2,298,675	0	0	0	2,298,675	106,988	0	0	685,886	1,612,789	1,719,777
3	Plant and Machinery	28,059,112	34,250	0	0	28,093,362	349,900	0	0	22,981,364	5,111,998	5,427,649
4	Software	67,595,944	1,400,643	(1,021,441)	0	67,975,146	7,370,246	(581,981)	0	61,573,581	6,401,564	12,810,628
5	Furniture and Fittings	9,576,891	0	1,071,031	1445,588	9,202,334	599,611	94,935	234,410	4,320,337	4,881,997	5,716,690
6	Office Equipment	12,310,803	623,157	(1,756,641)	2,566,433	8,610,886	670,339	(467,413)	1,031,531	3,826,517	4,784,369	7,655,681
7	Vehicles	84,257	0	0	0	84,257	7,804	0	0	62,518	21,739	29,543
8	Lab Equipment	16,138,336	106,661	0	0	16,244,997	767,784	0	0	2,900,629	13,344,368	14,005,491
9	Leasehold Improvements	3,938,681	0	0	0	3,938,681	1,602,811	0	0	3,823,342	115,339	1,718,150
10	Mask Tools	104,398,156	56,225,550	(15,782,782)	0	144,840,924	34,790,747	(11,095,268)	0	106,878,497	37,962,427	21,215,138
	TOTAL	274,524,171	58,621,687	(17,489,833)	4,053,521	311,602,504	49,684,761	(12,049,727)	1,279,450	228,087,456	83,515,048	82,792,297
	Previous Year	229,731,556	20,675,501	24,390,773	273,659	274,524,171	43,837,280	15,593,503	96,303	191,731,873	82,792,297	-

Note:

* Adjustments for the year includes Rs.17,489,833/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

** Adjustments for the year includes Rs.12,049,727/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

SCHEDULES	As at 31 March 2010 Rs.	As at 31 March 2009 Rs.
SCHEDULE 6		
INVESTMENTS:		
Current		
SVB Securities Liquid Fund	134,720	151,582
	134,720	151,582
SCHEDULE 7		
INVENTORIES:		
Finished Goods	51,255,221	55,965,794
	51,255,221	55,965,794
SCHEDULE 8		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	0	0
Others	39,897,564	49,568,087
	39,897,564	49,568,087
SCHEDULE 9		
CASH AND BANK BALANCES:		
Cash on hand	22,144	14,643
Balance with Scheduled Banks		
- In Current accounts	2,121,375	1,834,105
- In fixed deposit accounts	907,433	889,185
(Rs.907,433/- (Previous Year Rs.889,185/-) pledged towards margin on bank Guarantee)		
Balance with Non-Scheduled Banks in Current Accounts	2,671,290	9,738,344
	5,722,242	12,476,277
SCHEDULE 10		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	3,572,820	3,553,174
MosChip Employees Trust	2,795,000	2,835,000
Other Advances and Receivables	2,617,801	6,475,803
Prepaid Expenses	10,042,446	2,960,517
Prepaid Income Tax	97,831	496,726
	19,125,898	16,321,221

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

CONSOLIDATED

SCHEDULES	As at 31 March 2010 Rs.	As at 31 March 2009 Rs.
SCHEDULE 11		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	0	0
Others	51,719,856	71,117,775
	51,719,856	71,117,775
PROVISIONS:		
Leave Encashment	2,119,473	2,488,948
Gratuity	2,079,578	1,895,415
Expenses	698,368	481,745
Fringe Benefit Tax (net)	0	37,875
	4,897,419	4,903,983
	56,617,275	76,021,759
SCHEDULE 12		
MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
GDR Issue Expenses	0	2,818,095
	0	2,818,095

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

CONSOLIDATED

SCHEDULES	For the year ended 31 March 2010 Rs.	For the year ended 31 March 2009 Rs.
SCHEDULE 13		
SALES:		
Semiconductor Sales	254,866,718	271,598,463
Misc. Sales	0	0
	254,866,718	271,598,463
SCHEDULE 14		
OTHER INCOME:		
Interest Earned (Gross)	108,064	329,232
((Tax Deducted at Source Rs.7,856/- (previous year Rs.15,975/-))		
Miscellaneous Income	2,050,653	1,971,773
Profit on Sale of Investments	18,455	1,170,587
	2,177,172	3,471,592

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

SCHEDULES	For the year ended 31 March 2010 Rs.	For the year ended 31 March 2009 Rs.
SCHEDULE 15		
MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES:		
Materials, Finished and Processed Stocks	136,559,659	131,642,829
Freight Expenses	2,319,269	2,393,157
Salaries and Other Allowances to Employees	91,183,881	139,294,390
Contribution to PF, ESI & Gratuity	1,238,151	1,139,954
Staff Welfare Expenses	4,787,829	5,629,981
Directors' Remuneration	8,100,000	9,715,000
Consumables	4,360,198	11,134,399
Research and Development Expenses	1,801,262	3,456,353
Software Charges	3,281,732	1,908,037
Communication Expenses	490,754	665,142
Computer Maintenance	342,758	510,183
Directors' Sitting Fee	72,000	86,000
Printing and Stationery	157,395	465,172
Postage, Telegrams and Telephones	1,648,237	1,803,179
Rent	17,163,239	18,418,443
Fees, Rates and Taxes	3,178,651	4,527,941
Vehicle Maintenance	42,530	44,590
Repairs and Maintenance	308,171	257,811
Traveling and Conveyance	6,244,969	9,327,517
Marketing Expenses	1,852,365	4,954,987
Advertisement Expenses	4,367,653	4,313,159
Payments to Auditors	817,102	757,498
Insurance	4,702,762	5,319,736
Export Freight and Insurance	1,789,800	568,645
Professional charges	3,792,314	12,614,338
Electricity Charges	2,466,973	2,921,879
Recruitment Expenses	0	772,695
General Expenses	5,832,775	4,863,262
Loss on fixed assets sold / discarded	1,541,890	129,898
Realised Loss on Forex Fluctuation	1,091,412	(2,946,525)
Unrealised Loss on Forex Fluctuation	4,368,953	(2,027,941)
GDR Issue Expenses Written Off	2,818,095	2,818,068
	318,722,776	377,479,776
SCHEDULE 16		
FINANCIAL CHARGES:		
Loan Processing Charges	289,316	741,808
Interest Paid on Loans	15,849,749	5,632,274
Bank charges	526,185	203,861
	16,665,249	6,577,943

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

SCHEDULE 17

NOTES TO ACCOUNTS

17. Company overview

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") and its subsidiary (hereinafter collectively referred to as "the Group") is a a fabless semiconductor company engaged in the business of developing and manufacturer of application specific integrated circuits (ASICs) and System on Chip (SOC) technologies. The Company specializes in the areas of computer peripherals, data communications and consumer electronics

MosChip has its headquarters in Hyderabad with office in United States of America.

17.1 Significant Accounting Policies

17.1.1 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 2010.

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.

17.1.2 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 recognized as Goodwill in Consolidated Financial Statements.

17.1.3 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.

17.1.4 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.

17.1.5 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.

17.1.6 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.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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.

17.1.7 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.

17.1.8 Foreign Exchange Transactions

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.

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.

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.

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.

17.1.9 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.

17.1.10 Retirement benefits

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.

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.

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

17.1.11 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.

17.1.12 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**

17.2 Notes on Accounts

17.2.1 Contingent Liabilities:

Particulars	As at 31 March	
	2010	2009
Estimated amount of unexecuted capital contracts not provided	Nil	12,555,967
Outstanding Bank Guarantee given by bankers	907,433	889,185
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

17.2.2 Share Capital

The Company has allotted 2,650,000 equity shares of Rs.10 each at a price of Rs.12.50 per share (including premium of Rs.2.50) to the subscribers on a preferential basis during the financial year, raising an amount of Rs.33,125,000/-.

Convertible warrants

During the year under review, the Company has issued 250,000 convertible warrants at a price of Rs.12.50 each. The said warrants represent a right to acquire, but not exceeding, 250,000 equity shares of Rs.10 each at the price of Rs.12.50 (including premium) per share. The warrants can be exercised within a period of 18 months from the date of issue of such warrants. The warrants were issued for an upfront consideration of Rs.781,250. Non-exercise of warrants within 18 months from the date of issue will result in forfeiture of upfront consideration.

17.2.3 Secured and Unsecured Loans

Export Packing Credit facility of Rs. 117,671,728 obtained from UCO Bank is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director.

The Company has obtained unsecured loan from director of an amount of Rs. 1 Crore at the rate of 10% interest payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2010. The due date for the loan repayment is on or before 03rd September 2010.

The company has also obtained interest bearing Inter Corporate Deposit of Rs. 1 Crore at the rate of 10% interest. The provision for the same has been made in these accounts in the financial year ending 31st March 2010. Due date for the repayment of loan is on or before 06th September 2010.

The unsecured loan includes a sum of USD 750,000 (Rs.33,750,000) as external commercial borrowings by subsidiary.

The interest and other terms and conditions are not prejudicial to the interest of the company

17.2.4 Exceptional Items

During the year under review, the company has discarded some assets which were retired from active use and as no further benefit was expected. The Gross block value and the Accumulated Depreciation of the assets are Rs. 1,607,044 and Rs. 972,227 respectively. Similarly during the year under review, the company has identified obsolete stocks of Rs.3,427,525.

The amounts being material in nature has been disclosed under "Exceptional Item" for the year.

17.2.5 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:

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

(Amount in Rupees except share numbers)

	Year ended 31 March 2010	Year ended 31 March 2009
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(128,028,896)	(153,204,789)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(132,114,975)	(153,198,962)
Weighted average number of equity shares	46,035,517	43,385,517
EPS before extraordinary and prior period item	(2.98)	(3.53)
EPS after extraordinary and prior period item	(2.99)	(3.53)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(128,028,896)	(153,204,789)
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(132,114,975)	(153,198,962)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(128,028,896)	(153,204,789)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(132,114,975)	(153,198,962)
Weighted average number of equity shares	46,035,517	43,385,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	43,385,517
EPS before extraordinary and prior period item	(2.98)	(3.53)
EPS after extraordinary and prior period item	(2.99)	(3.53)

17.2.6 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

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

a) Business Segment Information:

Particulars	Year ended 31 March 2010	
	Software Rs.	ASICs Rs.
Revenue		
Sales to external customers	0	254,866,718
Segment Profit / (loss)	(139,691,951)	5,600,988
Other Income	125,030	2,052,142
Profit / (loss) before Tax	(139,566,921)	7,653,130
Fringe Benefit Tax	0	0
Exceptional Item	177,445	3,884,895
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(139,744,366)	7,653,130
Extraordinary and Prior Period Income	23,739	0
Net profit/(loss)	(139,768,105)	7,653,130
Other Segment Information		
Depreciation	11,538,752	38,146,009
Non-cash expenses other than depreciation	3,013,156	1,524,274
Particulars of Segment Assets and Liabilities		
Segment Assets	49,974,784	180,196,291
Investments	0	134,720
Cash and Bank Deposits	3,235,821	2,486,421
Other Assets	184,200	0
Total Assets	53,394,805	182,817,432
Segment Liabilities	8,614,902	48,002,373
Secured Loans	117,671,728	0
Unsecured Loans	20,000,000	33,750,000
Total Liabilities	146,286,630	81,752,373

b) Geographic Segment Information:

	Year ended 31 March 2010
Revenue	
Hong Kong	140,355,728
Taiwan	62,008,936
Japan	30,436,414
Rest of World	22,065,640
Carrying amount of segment fixed assets	
India	133,353,033
North America	214,634,671
Additions to fixed assets	
India	2,396,137
North America	56,225,550

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

17.2.7 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 2010. 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.

17.2.8 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 nine 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), MosChip Stock Option Plan 2005 (WOS), MosChip Stock Option Plan 2008, MosChip Stock Option Plan 2008(ALR) and MosChip Stock Option Plan 2008(Director) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 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 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	180,200	243,800
Granted during the year	0	0
Forfeited during the year	23,400	63,600
Exercised during the year	0	0
Outstanding at the end of the year	156,800	180,200

Stock Options Outstanding under the Moschip Stock Option Plan 2001

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	174,500	170,875
Granted during the year	0	153,000
Forfeited during the year	64,500	149,375
Exercised during the year	0	0
Outstanding at the end of the year	110,000	174,500

Stock Options Outstanding under the Moschip Stock Option Plan 2002

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	402,000	501,129
Granted during the year	0	448,000
Forfeited during the year	86,000	547,129
Exercised during the year	0	0
Outstanding at the end of the year	316,000	402,000

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	495,000	861,000
Granted during the year	0	572,000
Forfeited during the year	197,000	938,000
Exercised during the year	0	0
Outstanding at the end of the year	298,000	495,000

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	132,000	484,000
Granted during the year	0	0
Forfeited during the year	20,000	352,000
Exercised during the year	0	0
Outstanding at the end of the year	112,000	132,000

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

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	400,000	475,000
Granted during the year	0	0
Forfeited during the year	0	75,000
Exercised during the year	0	0
Outstanding at the end of the year	400,000	400,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	2,009,627	0
Granted during the year	0	2,814,327
Forfeited during the year	11,41,559	804,700
Exercised during the year	0	0
Outstanding at the end of the year	868,068	2,009,627

Stock Options Outstanding under the MosChip Stock Option Plan 2008(ALR)

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	711,554	0
Granted during the year	0	741,554
Forfeited during the year	306,755	30,000
Exercised during the year	0	0
Outstanding at the end of the year	404,799	711,554

Stock Options Outstanding under the MosChip Stock Option Plan 2008 (Director)

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	300,000	0
Granted during the year	0	400,000
Forfeited during the year	0	100,000
Exercised during the year	0	0
Outstanding at the end of the year	300,000	300,000

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

17.2.9 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:

(Amounts in Rupees)

	Year ended 31 March 2010
Gratuity cost for the period	
Current Service Cost	691,157
Interest cost on defined benefit obligation	343,704
Expected Return on Plan Assets	(220,256)
Net Actuarial losses/(gain) recognised in year	19,353
Net Gratuity cost	833,958
Balance Sheet	
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	3,611,446
Present Value of the funded obligation at the end of the year	1,531,868
Asset/(Liability) recognized in the balance sheet	(2,079,578)
Change in the present value of defined benefit obligation are as follows:	
Present value of obligations at the beginning of year	3,899,186
Current Service Cost	691,157
Interest cost	343,704
Actuarial (gain)/loss	(12,680)
Benefits paid	(1,309,921)
Present value of obligations as at the end of year	3,611,446
Change in the fair value of plan assets are as follows:	
Fair Value of Plan Assets at beginning of year	2,003,771
Expected return on plan assets	220,256
Actuarial gain/(loss)	(32,033)
Contributions	649,795
Benefits paid	(1,309,921)
Fair Value of Plan Assets at end of year	1,531,868

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

Discount Rate - 8.30%

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.

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.

Above figures have been adopted as per actuarial valuation done by Thanawala Consultancy Services.

The defined benefit obligation of compensated absence (leave encashment) in respect of the employees of the company as at 31st March 2010 is Rs. 1,392,309.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

17.2.10 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 are as follows:

Asset Description	Estimated useful life
Equipment	5 Yrs
Furniture & Fixtures	7 Yrs
Computer Software	3 Yrs

Had the Subsidiary followed the depreciation rates in line with that of parent company, depreciation for the year ended 31 March 2010 would have been lower by Rs. 1,455,222/- and loss for the period would have been lower by Rs. 1,455,222/-.

17.2.11 Regrouping/ Reclassification

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

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No. 23839

K.Ramachandra Reddy
Chairman & CEO

C.Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

Raj Kumar Singh
Company Secretary

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010**

CONSOLIDATED

	31 March 2010 Rs.	31 March 2009 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(132,091,236)	(152,824,944)
Adjustments for:		
Depreciation	49,684,761	43,837,280
GDR issue expenses written off	2,818,095	2,818,068
Interest Income	(108,064)	(329,232)
Loss on Sale of Fixed Assets	1,541,890	129,898
Profit on sale of Current Investments	(18,455)	(1,170,587)
Provision for Retirement Benefits	(185,312)	(396,176)
Foreign Exchange adjustments	25,541	39,925
Operating Profit before changes in working capital	(78,332,780)	(107,895,769)
Increase/(Decrease) in Secured Loans	46,272,521	71,399,207
Increase/(Decrease) in Unsecured loans	3,040,000	50,710,000
(Increase)/Decrease in Sundry Debtors	9,670,524	(6,831,425)
(Increase)/Decrease in Inventories	1,283,045	(36,257,308)
(Increase)/Decrease in Loans and Advances	(3,203,572)	(276,009)
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	(18,248)	0
Increase/(Decrease) in Current liabilities	(19,404,484)	39,787,535
Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items	(40,692,994)	10,636,231
Income-tax paid	(398,895)	(676,156)
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	(40,294,099)	(11,312,388)
Fixed Assets Discarded (Exceptional Item)	4,062,340	0
Extra Ordinary Income	23,739	(5,827)
Net cash from operating Activities [A]	(36,255,498)	11,318,215
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(6,420,368)	(95,356,869)
Sale proceeds of Fixed Assets	597,366	47,458
Interest received on Fixed Deposits	58,902	260,023
Purchase of Current Investments	(27,900,000)	(47,000,000)
Sale of Current Investments	27,918,455	48,170,587
Foreign currency translation adjustment for non-integral operation	1,235,823	13,146,320
Net Cash used for Investing Activities [B]	(4,509,822)	(80,732,480)
C. Cash flow from Financing Activities:		
Net proceeds from Issue of Share Capital	27,376,715	(14,292)
Securities Premium	6,625,000	0
Convertible Warrants	0	0
Net Cash from Financing Activities [C]	34,001,715	(14,292)

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010**

CONSOLIDATED

	31 March 2010 Rs.	31 March 2009 Rs.
D. Exchange differences on translation of foreign currency cash	<u>(25,541)</u>	<u>(39,925)</u>
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	(6,789,145)	(69,468,483)
Cash and Cash equivalents at the beginning of the year	<u>11,738,674</u>	<u>81,207,157</u>
Cash and Cash equivalents at the end of the year	<u>4,949,529</u>	<u>11,738,674</u>
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	5,856,962	12,627,859
Less: Fixed Deposits towards Bank Guarantee considered as investments	<u>907,433</u>	<u>889,185</u>
	<u>4,949,529</u>	<u>11,738,674</u>

Per and subject to our report of even date
For Gokhale & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhhar Gokhale
Partner
Membership No. 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

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 March 31, 2010 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 of India 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. In the Balance Sheet, an amount of Rs 37,55,79,087 is being reflected as investment made by the company in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The subsidiary company has a negative networth as per the audited financial statements as at March 31, 2010. No provision has been made by the company for the erosion in value of this investment.
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 standards 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 March 31, 2010 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on March 31, 2010 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 March 31, 2010
 - ii) In the case of the Profit & Loss Account, of the Loss of the company for the year ended on March 31, 2010; and
 - iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on March 31, 2010

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

Chandrashekhar Gokhale
 Partner

Place: Hyderabad
 Date: 14 May 2010

Membership No. 23839
 Firm Regn. No.000942S

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 is not holding any inventory in its premises and all the purchases made, which are imported from abroad, are directly dispatched from the customs ware house to the customers abroad. The company had no year end inventory on hand. Proper records relating to inventory have been maintained by the company.
- (iii) (a) During the year under audit the company has advanced an amount of Rs 2 crores as unsecured loan to its wholly owned subsidiary company MosChip Semiconductor Technology, USA. The rate of interest and other terms and conditions of this loan are, prima facie, not prejudicial to the interests of the company.
- (b) During the year under audit the company has taken unsecured loan of Rs 1 crore from one of its directors. The rate of interest and other terms and conditions of this loan are, prima facie, not prejudicial to the interests of the company.
- (iv) In our opinion, and according to the information and explanations given to us, the company has adequate internal control systems commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services.
- (v) Transactions that need to be entered into 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 58A 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, ESI, Income-tax, Sales-tax, Wealth Tax, Service 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 more 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) The company has not defaulted in repayment of dues to its Bank. There were no dues payable to any 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.
- (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 Companies 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
Partner

Place: Hyderabad
Date: 14 May 2010

Membership No. 23839
Firm Regn. No.000942S

BALANCE SHEET AS AT 31 MARCH 2010
MOSCHIP INDIA

	Schedule No.	As at	
		Rs.	Rs.
			As at
			31 March 2009
			Rs.
			Rs.
SOURCES OF FUNDS:			
SHAREHOLDERS' FUNDS:			
Share Capital	1	460,355,170	433,855,170
Share Application Money		991,838	115,123
Reserves and Surplus	2	672,533,920	665,908,920
Secured Loans	3	117,671,728	71,399,207
Unsecured Loans	4	20,000,000	0
Total		1,271,552,656	1,171,278,420
APPLICATION OF FUNDS:			
FIXED ASSETS:	5		
Gross Block		154,472,629	152,685,227
Less: Depreciation		112,309,457	100,926,092
Net Block		42,163,172	51,759,135
INVESTMENTS	6	375,579,087	375,579,087
NET CURRENT ASSETS:			
CURRENT ASSETS, LOANS AND ADVANCES:			
Sundry Debtors	7	44,651,216	35,755,563
Cash and Bank Balances	8	3,235,820	2,944,944
Loans and Advances	9	85,953,084	60,642,004
Interest accrued on Deposits		176,344	127,182
GROSS CURRENT ASSETS		134,016,464	99,469,693
Less: Current Liabilities and provisions	10	16,065,128	20,893,544
NET CURRENT ASSETS		117,951,336	78,576,148
MISCELLANEOUS EXPENDITURE	11	0	2,818,095
PROFIT AND LOSS ACCOUNT		735,859,061	662,545,955
NOTES TO ACCOUNTS	15		
Total		1,271,552,656	1,171,278,420

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 14 May 2010

Raj Kumar Singh
Company Secretary

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2010**

MOSCHIP INDIA

	Schedule No.	For the year ended 31 March 2010 Rs.	For the year ended 31 March 2009 Rs.
I INCOME:			
Sales Revenue		170,399,422	104,072,863
Other Income	12	300,547	1,356,156
		<u>170,699,969</u>	<u>105,429,019</u>
II EXPENDITURE:			
Material Cost, Software and Administrative Expenses	13	220,521,437	172,881,606
Financial Charges	14	11,751,701	2,420,471
Depreciation	5	11,538,752	11,427,828
		<u>243,811,891</u>	<u>186,729,905</u>
III Profit/(Loss) Before Tax		(73,111,922)	(81,300,886)
Less: Fringe Benefit Tax		0	379,845
Profit/(Loss) After Tax Before Exceptional Item		(73,111,922)	(81,680,731)
Less: Exceptional Item		177,445	0
Profit/(Loss) After Tax and Exceptional Item Before Extraordinary and Prior Period Item		(73,289,367)	(81,680,731)
Less: Extra Ordinary and Prior Period Items		23,739	(5,827)
Profit/(Loss) After Tax and Exceptional Item and After Extraordinary and Prior Period Item		(73,313,106)	(81,674,904)
Add: Balance brought forward from previous year		(662,545,955)	(580,871,051)
Balance carried to Balance Sheet		<u>(735,859,061)</u>	<u>(662,545,955)</u>
IV Earnings Per Share (EPS)			
Equity Share of face value Rs.10/- each			
Before Extraordinary and Prior Period Items			
Basic		(1.66)	(1.88)
Diluted		(1.66)	(1.88)
After Extraordinary and Prior Period Items			
Basic		(1.66)	(1.88)
Diluted		(1.66)	(1.88)
Number of shares used in computing EPS			
Basic		46,035,517	43,385,517
Diluted		46,035,517	43,385,517

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

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

Raj Kumar Singh
Company Secretary

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

SCHEDULES	As At 31 March 2010 Rs.	As At 31 March 2009 Rs.
SCHEDULE 1		
SHARE CAPITAL:		
Authorised: 55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	550,000,000	550,000,000
Issued: 47,750,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	477,505,890	451,005,890
Subscribed and Paid-up: 46,035,517 (Previous Year 43,385,517) equity shares of Rs.10/- each (Of the above 8,325,770 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA) (Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Verasity Technologies, Inc with the Company)	460,355,170	433,855,170
SCHEDULE 2		
RESERVES AND SURPLUS:		
<u>Capital Reserve</u>		
State Govt Subsidy	1,250,000	1,250,000
Forfeited Share Warrants	4,650,000	4,650,000
<u>Securities Premium</u>		
Opening Balance	660,008,920	660,008,920
Additions	6,625,000	0
	666,633,920	660,008,920
	672,533,920	665,908,920
SCHEDULE 3		
SECURED LOANS:		
Packing Credit	117,671,728	71,399,207
	117,671,728	71,399,207
SCHEDULE 4		
UNSECURED LOANS		
Loan from Directors	10,000,000	0
Loan from Others	10,000,000	0
	20,000,000	0

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

**SCHEDULE - 5
FIXED ASSETS**

		(Amount in Rupees)											
S.No	Description	GROSS BLOCK					DEPRECIATION					NET BLOCK	
		Balance as at 01.04.2009	Additions during the year	Adjustments during the year	Deletions during the year	Balance as at 31.03.2010	For the year	Deletions during the year	Adjustments during the year	Balance as at 31.03.2010	Balance as at 31.03.2010	Balance as at 31.03.2009	
1	Computers	30,123,316	231,426	0	41,500	30,313,242	3,418,529	13,509	0	21,034,784	9,278,458	12,493,552	
2	Electrical Installation	2,298,675	0	0	0	2,298,675	106,988	0	0	685,886	1,612,789	1,719,777	
3	Plant and Machinery	28,059,112	34,250	0	0	28,093,362	349,900	0	0	22,981,364	5,111,998	5,427,649	
4	Software	58,524,839	1,400,643	0	0	59,925,482	4,536,497	0	0	55,490,210	4,435,272	7,571,126	
5	Furniture and Fittings	8,887,894	0	0	0	8,887,894	535,522	0	0	4,037,341	4,850,553	5,386,075	
6	Office Equipment	4,630,117	623,157	0	567,235	4,686,039	212,916	141,879	0	1,293,381	3,392,658	3,407,773	
7	Vehicles	84,257	0	0	0	84,257	7,805	0	0	62,519	21,739	29,543	
8	Lab Equipment	16,138,336	106,661	0	0	16,244,997	767,784	0	0	2,900,629	13,344,368	14,005,491	
9	Leasehold Improvements	3,938,681	0	0	0	3,938,681	1,602,811	0	0	3,823,342	115,339	1,718,150	
	TOTAL	152,685,227	2,396,137	0	608,735	154,472,629	11,538,753	155,388	0	112,309,457	42,163,172	51,759,135	
	Previous Year	151,160,937	1,797,949	0	273,659	152,685,227	11,427,828	96,303	0	100,926,092	51,769,135	0	

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

SCHEDULES	As At 31 March 2010 Rs.	As At 31 March 2009 Rs.
SCHEDULE 6		
INVESTMENTS:		
Long-Term		
Unquoted, At cost		
Wholly-owned Subsidiary:		
19,192,404 (Previous Year 19,192,404) shares of MosChip Semiconductor Technology USA (a company incorporated in USA)	375,579,087	375,579,087
	375,579,087	375,579,087
	375,579,087	375,579,087
SCHEDULE 7		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	17,172,992	0
Others	27,478,224	35,755,563
	44,651,216	35,755,563
SCHEDULE 8		
CASH AND BANK BALANCES:		
Cash on hand	22,144	14,643
Balance with Scheduled Banks		
- In Current accounts	2,121,374	1,834,105
- In fixed deposit accounts	907,433	889,185
(Rs.907,433/- (Previous Year Rs.889,185/-) pledged towards margin on Bank Guarantee)		
Bank of America, USA	184,869	207,011
(Maximum amount outstanding during the period Rs.299,681/- (previous year Rs.281,377/-)		
	3,235,820	2,944,944
SCHEDULE 9		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	1,206,951	1,155,761
MosChip Employees Trust	2,795,000	2,835,000
Advance to Suppliers	59,811,813	47,989,791
Loan to Subsidiary	11,454,600	0
Other Advances and Receivables	2,617,801	6,475,803
Prepaid Expenses	7,969,089	1,688,924
Prepaid Income Tax	97,831	496,726
	85,953,084	60,642,004

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

SCHEDULES	As At 31 March 2010 Rs.	As At 31 March 2009 Rs.
SCHEDULE 10		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	0	0
Others	5,143,015	4,415,078
Advance from Customers	7,450,226	12,758,123
	12,593,241	17,173,201
PROVISIONS:		
Leave Encashment	1,392,309	1,787,053
Gratuity	2,079,578	1,895,415
Fringe Benefit Tax (Net of Advance Tax)	0	37,875
	3,471,887	3,720,343
	16,065,128	20,893,544
SCHEDULE 11		
MISCELLANEOUS EXPENDITURE:		
(To the extent not written off or adjusted)		
GDR Issue Expenses	0	2,818,095
	0	2,818,095

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

SCHEDULES	For the year ended 31 March 2010 Rs.	For the year ended 31 March 2009 Rs.
SCHEDULE 12		
OTHER INCOME:		
Interest Earned (Gross)	282,092	185,569
[Tax Deducted at Source Rs.7,856/- (previous year Rs.15,975/-)]	18,455	1,170,587
Profit on Sale of Investments	300,547	1,356,156
SCHEDULE 13		
MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES:		
Materials, Finished and Processed Stocks	100,750,228	36,467,399
Import Clearance Charges	1,404,395	518,390
Salaries and Other Allowances to Employees	61,758,949	82,380,434
Contribution to PF, ESI & Gratuity	1,238,151	1,127,855
Staff Welfare Expenses	4,111,868	4,921,035
Directors' Remuneration	8,100,000	9,715,000
Rent	10,343,264	9,999,047
Electricity Charges	2,053,354	2,364,196
Consumables	4,360,198	11,142,796
Software Charges	3,281,732	1,908,037
Communication Expenses	490,754	665,142
Computer Maintenance	342,758	510,183
Directors' Sitting Fee	72,000	86,000
Export freight and insurance charges	1,789,800	568,645
Printing and Stationery	61,108	92,687
Postage, Telegrams and Telephones	698,615	776,584
Fees, Rates and Taxes	181,062	190,385
Vehicle Maintenance	42,530	44,590
Repairs and Maintenance	308,171	257,811
Traveling and Conveyance	3,924,712	3,308,244
Advertisement Expenses	97,600	152,037
Payments to Auditors	252,000	215,118
Insurance	2,351,310	1,923,078
Professional charges	1,015,218	2,396,961
Recruitment Expenses	0	369,973
General Expenses	3,195,587	2,806,481
Loss on fixed assets sold / discarded	17,616	129,898
Realised Loss / (Gain) on Forex Fluctuation	1,091,412	(2,946,525)
Unrealised Loss / (Gain) on Forex Fluctuation	4,368,953	(2,027,941)
GDR Issue Expenses Written Off	2,818,095	2,818,068
	220,521,437	172,881,606
SCHEDULE 14		
FINANCIAL CHARGES:		
Interest on Packing Credit	10,936,200	1,474,802
Loan Processing Charges	289,316	741,808
Bank Charges	526,185	203,861
	11,751,701	2,420,471

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

SCHEDULE 15

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

15. 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) and System on Chip (SOC) technologies. The Company also sale application specific integrated circuits (ASICs). The Company specializes 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.

15.1 Significant Accounting Policies

15.1.1 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.

15.1.2 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.

15.1.3 Revenue Recognition

Revenue from software sales is recognized based on software developed and billed as per the terms of specific contracts.

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.

Revenue from product sales is recognized on dispatch of material.

Provision for doubtful debts are recorded in the period in which such losses become probable based on the current estimates.

15.1.4 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.

15.1.5 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.

15.1.6 Impairment of Fixed Assets

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amount of the Company's fixed assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds recoverable amount.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

15.1.7 Foreign Exchange Transactions

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.

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.

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.

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.

15.1.8 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.

15.1.9 Retirement benefits

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.

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.

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

15.1.10 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.

15.1.11 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.

15.1.12 Miscellaneous Expenditure

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

15.2 Notes on Accounts

15.2.1 Contingent Liabilities:

(Amount in Rupees)

Particulars	As at 31 March	
	2010	2009
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by Bankers	907,433	889,185
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 Share Capital

The Company has allotted 2,650,000 equity shares of Rs.10 each at a price of Rs.12.50 per share (including premium of Rs.2.50) to the subscribers on a preferential basis during the financial year, raising an amount of Rs.33,125,000/-.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Convertible warrants

During the year under review, the Company has issued 250,000 convertible warrants at a price of Rs.12.50 each. The said warrants represent a right to acquire, but not exceeding, 250,000 equity shares of Rs.10 each at the price of Rs.12.50 (including premium) per share. The warrants can be exercised within a period of 18 months from the date of issue of such warrants. The warrants were issued for an upfront consideration of Rs.781,250. Non-exercise of warrants within 18 months from the date of issue will result in forfeiture of upfront consideration.

15.2.3 Secured Loans

Export Packing Credit facility obtained from UCO Bank is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director.

15.2.4 Unsecured Loans

The Company has obtained unsecured loan from director of an amount of Rs. 1 Crore at the rate of 10% interest payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2010. The due date for the loan repayment is on or before 03rd September 2010.

Similarly the company has also obtained interest bearing Inter Corporate Deposit of Rs. 1 Crore at the rate of 10% interest. The provision for the same has been made in these accounts in the financial year ending 31st March 2010. Due date for the repayment of loan is on or before 06th September 2010.

The interest and other terms and conditions are not prejudicial to the interest of the company

15.2.5 Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. Pursuant to the scheme of Amalgamation, the Company continues to carry on the business of erstwhile Verasity Technologies and treats it as an overseas branch office. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2010. 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.

15.2.6 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 nine 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), MosChip Stock Option Plan 2005 (WOS), MosChip Stock Option Plan 2008, MosChip Stock Option Plan 2008(ALR) and MosChip Stock Option Plan 2008(Director) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 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 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	180,200	243,800
Granted during the year	0	0
Forfeited during the year	23,400	63,600
Exercised during the year	0	0
Outstanding at the end of the year	156,800	180,200

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	174,500	170,875
Granted during the year	0	153,000
Forfeited during the year	64,500	149,375
Exercised during the year	0	0
Outstanding at the end of the year	110,000	174,500

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	402,000	501,129
Granted during the year	0	448,000
Forfeited during the year	86,000	547,129
Exercised during the year	0	0
Outstanding at the end of the year	316,000	402,000

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	495,000	861,000
Granted during the year	0	572,000
Forfeited during the year	197,000	938,000
Exercised during the year	0	0
Outstanding at the end of the year	298,000	495,000

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

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	132,000	484,000
Granted during the year	0	0
Forfeited during the year	20,000	352,000
Exercised during the year	0	0
Outstanding at the end of the year	112,000	132,000

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

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	400,000	475,000
Granted during the year	0	0
Forfeited during the year	0	75,000
Exercised during the year	0	0
Outstanding at the end of the year	400,000	400,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	2,009,627	0
Granted during the year	0	2,814,327
Forfeited during the year	11,41,559	804,700
Exercised during the year	0	0
Outstanding at the end of the year	868,068	2,009,627

Stock Options Outstanding under the MosChip Stock Option Plan 2008(ALR)

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	711,554	0
Granted during the year	0	741,554
Forfeited during the year	306,755	30,000
Exercised during the year	0	0
Outstanding at the end of the year	404,799	711,554

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
Stock Options Outstanding under the MosChip Stock Option Plan 2008 (Director)

Particulars	Year ended 31 March 2010	Year ended 31 March 2009
Options outstanding at the beginning of the year	300,000	0
Granted during the year	0	400,000
Forfeited during the year	0	100,000
Exercised during the year	0	0
Outstanding at the end of the year	300,000	300,000

15.2.7 Earnings per Share

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

Basic earning 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 2010	Year ended 31 March 2009
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item	(73,111,922)	(81,680,731)
Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item	(73,313,106)	(81,674,904)
Weighted average number of equity shares	46,035,517	43,385,517
EPS before extraordinary and prior period item	(1.66)	(1.88)
EPS after extraordinary and prior period item	(1.66)	(1.88)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item	(73,111,922)	(81,680,731)
Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item	(73,313,106)	(81,674,904)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item	(73,111,922)	(81,680,731)
Diluted Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item	(73,313,106)	(81,674,904)
Weighted average number of equity shares	46,035,517	43,385,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	43,385,517
EPS before extraordinary and prior period item	(1.66)	(1.88)
EPS after extraordinary and prior period item	(1.66)	(1.88)

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
15.2.8. Directors' Remuneration:

(Amounts in Rupees)

		Year ended 31 March 2010	Year ended 31 March 2009
1.	Salary and allowances	8,100,000	9,715,000
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.		

15.2.9. Related Party disclosures
A. List of Related Parties

Description of Relationship	Name of Related Parties	Designation
Subsidiary	MosChip Semiconductor Technology, USA.	-----
Key Management Personnel	K. Ramachandra Reddy	Chairman & CEO
	C. Dayakar Reddy	Managing Director
	Sathya Kalyanasundaram	CFO

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

(Amounts in Rupees)

Nature of Transaction	Transactions during the year	Balance as on 31 March 2010
Transactions with Subsidiary		
Reimbursement of expenses / Payable	96,077	Nil
Reimbursement of expenses / Receivable	175,517	Nil
Advance for sales/ Payable	17,317,600	7,450,226
Loans/ Receivable	37,615,850	11,454,600
Sales / Receivable	170,399,422	44,651,216
Transactions with whole time directors		
Remuneration to Chairman & CEO	4,050,000	Nil
Remuneration to Managing Director	4,050,000	Nil
Loan from Directors/Payables	10,000,000	10,000,000
Interest Payable on Directors Loan	73,973	73,973
Transactions with key Management Personnel		
Remuneration to Key Management Personnel	2,225,007	Nil
Stock Options Granted/Outstanding to Key Management Personnel	Nil	Nil

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
15.2.10. Additional information as required under Part II of Schedule VI of the Companies Act, 1956:
(Amounts in Rupees)

Particulars	Year ended 31 March 2010 Rs.	Year ended 31 March 2009 Rs.
A. C I F Value of Imports :		
Capital Goods	118,279	78,289
Material Purchase	96,612,488	36,467,673
B. Expenditure in Foreign currency		
Software Charges	2,871,390	1,533,939
Traveling Expenses	2,201,007	1,304,423
Professional Charges	88,592	78,430
Consumables	590,073	4,893,504
Other Expenses	221,542	(4,690,633)
C. Earnings in Foreign Exchange Sales Revenue		
Sales Revenue	170,399,422	104,072,863

15.2.11. 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:
(Amounts in Rupees)

Particulars	Year ended 31 March 2010 Rs.	Year ended 31 March 2009 Rs.
Revenue		
Sales to external customers	170,399,422	104,072,863
Segment Profit / (loss)		
Other Income	(73,412,469)	(82,657,042)
Profit / (loss) before Tax	300,547	1,356,156
Fringe Benefit Tax	(73,111,922)	(81,300,886)
Exceptional Item	0	379,845
Profit / (loss) after Tax before Extraordinary and Prior Period Item	177,445	0
Extraordinary and Prior Period Item	(73,289,367)	(81,680,731)
Net profit/(loss)	23,739	(5,827)
	(73,313,106)	(81,674,904)
Other Segment Information		
Depreciation	11,538,752	11,427,828
Non-cash expenses other than depreciation	3,013,156	2,947,966
Particulars of Segment Assets and Liabilities		
Segment Assets	172,759,617	148,156,702
Investments	375,579,087	375,579,087
Cash and Bank Deposits	3,235,820	2,944,944
Other Assets	184,200	127,182
Total Assets	551,758,725	526,807,915
Segment Liabilities	153,736,856	92,292,751
Total Liabilities	153,736,856	92,292,751

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
b) Geographic Segment Information:

(Amounts in Rupees)

Revenue		
North America	170,399,422	104,072,863
Others	Nil	Nil
Carrying amount of segment fixed assets		
India	133,353,033	131,565,631
North America	21,119,596	21,119,596
Additions to fixed assets		
India	2,396,137	1,797,949
North America	Nil	Nil

15.2.12 Amounts paid/payable to Auditors:

(Amounts in Rupees)

	Year ended 31 March 2010	Year ended 31 March 2009
For Statutory Audit	120,000	110,000
For Tax Audit	40,000	40,000
For Certification	92,000	65,118
Total	252,000	215,118

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

15.2.13 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 table summarizes 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:

(Amounts in Rupees)

	Year ended 31 March 2010
Gratuity cost for the period	
Current Service Cost	691,157
Interest cost on defined benefit obligation	343,704
Expected Return on Plan Assets	(220,256)
Net Actuarial losses/(gain) recognised in year	19,353
Net Gratuity cost	833,958
Balance Sheet	
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	3,611,446
Present Value of the funded obligation at the end of the year	1,531,868
Asset/(Liability) recognized in the balance sheet	(2,079,578)
Change in the present value of defined benefit obligation are as follows:	
Present value of obligations at the beginning of year	3,899,186
Current Service Cost	691,157
Interest cost	343,704
Actuarial (gain)/loss	(12,680)
Benefits paid	(1,309,921)
Present value of obligations as at the end of year	3,611,446
Change in the fair value of plan assets are as follows:	
Fair Value of Plan Assets at beginning of year	2,003,771
Expected return on plan assets	220,256
Actuarial gain/(loss)	(32,033)
Contributions	649,795
Benefits paid	(1,309,921)
Fair Value of Plan Assets at end of year	1,531,868

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

Discount Rate - 8.30%

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.

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.

Above figures have been adopted as per actuarial valuation done by Thanawala Consultancy Services.

The defined benefit obligation of compensated absence (leave encashment) in respect of the employees of the company as at 31st March 2010 is Rs. 1,392,309.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

15.2.14 Utilization of Preferential Issue Proceeds

The following statement shows the total funds raised through issue of Preferential Issue, the amounts utilized up to 31 March 2010 and the balance available as on that date:

Particulars	Rs.	Rs.
Issue Proceeds		
- Share Capital	26,500,000	
- Share Premium	6,625,000	
Total Issue Proceeds		33,125,000
Utilization		
Working Capital /Business Operations	33,125,000	
Total Funds Utilized		33,125,000
Funds Available		Nil

15.2.15 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 undertakings and micro, small & medium enterprises which are outstanding for more than 30 days or 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.

15.2.16 Quantitative Details

During the year the Company is engaged in computer software development and selling of ASICs (Semiconductor Chips). The production and sale of software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details computer software development sales. The following statement shows the quantitative details of ASIC's as required under Paragraphs 3 and 4C of Part II of Schedule VI of the Companies Act, 1956.

Opening Balance	Quantity Purchased	Quantity Sold	Closing Balance
Nil	2,005,044	2,005,044	Nil

15.2.17 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

For and on behalf of the Board of Directors

Chandrashekhhar Gokhale
Partner
Membership No. 23839

K.Ramachandra Reddy
Chairman & CEO

C.Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

Raj Kumar Singh
Company Secretary

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2010**

	31 March 2010 Rs.	31 March 2009 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(73,289,367)	(81,300,886)
Depreciation	11,538,752	11,427,828
GDR issue expenses written off	2,818,095	2,818,068
Interest Income	(282,092)	(185,569)
Loss on Sale of Fixed Assets	17,616	129,898
Profit on sale of Current Investments	(18,455)	(1,170,587)
Provision for Retirement Benefits	(248,456)	(541,120)
Foreign Exchange adjustments	25,541	39,925
Operating Profit before changes in working capital	(59,438,366)	(68,782,443)
Increase/(Decrease) in Secured Loans/Unsecured loans	66,272,521	71,399,207
(Increase)/Decrease in Sundry Debtors	(8,895,653)	(23,880,408)
(Increase)/Decrease in Loans and Advances	(25,709,975)	(46,802,597)
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	(18,248)	0
Increase/(Decrease) in Current liabilities	(4,579,961)	16,343,207
Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items	(32,369,682)	(51,723,034)
Income-tax paid	(398,895)	(676,156)
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	(31,970,787)	(51,046,878)
Exceptional Item	177,445	0
Extra Ordinary and Prior Period item	23,739	(5,827)
Net cash from operating Activities [A]	(31,817,080)	(51,041,051)
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(2,396,137)	(1,797,949)
Sale proceeds of Fixed Assets	258,286	47,458
Interest received on Fixed Deposits	232,930	116,360
Purchase of Current Investments	(27,900,000)	(47,000,000)
Sale of Current Investments	27,918,455	48,170,587
Net Cash used for Investing Activities [B]	(1,886,466)	(463,544)
C. Cash flow from Financing Activities:		
Net proceeds from Issue of Share Capital	27,376,715	(14,292)
Securities Premium	6,625,000	0
Convertible Warrants	0	0
Net Cash from Financing Activities [C]	34,001,715	(14,292)

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2010**

	31 March 2010 Rs.	31 March 2009 Rs.
D. Exchange differences on translation of foreign currency cash	(25,541)	(39,925)
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	272,628	(51,558,812)
Cash and Cash equivalents at the beginning of the year	<u>2,055,759</u>	<u>53,614,571</u>
Cash and Cash equivalents at the end of the year	<u><u>2,328,387</u></u>	<u><u>2,055,759</u></u>
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	3,235,820	2,944,944
Less: Fixed Deposits towards Bank Guarantee considered as investments	<u>907,433</u>	<u>889,185</u>
	<u><u>2,328,387</u></u>	<u><u>2,055,759</u></u>

Per and subject to our report of even date
For Gokhale & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhar Gokhale
Partner
Membership No. 23839

K.Ramachandra Reddy
Chairman & CEO

C.Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

Raj Kumar Singh
Company Secretary

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

1. Registration Details		
Registration No.	:	L31909AP19999PLC032184
State Code	:	01
Balance Sheet Date	:	31.03.2010
2. Capital raised during the year (Amount in Rs. Thousands)		
Public Issue	:	Nil
Right Issue	:	Nil
Bonus Issue	:	Nil
Private Issue	:	33,906.25
3. Position of Mobilisation and development of Funds	:	
(Amount in Rs. Thousands)	:	
Total Liabilities	:	1,271,552
Total Assets	:	1,271,552
Source of Funds	:	
Paid up Capital	:	460,355
Share Application Money	:	991
Reserves and Surplus	:	672,534
Secured Loans	:	117,672
Unsecured Loans	:	20,000
Application of Funds	:	
Net Fixed Assets	:	42,163
Investments	:	375,579
Net Current Assets	:	117,951
Misc. Expenditure	:	Nil
Accumulated Losses	:	735,859
4. Performance of Company (Amount in Rs. Thousands)	:	
Turnover	:	170,700
Total Expenditure	:	243,812
Profit/(Loss) Before Tax	:	(73,112)
Profit After Tax	:	(73,313)
Earnings Per Share in Rs. (Basic)	:	(1.66)
Dividend Rate %	:	Nil
5. Generic Names of Three Principal Products/Services of Company (As per Monetary terms)		
Item Code (ITC Code)	:	8491.90
Product Description	:	DEVELOPMENT AND EXPORT OF SOFTWARE

Per and subject to our report of even date
For Gokhale & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhhar Gokhale
Partner
Membership No. 23839

K.Ramachandra Reddy
Chairman & CEO

C.Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

Raj Kumar Singh
Company Secretary

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

- | | | | |
|----|---|---|---------------------------------------|
| 1. | Name of subsidiary | : | MosChip Semiconductor Technology. USA |
| 2. | Financial year ended | : | Year ended 31 March 2010 |
| 3. | Holding Company's Interest | : | 100% |
| 4. | Shares held by the holding company | : | 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 \$ (1,198,425) |
| 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. net dealt with or provided for in the
Accounts of the holding company | : | US \$ (3,150,812) |

Per and subject to our report of even date
For Gokhale & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

Chandrashekhhar Gokhale
Partner
Membership No. 23839

K.Ramachandra Reddy
Chairman & CEO

C.Dayakar Reddy
Managing Director

Place Hyderabad
Date 14 May 2010

Raj Kumar Singh
Company Secretary

MOSCHIP USA

Directors' Report

To

The Shareholders of MosChip Semiconductor Technology, USA.
Your Directors present this report for the Financial Year 2009-10.

Financial Results

(USD in Millions)

Particulars	2009-10	2008-09
Semiconductor Sales	5.369	6.087
Operating Profit/(Loss) before Depreciation	(0.435)	(0.741)
Less : Depreciation	0.806	0.721
Operating Profit/(Loss)	(1.241)	(1.462)
Add : Other Income	0.044	0.073
Net Profit/(Loss) Before Tax	(1.197)	(1.389)

Your Company achieved total revenues of USD 5.41 million for the financial year ended 31 March 2010.

Outlook

We have released 1 complex system on chip product (SOCs) in this fiscal year. This ARM based solution; MCS 8142 targeting the network storage, SOHO and embedded markets and the MCS 8144 targeting display based digital signage, network storage and media docking markets. We have achieved positive reviews to these products. The MCS 8142 is being considered for many NAS designs in Asia and to date has many design-in and design win opportunities.

We have also released 2 more PCIe based controllers. The MCS 9990 is a PCIe to multiple USB 2.0 host bridge controller which has many customers designing using this product. MCS 9950 is a PCIe to display bridge controller Both these solutions are targeting the fast growth embedded, SOHO and consumer markets.

Acknowledgments

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

For and on behalf of the Board of Directors

05 August 2010

K. Ramachandra Reddy
CEO



To the Stockholders of MosChip Semiconductor Technology, USA

I have audited the accompanying balance sheet of MosChip Semiconductor Technology, USA (a California corporation) as of March 31, 2010 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the 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, 2010 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.

A handwritten signature in black ink, appearing to read "Bryce", is positioned above the typed name.

Forney Accountancy

Bryce Forney, CPA (CALicense #76310)

Pleasant Hill, California

April 28, 2010

BALANCE SHEET

MOSCHIP USA

Amount in US \$

	As at 31 March 2010
Assets	
Current assets	
Cash	68,351
Accounts receivable	888,192
Related party receivable	86,243
Inventory	1,346,578
Prepaid expenses	46,157
Total current assets	<u>2,435,521</u>
Deposits	42,669
Property and equipment	
Furniture & Fixtures	7,000
Equipment	4,121,794
Software	179,200
	<u>4,307,994</u>
Accumulated depreciation	<u>(2,577,427)</u>
	<u>1,730,567</u>
Total assets	<u><u>4,208,757</u></u>
Liabilities	
Current liabilities	
Accounts payable	2,316,888
Related party payable interest payable	45,000
Related party payable	914,698
Distributor note payable	750,000
Accrued liabilities	29,759
Sublessee security deposit	4,224
Total current liabilities	<u>4,060,569</u>
Related party note payable	255,000
Total liabilities	<u>4,315,569</u>
Stockholders' equity	
Common Stock, no par value, 20,212,813 shares authorized 19,192,404 shares issued and outstanding	1,724,000
Additional paid-in capital	1,320,000
Accumulated deficit	3,150,812
Total stockholders' equity	<u>(106,812)</u>
Total Liabilities	<u><u>4,208,757</u></u>

**STATEMENT OF NET INCOME
AND ACCUMULATED DEFICIT**

Amount in US \$

	For the year ended 31 March 2010
Revenue	
Sales	5,368,664
Cost of goods sold	3,641,643
Shipping and handling	19,201
Gross profit	<u>1,707,820</u>
Expenses	
Selling, general, and administrative	1,471,628
Research and development	532,244
Depreciation	806,679
Interest	107,073
Loss on asset disposal	31,467
Total operating expenses	<u>2,949,091</u>
Operating loss	<u>(1,241,271)</u>
Other income / expense	
Miscellaneous income	43,613
Interest income	33
Income before income taxes	<u>(1,197,625)</u>
Current income tax	800
Net loss	<u>(1,198,425)</u>
Accumulated deficit, beginning	<u>(1,952,387)</u>
Accumulated deficit, ending	<u>(3,150,812)</u>

STATEMENT OF CASH FLOWS

	Amount in US \$
	For the year ended 31 March 2010
Cash flows from operating activities	
Net loss	(1,198,424)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	806,679
Loss on asset disposal	(23,124)
(Increase) decrease in:	
Accounts receivable	91,027
Related party receivable	(81,389)
Inventory	(122,743)
Prepaid expenses	(21,037)
Deposit	(5,308)
Increase (decrease) in:	
Accounts payable	147,867
Related party interest payable	45,000
Accrued liabilities	(99,089)
Deposit	4,224
Net cash provided by (used by) investing activities	(456,317)
Cash flows from investing activities	
Purchases of property and equipment	(151,031)
Net cash provided by (used by) investing activities	(151,031)
Cash flows from financing activities	
Increase (decrease) in:	
Related party payable	469,412
Related party note payable (long-term)	255,000
Distributor note payable	(250,000)
Net cash provided by (used by) financing activities	474,412
Net decrease in cash	(132,936)
Cash, beginning	201,287
Cash, ending	68,351
Supplemental disclosures of cash flow information	
Interest paid	197,073
Income taxes paid	800

NOTES TO FINANCIAL STATEMENT

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 \$250,000. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 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 Santa Clara facilities under an operating lease agreement with an unrelated party. The Santa Clara rent is \$4,750 per month. The Corporation lease its Irvine facilities under an operating lease agreement with an unrelated party. The Irvine rent is \$8,007 per month. The Corporation subleases a portion of its Santa Clara and Irvine facilities to unrelated parties. Rent expense net of sublease proceeds for the fiscal year is \$113,920.
- 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 amounts due for management fees, products, and royalty fees 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 fiscal year-end is \$914,698.
- C. Distributor note payable – The Corporation has a note payable to an individual who is both a 1.36% shareholder of the Corporation, and owner of a significant distributor of the Corporation. The note bears interest at 12% per year. Principal and interest are due at maturity. The principal balance of this note at year end is \$750,000.

NOTES TO FINANCIAL STATEMENT

D. Related party transactions – The Corporation conducts business with MosChip Semiconductor Technology Limited, India, the sole shareholder of the Corporation. The Corporation contracts with its parent company for engineering, management, and product, and pays royalties to its parent company for the exclusive license of 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	\$ 3,614,766
Related party payable	\$ 914,698
Related party receivable	\$ 86,243

The Corporation conducts business with a distributor whose owner is; a 1.36% shareholder of the Corporation, owner of a significant distributor of the corporation, and a creditor to the Corporation

Transactions are as follows:

Revenue due to related party transactions	\$ 2,838,476
Related party account receivable	\$ 498,024
Interest payable	\$ 45,000
Note payable	\$ 750,000

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

Number of major customers	2
Percentage of revenue from major customers	83%
Percentage of accounts receivable from major customers	85%

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

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

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 and/or merging with another company, each of which is 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 No. 12, Banjara Hills, Hyderabad - 500034.
Tel : 040-6622-9292 Fax : 040-6622-9393
http://www.moschip.com

ATTENDANCE SLIP

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

I hereby record my presence at **Eleventh Annual General Meeting** of the Company held at the Registered Office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034 on Thursday, the 30th September 2010 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 this 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 **23rd September 2010**. 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: 8-2-685/1/1, ROAD NO.12, BANJARA HILLS, HYDERABAD – 500 034

PROXY FORM

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

I/We _____ residing at _____ being a member /

members of MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED hereby appoint _____

resident 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 **Eleventh Annual General Meeting** of the Company to be held at the Registered Office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034 on Thursday, the 30th September 2010 at 10:30 hrs.

Dated _____ September, 2010

Affix Revenue
Stamp of 0.30P
and sign across

Notes:

- a) The form should be signed across the stamp as per signatures registered with the company.
- b) The proxy form duly completed must be deposited at the Registered Office of the Company not less than 48 hrs before the time fixed for holding the aforesaid meeting.
- c) The proxy need not be a member of the Company.
- d) Un-filled proxy form is liable to be rejected. Kindly ensure all blanks of the form are filled-in before its submission.