

The image features a hand holding a glowing, 3D MOSCHIP logo. The logo is rendered in a metallic, blue and gold color scheme. The background is a dark blue gradient with a complex, glowing circuit board pattern. The overall aesthetic is high-tech and futuristic.

14 TH ANNUAL REPORT 2012-13

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

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BOARD OF DIRECTORS

Mr. K. Ramachandra Reddy	-	Chairman & CEO
Mr. C. Dayakar Reddy	-	Managing Director
Dr. Vijay Chandru	-	Director
Mr. G. Prasad	-	Director
Mr. Vivek Bhargava	-	Director

COMMITTEES OF THE BOARD**Audit**

Mr. G. Prasad	-	Chairman
Dr. Vijay Chandru	-	Member
Mr. Vivek Bhargava	-	Member

Remuneration

Mr. G. Prasad	-	Chairman
Dr. Vijay Chandru	-	Member
Mr. Vivek Bhargava	-	Member

Shareholders / Investor Grievance

Mr. G. Prasad	-	Chairman
Mr. Vivek Bhargava	-	Member
Dr. Vijay Chandru	-	Member

Mr. Damoder Bethamalla
Company Secretary

REGISTERED OFFICE

Plot No. 83 & 84, 2nd Floor
Punnaiah Plaza, Road No. 2
Banjara Hills,
Hyderabad - 500 034.
A.P. India.
Tel: 040-6622-9292
Fax: 040-6622-9393

BANKERS

UCO Bank Limited

AUDITORS

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

REGISTRAR AND SHARE TRANSFER AGENTS

Karvy Computershare Pvt. Ltd.
Plot No. 17-24, Vithal Rao Nagar
Madhapur, Hyderabad - 500 081, A.P., India
Tel : 040-4465 5209
Email: einward.ris@karvy.com

NOTICE

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Fourteenth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on Monday, the 30th September 2013 at 10.30 hrs at the Registered Office of the Company Situated at Plot No.83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, 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 2013 and the Balance Sheet as on that date and the report of Auditors thereon.
 2. To appoint a Director in place of Dr. Vijay Chandru, who retires by rotation and being eligible offers himself for re-appointment.
 3. To appoint a Director in place of Mr. Vivek Bhargava, who retires by rotation and being eligible offers himself for re-appointment.
 4. To appoint M/s Gokhale & Co., Chartered Accountants (ICAI Reg. No. 000942S), 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 2013
- K. Ramachandra Reddy**
Chairman & CEO
- 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 24-09-2013 to 30-09-2013 (both days inclusive).
 3. To avoid inconvenience to members and to facilitate smooth conduct of the meeting, entry to the place of meeting will be only for members/proxies and is regulated by the attendance slip appended to the proxy form. Members are requested to affix their signature on it and hand it over at the entrance.
 4. Members, who hold shares in de-materialized form, are requested to bring their Client ID and DP Id No's for easier identification of attendance at the meeting.
 5. A member desirous of getting any information on the accounts or operations of the company is requested to forward his/her queries to the company at least seven working days prior to the meeting, so that the required information can be made available at the meeting.
 6. Members are requested to notify immediately any change in their address to the company or to the Share Transfer Agent 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.

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

NOTICE

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

Dr. Vijay Chandru

Vijay Chandru is an alumnus of BITS Pilani where he trained in Electrical Engineering and went on to get a Doctorate from MIT. Vijay is an academic and an entrepreneur. His academic career in mathematical and computational sciences has spanned over thirty years as a research scientist and Professor at Purdue University, IBM's TJ Watson Center, Indian Institute of Science, UPenn, Stanford and at MIT. He is a fellow of the national academies of science and engineering in India. As an entrepreneur, Dr. Chandru was a founder of PicoPeta Simputers, the company that commercialized the handheld Amida Simputer which has evolved into the GeoAmida product in the market today. He has also co-founded the leading computational biology company Strand Life Sciences for which he has been recognized as a Technology Pioneer by the World Economic Forum in 2006. He currently serves as Chairman & CEO of Strand Life Sciences. He serves on the "High Panel on Science and Technology for Development" to advise UNESCO, the Global Advisory Board of the MIT Enterprise Forum (Technology Review Magazine), and the Governing Board of the Indo-US Science and Technology Forum.

Mr. Vivek Bhargava

Mr. Vivek Bhargava, a management Graduate from IIM Kolkata has over 22 years of experience in corporate finance, investment banking and capital markets. He started his career with Nagarjuna Group in 1987 and then joined the Eenadu Margadarsi Group to head its financial services and investment banking business in 1993. Thereafter, he joined MosChip Semiconductor as CFO. He has also helped many other companies with their business plans and fund raising. He is currently the founder and Executive Chairman of WealthBridge Capital Advisors Private Limited, a company in equity research business.

By Order of the Board of Directors

Hyderabad
26 August 2013

K. Ramachandra Reddy
Chairman & CEO

DIRECTORS' REPORT

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31st March 2013.

Financial Results

(Rs. In Lakhs)

	Year ended 31 March 2013		Year ended 31 March 2012	
	Standalone	Consolidated	Standalone	Consolidated
Total Income	1227.45	983.90	1777.70	3596.34
Operating Profit before Depreciation & Tax	72.72	(744.24)	293.63	1969.34
Less: Depreciation	56.20	56.94	56.43	190.74
Profit before Tax	(128.92)	(814.91)	237.20	1778.60
Less: provision for Tax	0	0	0	42.81
Profit after Tax before extraordinary and prior period item	(128.92)	(814.91)	237.20	1735.79
Less: Extraordinary and prior period item	623.62	623.62	3036.47	3036.47
Profit after tax after extraordinary and prior period item	(752.54)	(1438.53)	(2799.27)	(1300.68)
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	(0.28)	(1.77)	(0.46)	(0.60)
Diluted	(0.28)	(1.77)	(0.46)	(0.60)
After extraordinary and prior period item				
Basic	(1.63)	(3.12)	(6.08)	(2.83)
Diluted	(1.63)	(3.12)	(6.08)	(2.83)

Operations

The consolidated income of the Company was Rs.9.84 Crores and the consolidated loss was Rs. 14.39 Crores.

MosChip India

After selling I/O division MosChip has SOC (System On a Chip) line which is fairly new and has promise to increase revenues and needs some investment. This money could be spent on the SOC line and focus on this product line to increase the revenues. With the increase in Design Services opportunities worldwide, MosChip decided to add another division to branch into Semiconductor Design Services.

Subsidiaries

MosChip Semiconductor Technology, USA

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded revenue of USD 623,293.

MosChip Semiconductor Technology Pte. Ltd., Singapore

MosChip Semiconductor Technology Pte. Ltd., Singapore (MosChip, Singapore) the wholly owned subsidiary has recorded revenue of SGD 87,550.

Dividend

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

Increase in Share Capital

The Company has only one class of shares. The Company has not allotted any shares during the year under review. The total paid-up equity share capital of the company is Rs. 460,355,170 as on 31 March 2013.

Marketing and distribution

The company has transformed into value added services and has made steady inroads into very large Tier-1 customers including domestic customers. The Company has bagged a very complex custom System on a Chip (SOC) from a domestic customer despite stiff competition from the leading service providers. This chip is to be fabricated using the state of the art 40nm Low Power CMOS technology. The Company is continuing to look for some critical joint ventures and pursuing these vigorously.

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 and directors of the company and its wholly owned subsidiary in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999.

DIRECTORS' REPORT

- (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, Dr. Vijay Chandru and Mr. Vivek Bhargava retires by rotation in the ensuing Annual General Meeting and being eligible, offers themselves for re-appointment.

Mr. G. Venkatesh resigned from the Board on 15 March 2013. The Board expresses its appreciation of the valuable contribution made by Mr. G. Venkatesh during the tenure of his directorship.

Dr. Madhu Mohan Katikineni resigned from the Board on 14 August 2013. The Board expresses its appreciation of the valuable contribution made by Dr. Madhu Mohan Katikineni during the tenure of his directorship.

Auditors

The Auditors of the company M/s Gokhale & Co., Chartered Accountants (ICAI Reg. No. 000942S), 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.

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

There are no employees in terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975.

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 2012-13 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

K. Ramachandra Reddy
Chairman & CEO

26 August 2013

DIRECTORS' REPORT

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 2012-13 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	350,000	900,000	0	0
b. The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue							
c. Options Vested	93,000	99,000	110,000	31,000	50,000	329,529	142,674	700,000
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 etc., shall become available for future grants under the existing plans)	9,000	21,000	0	7,000	200,000	480,293	169,000	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	93,000	99,000	110,000	31,000	350,000	779,529	142,674	700,000
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.	-----Nil-----							
k. 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.								

DIRECTORS' REPORT

- l. 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.12.45

Weighted average fair value of options : Rs. 3.63

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

- m. The fair value of the options have been computed using the Black Scholes method, where the following assumptions were made:

- a. Risk free interest rate was assumed between 7.6398% and 8.4403% depending on the timing of grant and vesting period of the option, for the options granted during the year.
- b. The expected life of the option is taken as the vesting period of the option.
- c. The expected volatility has been computed using the daily share price movements of 240 trading days prior to the grant date. For annualizing the standard deviation, it is assumed that there are 240 trading days in a year.

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%	02/07/2010	45.24%
14/02/2011	46.83%	25/08/2011	43.89%	25/06/2012	43.28%
20/03/2013	42.80%				

- d. Since the company has been making losses, we have not assumed any dividend payments.
- e. The Market Price of the shares on the grant dates was as follows: Rs. 31 on 21 August 2002, Rs. 23.95 on 31 October 2002, Rs. 26.75 on 29 January 2003, Rs.33.00 on 27 June 2003 being the closing prices on the date of grant; Rs.40.51 on 19 February 2004, being the average of the two weeks high and low price of the share preceding the date of grant of option; and Rs.30.50 on 26 August 2004, Rs.42.85 on 18 November 2004, Rs.44.25 on 31 January 2005, Rs.35.75 on 30 June 2005, Rs.45.60 on 23 September 2005, Rs.41.50 on 24 January 2006, Rs.37.70 on 10 April 2006, Rs.37.40 on 18 May 2006, Rs.24.15 (on 30 June 2006), Rs.25.10 on 04 September 2006, Rs.26.00 on 27 October 2006, Rs.24.25 on 06 November 2006, Rs.32.95 on 18 January 2007, 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. Options issued on 23 October 2008, 30 January 2009, 04 March 2009, 02 July 2010, 14 February 2011, 25 August 2011, 25 June 2012 and 20 March 2013 were issued at Rs. 10.05 per Option.

For and on behalf of the Board of Directors

26 August 2013

K. Ramachandra Reddy
Chairman & CEO

DIRECTORS' REPORT

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 focusing on growing the services business and has made inroads into some customers in India and USA. Consequently, the Company has not spent much effort on any new R&D work during the year under review.

Future plan of action

The Company has built up a vast repertoire of expertise and domain knowledge. We are planning to leverage this in partnering with large companies for joint development activities and grow the services business as an another revenue vertical.

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 are generating revenues for the Company. We expect revenues from licensing of software for these products to increase significantly during the current year.

The Company has also commenced development of custom products where the customer shares a portion of the development costs. 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, 2013	Year ended March 31, 2012
Foreign Exchange Earnings	57,390,560	177,523,409
Foreign Exchange Outgo	5,790,958	47,878,345

For and on behalf of the Board of Directors

26 August 2013

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 providing value added services in VLSI design, Software development & development SOC (System On a Chip) for Consumer, Industrial applications. In this report, "MosChip Group", "Group", "we", "us" and "our" each refers to MosChip India and also its wholly owned subsidiaries, MosChip Semiconductor Technology, USA (MosChip USA) and MosChip Semiconductor Technology Pte Ltd., Singapore (MosChip Singapore).

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, IP development and design/development services.

MosChip is currently focusing on design and development services division. It has services agreements with several companies in India and abroad.

Industry

The services industry has been growing as the demand for engineers continue to rise, it presents opportunities to provide value added services. However many of the MNC's have started establishing development centers within India and thereby the margins have been under tremendous pressure.

Outlook

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

Healthy organic growth

MosChip leverages its engineering skills to develop custom products, IP development and design/development services. After the sale of I/O products of the company, it is focusing itself on SOC products, which have a very promising future and the design services business.

MosChip leverages this strength in services business. It is successfully making inroads in design services business and foresees a very bright future ahead. The company has transformed into value added services and has made steady inroads into very large Tier-1 customers including domestic customers. The Company has bagged a very complex custom System on a Chip (SOC) from a domestic customer despite stiff competition from the leading service providers. This chip is to be fabricated using the state of the art 40nm Low Power CMOS technology. .

Identification of new opportunities for inorganic growth

MosChip is also looking to grow inorganically by identifying opportunities and tie ups for custom products and acquisitions companies from design services business.

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

Outsourcing of design and engineering services to other providers has taken off very well and continuously growing at a very fast pace.

Risks and concerns

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

Semiconductor Services under pressure

There is pricing pressure in the value added services space within the Semiconductor Industry as many MNC's are looking at lowering their R&D budgets and have expanded their operations within India and other countries with cheaper labour force. The billing rates are under tremendous pressure due to which the margins are affected in a big way.

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

DIRECTORS' REPORT

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.

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.

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 wholly owned

subsidiaries in USA and Singapore. Any adverse fluctuations in the currencies in which the Company's exports are invoiced would affect the Company's results of operations and the consolidated financial position.

Internal control systems

The Company has formulated effective internal control systems and implemented the same strictly to ensure that the assets and interests of the Company are safeguarded and to determine the accuracy and reliability of accounting data.

The Company has an internal audit system and its functions are to ensure that systems are designed and implemented with adequate internal controls. The Company's control methodology is commensurate with the size of operations, the transactions that are executed, and the assets that must be safeguarded and deployed in accordance with the Company's policies.

An Audit Committee, headed by a non-executive independent Director, periodically reviews the audit information/observation and all significant issues are brought to the attention of the committee.

Human Resources

The Company currently employs a total of 120 employees. All the employees are located at Hyderabad, India. Of these 104 are technical employees and the rest are marketing and support staff.

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

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

DIRECTORS' REPORT

COMMENTARY ON THE FINANCIAL STATEMENTS OF MOSCHIP INDIA

Balance Sheet

1. Share Capital

The Company has only one class of shares. The Company has not allotted any shares during the year under review. The total paid-up equity share capital of the Company is Rs.460,355,170 as on 31st March 2013. There are no calls-in-arrears.

2. Reserves and Surplus

Reserves and Surplus primarily consists of Securities Premium Reserves Rs.666,633,920 and accumulative loss of Rs.1,098,166,005

Capital Reserve

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

Due to nonpayment of balance amount within the stipulated time the upfront amount received Rs.5,431,250 was forfeited and credited to Capital Reserve Account.

3. Short Term Borrowings

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 guaranteed by Chairman and Managing Director of the Company.

During the period the Company has obtained unsecured loans from a Director of an amount Rs.6.63 crores and the outstanding as on 31.03.2013 is Rs. 5.87 crores at varying interest rates payable.

Loans and Advances from Related Parties

The amount of Advance Rs.26,505,619 was received from its wholly owned subsidiary MosChip Semiconductor Technology, USA against future exports.

4. Fixed Assets

During the year under review, the company has invested an amount of Rs.21.93 lakhs towards capital expenditure. Additions to fixed assets increased by 1.48% during the financial year.

5. Non-Current 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.

During the year under review there is a diminution in value of Rs.62,361,897 in the carrying cost of investment in Moschip USA which is 100% subsidiary of Moschip India This diminution loss was due to changes in underlying business conditions of Moschip USA. The charge on account of diminution has been determined on the basis of the Moschip USA's Net Worth as on 31st March 2013. After diminution in value, the investment value recognized as on 31st March 2013 is Rs.9,569,890.

The long-term investments of the Company also include 55,001 shares of MosChip Semiconductor Technology PTE Ltd, Singapore (a company incorporated in Singapore) worth an amount of Rs.2,282,953. The Company owns the entire equity capital of MosChip Semiconductor Technology PTE Ltd, Singapore.

6. Cash and Bank Balances

The bank balances in India include both Rupee accounts and Foreign Currency Accounts. Fixed Deposits of Rs. 9,075,000 are given as security for issue of bank guarantees.

7. Sundry Debtors

The amount of Sundry Debtors of Rs.96,137,901 consists of Rs.65,709,033 is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA.

8. Loans and Advances

a. Long Term Loans & 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.

b. Short Term Loans & Advances

Other advances

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

Prepaid Income Tax

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

Service Tax Input Credit

Service Tax Input Credit represents the refund due from Service Tax Department for the service tax paid to others towards services rendered by them to the Company.

9. Long Term Provisions

Long Term Provisions of Rs.8,166,026 includes

DIRECTORS' REPORT

provision for Leave Encashment amounting to Rs.2,278,460 and Rs.5,887,566 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.

10. Guarantees

The Company has outstanding guarantees for various purposes amounting to Rs.90,514,145 (previous year Rs.5,500,000) for the year ended 31 March 2013.

These guarantees are in the nature of performance guarantees relating to execution of Govt. contracts.

Profit and Loss Account

11. Sales Revenue

Revenue from Operations

The sales revenue for the year under review amounted to Rs.122,278,949 as against Rs.132,453,409 during the previous year. Of this Rs.55,991,370 was on account of software services billed to the wholly owned subsidiaries. Balance amount of Rs.66,287,579 billed to others.

12. Other Income

Other Income consists of interest on deposits with banks & others and profit on sale of current investments.

13. Expenditure

The expenditure for the year under review amounted to Rs.129,399,998 as against Rs.145,435,905 during the previous year.

14. Depreciation

During the year, the company charged depreciation at 100% in respect of assets costing less than Rs.5,000 each amounting to Rs.11,140.

15. Extraordinary Items

The extraordinary Item consists of diminution in value of Rs.62,361,897 in the carrying cost of investment in Moschip USA which is 100% subsidiary of Moschip India This diminution loss was due to changes in underlying business conditions of Moschip USA. The charge on account of diminution has been determined on the basis of the Moschip USA's Net Worth as on 31st March 2013.

16. Loss for the year

The loss for the year before extraordinary items and tax is Rs.12,891,975 compared to the previous year loss of Rs.21,350,087.

The loss for the year after tax after extraordinary item and Discontinuing Operations is Rs.75,253,872 compared to the previous year loss of Rs.279,927,387.

17. 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.(0.28) before taking into consideration extraordinary and discontinuing operations and Rs.(1.63) after taking into consideration extraordinary and discontinuing operations. More details on computation of EPS are given in Note 19.2.5 of Notes on Accounts.

18. Foreign Exchange Difference

An amount of Rs.3,625,131 has been considered as unrealized gain and an amount of Rs.1,572,890 as realized loss on foreign exchange fluctuation during the current year on account of foreign exchange rate differences arising due to timing differences between accrual of income/expense and receipt/payment of the same.

19. Related Party Transactions

The transactions with the related parties other than employees are given in Note 19.2.7 of Notes on Accounts. All the transactions are on commercial basis and are not detrimental to the interests of the Company.

20. Leases

The Company has operating leases for Office Building. The rental expenses for operating leases for the year ended 31 March 2013 amounted to Rs.6,723,600. The Company has the right to terminate the lease agreement for Hyderabad office building by giving three months written notice.

21. 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 19.2.4 of Notes on Accounts and Annexure – A to Directors Report.

DIRECTORS' REPORT

ANNEXURE D

CERTIFICATE ON CORPORATE GOVERNANCE

The Members
MosChip Semiconductor Technology Limited

We have examined the compliance of conditions of Corporate Governance by MosChip Semiconductor Technology Limited for the year ended 31 March 2013 as stipulated in Clause 49 of the Listing Agreement of the said company with Stock Exchanges.

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.

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.

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
12 August 2013

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(l) (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 2013

K. Ramachandra Reddy
Chairman & CEO

CORPORATE GOVERNANCE 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 **66.67%** of the Board.

a) Composition and category of directors as on 31st March 2013

Table - 1

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

b) Attendance of each director at the Board meetings held during the year 2012-13 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	06	Yes
Mr. C. Dayakar Reddy	06	05	Yes
Dr. Vijay Chandru	06	00	No
Mr. G. Prasad	06	06	No
Mr. Vivek Bhargava	06	06	No
Dr. Madhu Mohan Katikineni*	06	01	No
Mr. G. Venkatesh**	04	01	Yes

* Resigned as Director on 14 August 2013

** Resigned as Director on 15 March 2013

c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2012-13

Table - 3

Name of the Director	Board		Committee	
	Chairman	Member	Chairman	Member
Mr. K. Ramachandra Reddy	Nil	Nil	Nil	Nil
Mr. C. Dayakar Reddy	Nil	01	Nil	Nil
Dr. Vijay Chandru	01	Nil	Nil	Nil
Mr. G. Prasad	Nil	02	01	Nil
Mr. Vivek Bhargava	Nil	01	Nil	Nil
Dr. Madhu Mohan Katikineni	Nil	Nil	Nil	Nil
Mr. G. Venkatesh	Nil	Nil	Nil	Nil

d) No. of Board Meetings held and dates on which they were held during 2012-13

Table - 4

Quarter	No. of Meetings	Dates on which held
April – June	02	15 May 2012, 21 May 2012
July – September	02	10 Aug 2012, 25 Aug 2012
October – December	01	08 Nov 2012
January – March	01	14 Feb 2013
Total	06	

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.

CORPORATE GOVERNANCE REPORT

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.

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:

Mr. G. Prasad	—	Chairman
Dr. Vijay Chandru	—	Member
Mr. Vivek Bhargava	—	Member

c) Meetings and attendance during the year 2012-13

Four meetings of the Audit Committee were held during the year 2012-13. Mr. G. Prasad and Mr. Vivek Bhargava attended all four meetings, Dr. Madhu Mohan Katikineni attended one meeting and Dr. Vijaya Chandru attended none of the meetings.

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.

b) Composition, name of members and Chairperson

The Remuneration Committee comprises of the following directors

Mr. G. Prasad	—	Chairman
Dr. Vijay Chandru	—	Member
Mr. Vivek Bhargava	—	Member

c) Attendance during the year 2012-13

One Meeting was conducted on 25 August 2012 during the year under review.

Besides, sitting fee for attending Board and Committee meetings, no special compensation to Non-Executive directors are envisaged during the year 2012-13.

d. Details of remuneration to all the directors:

Table - 5

Name	Designation	Salary Rs.	Performance Incentives Rs.	Commission Rs.	Total Rs.	Notice period	Severance Fee Rs.	Sitting Fee Rs.	Stock Options
K.Ramachandra Reddy	Chairman	36,00,000	Nil	Nil	36,00,000	NA	NA	Nil	Nil
C.Dayakar Reddy	M.D.	36,00,000	Nil	Nil	36,00,000	NA	NA	Nil	Nil
G. Prasad	Director	NA	NA	NA	NA	NA	NA	90,000	1,00,000
Dr. Vijay Chandru	Director	NA	NA	NA	NA	NA	NA	Nil	1,00,000
Dr. Madhu Mohan K.	Director	NA	NA	NA	NA	NA	NA	18,000	4,50,000
Mr. Vivek Bhargava	Director	NA	NA	NA	NA	NA	NA	90,000	1,00,000
G. Venkatesh	Director	NA	NA	NA	NA	NA	NA	8,000	4,50,000

CORPORATE GOVERNANCE REPORT

5. Shareholders / Investors Grievance Committee

This Committee was re-constituted on 24th August 2011.

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. G. Prasad	—	Chairman
Mr. Vivek Bhargava	—	Member
Dr. Vijay Chandru	—	Member

c) Name and Designation of Compliance Officer

Mr. C. Dayakar Reddy	—	Managing Director
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d) No. of Shareholders Complaints received during the year 2012-13

During the year 2012-13, in total no complaints / letters were received from the investors.

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

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

f) No. of pending share transfers

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

6. General Body Meetings

a) Details of last three AGMs

The information about the last three General Body Meetings is given in Table-6 as shown below:

Table - 6

AGM	Venue	Time & Date
Eleventh	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 th September 2010 at 10.30 hrs.
Twelfth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 th September 2011 at 10.30 hrs.
Thirteenth	Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza Road # 02, Banjara Hills, Hyderabad – 500 034	29 th September 2012 at 10.30 hrs.

CORPORATE GOVERNANCE REPORT

7. Disclosures

- a) During the year 2012-13 the Company has entered into related party transactions worth Rs.16.19 Crores. 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 2013, 10.30 am at Registered Office of the Company at Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, 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 2013-14	
First Quarter Results	: 14 th August 2013
Second Quarter & Half-yearly Results	: Between 1 st & 15 th November 2013
Third Quarter Results	: Between 1 st & 15 th February 2014
Fourth Quarter & Annual Results (Audited in lieu of un-audited results)	: Between 20 th & 30 th May 2014

- Date of Book Closure : 24th September 2013 to 30th September 2013 (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 2012-13 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-7*.

CORPORATE GOVERNANCE REPORT

MosChip Share price on BSE and in comparison with BSE Sensex

Table - 7

Month & Year	MosChip		Sensex	
	High	Low	High	Low
Apr 12	4.27	3.04	17,664.10	17,010.16
May 12	8.05	3.51	17,432.33	15,809.71
Jun 12	6.69	4.40	17,448.48	15,748.98
Jul 12	5.25	4.05	17,631.19	16,598.48
Aug 12	4.91	3.96	17,972.54	17,026.97
Sep 12	4.78	3.61	18,869.94	17,250.80
Oct 12	4.30	3.44	19,137.29	18,393.42
Nov 12	3.90	2.90	19,372.70	18,255.69
Dec 12	5.72	2.85	19,612.18	19,149.03
Jan 13	4.67	3.45	20,203.66	19,508.93
Feb 13	3.85	2.90	19,966.69	18,793.97
Mar 13	3.38	2.28	19,754.66	18,568.43

- Registrar and Transfer Agents : Karvy Computershare Pvt. Ltd.
Plot No. 17-24, Vithal Rao Nagar
Madhapur, Hyderabad – 500 081. AP, India.
Tel: +91-40-44655208
Email: einward.ris@karvy.com

- Share Transfer System

The applications for transfers, transmission etc., are received by the Company at Registered Office address at Hyderabad or at Karvy Computershare Pvt. Ltd., 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.

Karvy Computershare Pvt. Ltd. is the Common Share Transfer Agent for both Physical and Demat mode.

- Distribution of Shareholding

The Distribution of shareholding of the Company as on 31 March 2013 is shown in Table-8.
Distribution of Shareholding as on 31 March 2013:

Table - 8

Sl. No.	Category		No. of members		Equity Shares Amount		% of equity	
	From	To	Physical	Electronic	Physical	Electronic	Physical	Electronic
1	1	5000	76	19024	130680	43621320	0.03	9.48
2	5001	10000	02	3957	18000	34805190	0.00	7.56
3	10001	20000	00	2019	00	32530670	0.00	7.07
4	20001	30000	03	680	8000	17924070	0.02	3.89
5	30001	40000	00	306	00	11219900	0.00	2.44
6	40001	50000	03	353	150000	17110990	0.03	3.72
7	50001	100000	01	465	75900	35308310	0.02	7.67
8	100001	Above	20	399	48935110	218445030	10.63	47.45
	Total		105	27203	49389690	410965480	10.73	89.27
	Grand Total		27308		460355170		100.00%	

CORPORATE GOVERNANCE REPORT

- Dematerialization of shares and liquidity

As per SEBI guidelines on investors' protection, the Company's shares are to be traded only in dematerialized mode. Accordingly, the Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to establish electronic connectivity and facilitate scrip-less trading. As at the end of 31 March 2013, **89.27%** 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. The Company has the Design Centre at Hyderabad, the particulars of which are given in Table -9:

Table - 9

Design House	Location
Hyderabad	Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2 Banjara Hills, Hyderabad – 500 034, AP, India

- Address for Correspondence and contact persons for investors queries

Investors' correspondence may be addressed to the Compliance Officer at the registered office of the Company at Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No.2, 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:

Karvy Computershare Pvt. Ltd.
Plot No. 17-24, Vithal Rao Nagar, Madhapur, Hyderabad - 500 081, A.P., India

Contact Person: Mr. R. Chandra Sekher – Sr. Manager (Registrar in Securities)
Tel: +91-40-4465 5208
Email: einward.ris@karvy.com

For and on behalf of the Board of Directors

26 August 2013

K. Ramachandra Reddy
Chairman & CEO

**AUDITORS' REPORT ON THE
CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors
MosChip Semiconductor Technology Limited
Hyderabad

We have audited the accompanying **consolidated financial statements** of Moschip Semiconductor Technology Limited ("the Company") and its subsidiaries MosChip Semiconductor Technology, USA and MosChip Semiconductor Technology Pte. Ltd., Singapore, which comprise the consolidated Balance Sheet as at March 31, 2013, and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true

and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- a. in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31, 2013;
- b. in the case of the consolidated Profit and Loss Account, of the loss for the year ended on that date; and
- c. in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

Other Matter

We did not audit the financial statements of the company's wholly owned subsidiaries Moschip Semiconductor Technology Limited, USA and Moschip Semiconductor Technology Pte Ltd., Singapore. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management, and our opinion is based solely on the reports of the other auditors. Our opinion is not qualified in respect of this matter.

For **Gokhale & Co.**
Chartered Accountants

Chandrashekhar Gokhale
Partner

28 May 2013

Membership No 23839
Firm Regn. No 000942S

CONSOLIDATED

**CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2013**

PARTICULARS	Note No.	As at 31 March 2013 Rs.	As at 31 March 2012 Rs.
I. EQUITY AND LIABILITIES			
1. Shareholders' funds			
a. Share Capital	1	460,355,170	460,355,170
b. Reserves and Surplus	2	(436,938,575)	(360,319,203)
		<u>23,416,595</u>	<u>100,035,967</u>
2. Non-current liabilities			
a. Long-term Provisions	3	8,514,783	5,859,921
		<u>8,514,783</u>	<u>5,859,921</u>
3. Current Liabilities			
a. Short term borrowings	4	94,431,970	27,238,925
b. Trade payables	5	10,663,729	5,302,224
c. Other current liabilities	6	-	127,225
d. Short term provisions	6	11,270,728	5,723,663
		<u>116,366,427</u>	<u>38,392,037</u>
TOTAL		<u><u>148,297,805</u></u>	<u><u>144,287,925</u></u>
II ASSETS			
1. Non-current assets			
a. Fixed assets	7		
i. Tangible assets		24,489,218	27,335,541
ii. Intangible assets		2,406,634	3,352,428
b. Long-term loans and advances	8	6,140,252	6,481,316
		<u>33,036,104</u>	<u>37,169,285</u>
2. Current assets			
a. Current investments	9	-	152,507
b. Inventories	10	40,583,193	37,217,852
c. Trade receivables	11	47,254,905	42,204,900
d. Cash and Cash equivalents	12	13,340,114	16,877,769
e. Short-term loans and advances	13	14,083,489	10,665,612
		<u>115,261,701</u>	<u>107,118,640</u>
TOTAL		<u><u>148,297,805</u></u>	<u><u>144,287,925</u></u>
Significant accounting policies and notes to accounts	20		

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 : 28 May 2013

CONSOLIDATED

**CONSOLIDATED PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

PARTICULARS	Note No.	For the year ended 31 March 2013		For the year ended 31 March 2012	
		Rs.	Rs.	Rs.	Rs.
I. Revenue from operations	14	97,922,871		153,946,613	
II. Other Income	15	467,340		247,304	
III. Total Revenue (I+II)			98,390,211		154,193,917
IV. Expenses					
Cost of Materials Consumed	16	(4,087)		97,537,185	
Employee benefits expense	17	112,858,007		88,019,201	
Finance Costs	18	7,243,754		17,473,969	
Depreciation and amortization expense		5,694,252		19,073,652	
Other expense	19	52,716,516		33,933,809	
Total Expense			178,508,441		256,037,816
V. Profit/(Loss) before exceptional and extraordinary items and tax (III-IV)			(80,118,231)		(101,843,899)
VI. Exceptional Items			1,372,391		(74,263,934)
VII. Profit/(Loss) before extraordinary items and tax (V-VI)			(81,490,621)		(27,579,965)
VIII. Extraordinary items			62,361,897		303,647,300
IX. Profit/(Loss) before tax (VII-VIII)			(143,852,518)		(331,227,265)
X. Tax expense:					
1. Current tax		-		-	
2. Deferred tax		-		-	
XI. Profit/(Loss) for the period from continuing operations (IX - X)			(143,852,518)		(331,227,265)
XII. Profit/(Loss) for the period from discontinuing operations			-		205,440,000
XIII. Tax expense of discontinuing operations			-		4,280,727
XIV. Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			-		201,159,273
XV. Profit/(Loss) for the period (XI+XIV)			(143,852,518)		(130,067,992)
XVI. Earnings per equity share:					
1. Basic			(3.12)		(2.83)
2. Diluted			(3.12)		(2.83)
Significant accounting policies and notes to accounts	20				

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 : 28 May 2013

CONSOLIDATED

**NOTES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 1		
SHARE CAPITAL		
Authorised Share Capital		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	<u>550,000,000</u>	<u>550,000,000</u>
Issued share capital		
47,750,589 (Previous Year 47,750,589) equity shares of Rs.10/- each	<u>477,505,890</u>	<u>477,505,890</u>
Subscribed and fully paid share capital		
46,035,517 (Previous Year 46,035,517) equity shares of Rs.10/- each	<u>460,355,170</u>	<u>460,355,170</u>
Shareholders having more than 5% of the shares with the number of shares & Percentage		
Name of the Shareholder	2012-13	2011-12
	No. of Shares	No. of Shares
	%	%
1.K Ramachandra Reddy	3,050,037	3,050,037
	6.63%	6.63%
2. ESS Tech. International Inc.	2,329,092	2,329,092
	5.06%	5.06%
Total	<u>460,355,170</u>	<u>460,355,170</u>
NOTE - 2		
RESERVES AND SURPLUS:		
<i>Capital Reserves:</i>		
State Govt Subsidy	1,250,000	1,250,000
Foreign Currency Translation Reserve	21,287,515	16,416,266
Capital Reserve	<u>130,191,859</u>	<u>67,829,962</u>
	<u>152,729,374</u>	<u>85,496,228</u>
<i>Forfeited Share Warrants:</i>		
Opening Balance	5,431,250	5,431,250
Additions	-	-
	<u>5,431,250</u>	<u>5,431,250</u>
<i>Securities Premium Reserves:</i>		
Opening Balance	666,633,920	666,633,920
Additions	-	-
	<u>666,633,920</u>	<u>666,633,920</u>
<i>Surplus, showing allocations and appropriations such as dividend, Bonus Shares and transfer to / from reserves</i>		
Opening Balance	(1,117,880,601)	(1,117,880,601)
Add: Current Year Surplus	<u>(143,852,518)</u>	-
	<u>(1,261,733,119)</u>	<u>(1,117,880,601)</u>
Total	<u>(436,938,575)</u>	<u>(360,319,203)</u>

CONSOLIDATED

**NOTES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 3		
LONG TERM PROVISIONS		
Leave Encashment	2,627,217	1,943,674
Gratuity	5,887,566	3,916,247
Total	<u>8,514,783</u>	<u>5,859,921</u>
NOTE - 4		
SHORT TERM BORROWINGS		
Loan from Bank (Packing Credit) (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) Terms of repayment is 180 days from the date of availment of loan	24,814,817	27,238,925
Loan From Directors	69,617,153	-
Total	<u>94,431,970</u>	<u>27,238,925</u>
NOTE - 5		
OTHER CURRENT LIABILITIES		
Application money received for allotment of securities and due for refund	-	127,225
Total	<u>-</u>	<u>127,225</u>
NOTE - 6		
SHORT TERM PROVISIONS		
Provision for Expenses	3,523,948	690,687
TDS Payable	1,443,615	794,021
Service Tax Payable	2,955,696	-
Provision for Taxation	3,347,469	4,238,955
Total	<u>11,270,728</u>	<u>5,723,663</u>

NOTE - 7
FIXED ASSETS - CONSOLIDATED
(Amount in Rupees)

S. No.	Description	GROSS BLOCK					DEPRECIATION					NET BLOCK	
		Balance as at 01.04.12	Additions during the year	Adjustments during the year*	Deletions during the year	Balance as at 31.03.13	For the Year	Deletions during the year	Adjustments during the year**	Balance as at 31.03.13	Balance as at 31.03.13	Balance as at 31.03.12	
	Tangible Assets												
1	Computers	30,008,254	1,982,808	-	3,198,733	28,792,229	26,782,174	3,194,866	-	26,184,380	2,607,949	3,226,080	
2	Electrical Installation	2,130,508	-	-	172,455	1,958,053	810,335	59,380	-	842,101	1,115,952	1,320,173	
3	Plant and Machinery	23,167,767	-	-	20,674,305	2,493,462	21,844,260	20,674,305	-	1,288,194	1,205,268	1,323,507	
4	Furniture and Fittings	6,076,400	420,525	7,571	97,904	6,406,592	3,200,758	52,884	21,540	3,547,721	2,868,870	2,875,642	
5	Office Equipment	5,435,989	41,520	46,811	492,496	5,031,824	2,164,724	299,026	35,728	2,146,454	2,885,370	3,271,265	
6	Vehicles	84,257	-	-	-	84,257	71,883	-	-	74,906	9,351	12,374	
7	Lab Equipment	16,492,766	80,530	-	395,003	16,178,293	4,447,655	140,075	-	5,085,490	11,092,803	12,045,111	
8	Leasehold Improvements	3,286,421	-	-	-	3,286,421	25,081	-	-	572,765	2,713,656	3,261,390	
9	Mask Tools	69,570,981	-	-	69,570,981	-	69,570,982	69,570,982	-	-	-	-	
	TOTAL	156,253,343	2,525,382	54,382	94,601,877	64,231,230	128,917,802	4,748,460	57,288	39,742,012	24,489,218	27,335,541	
	Intangible Assets												
1	Software	71,626,510	-	-	9,277,193	62,349,317	68,274,082	9,277,191	-	59,942,683	2,406,634	3,352,428	
	TOTAL	71,626,510	-	-	9,277,193	62,349,317	68,274,082	9,277,191	-	59,942,683	2,406,634	3,352,428	
	GRAND TOTAL	227,879,853	2,525,382	54,382	103,879,070	126,580,547	197,191,884	5,694,252	57,288	99,684,695	26,895,852	30,687,969	
	Previous Year	328,879,012	6,861,029	20,155,894	128,016,082	227,879,853	274,126,455	19,073,662	12,417,441	197,191,884	30,687,969		

Note :

* Adjustments for the year includes Rs.54,382/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

** Adjustments for the year includes Rs.57,268/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

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**NOTES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 8		
LONG TERM LOANS & ADVANCES (Unsecured, Considered Good)		
Deposits		
Deposit - Government Authorities		
Deposits - Electricity	116,800	626,957
Deposits - Telephone	141,714	157,714
Deposits - Others		
Deposits - Others	845,538	660,445
Deposits - Rent	2,241,200	2,241,200
Other Loans & Advances		
Moschip Employees Trust	2,795,000	2,795,000
Total	<u><u>6,140,252</u></u>	<u><u>6,481,316</u></u>
NOTE - 9		
CURRENT INVESTMENTS		
Investments		
SVB Securities Liquid Fund	-	152,507
Total	<u><u>-</u></u>	<u><u>152,507</u></u>
NOTE - 10		
INVENTORIES		
Finished Goods	40,583,193	37,217,852
Total	<u><u>40,583,193</u></u>	<u><u>37,217,852</u></u>
NOTE - 11		
TRADE RECEIVABLES (Unsecured, Considered Good)		
Outstanding for a period exceeding six months	-	-
Others	47,254,905	42,204,900
Total	<u><u>47,254,905</u></u>	<u><u>42,204,900</u></u>
NOTE-12		
CASH AND CASH EQUIVALENTS		
Cash on hand	15,520	6,131
Balance with Scheduled Banks		
- In Current accounts	2,169,066	2,727,790
- In Fixed deposit accounts	9,075,000	585,301
(Rs.9,075,000/- (Previous Year Rs.585,301/-) pledged towards margin on Bank Guarantee)		
Balance with Non-Scheduled Banks in Current Accounts	2,080,528	13,558,547
Total	<u><u>13,340,114</u></u>	<u><u>16,877,769</u></u>

CONSOLIDATED

**NOTES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 13 SHORT TERM LOANS & ADVANCES Other Loans & Advances - (Unsecured , Considered Good) Prepaid Expenses 5,710,365 4,594,040 Service Tax Input Credit 3,877,310 3,877,307 Interest Accrued but not due 366,591 180,558 Prepaid Income Tax-TDS 4,027,188 1,563,301 Loans & Advances to Employees - 2,503 Other Advances 102,036 447,904 Total 14,083,489 10,665,612		
NOTES FORMING PART OF CONSOLIDATED PROFIT AND LOSS STATEMENT	For the year ended 31 March 2013 Rs.	For the year ended 31 March 2012 Rs.
NOTE - 14 REVENUE FROM OPERATIONS Semiconductor Sales (Sales Returns net off Sales) (3,074,048) 129,893,807 Software Services <u>100,996,918</u> <u>24,052,805</u> Total <u><u>97,922,871</u></u> <u><u>153,946,613</u></u>		
NOTE - 15 OTHER INCOME Interest Earned (Gross) 467,340 94,090 (Tax Deducted at Source Rs.6,155 (previous year Rs.7,684) Profit on Sale of Investment - <u>153,215</u> Total <u><u>467,340</u></u> <u><u>247,304</u></u>		
NOTE - 16 COST OF MATERIAL CONSUMED Materials, Finished and Processed stocks (COGs on Sales Returns net off COGs) (124,364) 96,554,260 Import Clearance Charges <u>120,276</u> <u>982,925</u> Total <u><u>(4,087)</u></u> <u><u>97,537,185</u></u>		
NOTE - 17 EMPLOYEE BENEFIT EXPENSES Salaries and Other Allowances to Employees 99,428,641 75,177,530 Contribution to PF, ESI & Gratuity 2,990,967 1,705,389 Directors Remuneration 7,200,000 7,200,000 Staff Welfare Expenses <u>3,238,399</u> <u>3,936,282</u> Total <u><u>112,858,007</u></u> <u><u>88,019,201</u></u>		

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**NOTES FORMING PART OF
CONSOLIDATED PROFIT AND LOSS STATEMENT**

NOTES	For the year ended 31 March 2013 Rs.	For the year ended 31 March 2012 Rs.
NOTE - 18		
FINANCE COST		
Interest on Packing Credit	4,253,898	15,457,850
Interest on loan from Directors	2,649,228	709,850
Interest on ICDs	-	416,258
Bank Charges	340,628	890,011
Total	<u><u>7,243,754</u></u>	<u><u>17,473,969</u></u>
NOTE - 19		
OTHER EXPENSES		
Rent	9,436,901	7,857,815
Electricity Charges	2,223,117	2,002,310
Consumables	2,154,208	1,278,744
Research and Development Expenses	505,392	1,617,886
Software Charges	5,511,360	3,377,556
Communication Expenses	428,855	452,804
Directors Sitting Fee	206,000	134,000
Export freight and insurance charges	-	549,956
Printing and Stationery	230,351	90,586
Postage, Telegrams and Telephones	1,441,271	946,586
Fees, Rates and Taxes	277,722	265,998
Repairs and Maintenance	748,467	726,602
Travelling and Conveyance	8,406,152	3,802,608
Marketing Expenses	1,720,248	1,071,179
Advertisement Expenses	1,195,122	2,081,653
Payment to Auditors	1,347,197	882,760
Insurance	4,057,284	4,709,945
Professional charges	6,127,614	1,928,491
Recruitment Expenses	169,389	554,481
General Expenses	7,054,806	5,390,189
Bad Debts Written Off	1,527,300	161,845
Realised Loss/(Gain) on Forex Fluctuation	1,572,890	1,321,891
Unrealised Loss/(Gain) on Forex Fluctuation	(3,625,131)	(7,272,076)
Total	<u><u>52,716,516</u></u>	<u><u>33,933,809</u></u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

20	<p>Significant accounting policies and notes on accounts Company overview MosChip Semiconductor Technology Limited ("MosChip" or "the Company") and its subsidiary (hereinafter collectively referred to as "the Group") is a fabless semiconductor company engaged in the business of development and manufacture of System on Chip (SOC) technologies. The Company is mainly focusing on providing customized application specific integrated circuits (ASICs), System on Chip (SOC) and Software technology services to its clients across the globe. MosChip has its headquarters in Hyderabad.</p>		<p>is recognized as Goodwill/Capital Reserve in Consolidated Financial Statements.</p>
20.1	<p>Significant Accounting Policies</p>	20.1.3	<p>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.</p>
20.1.1	<p>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, MosChip Semiconductor Technology PTE Ltd, Singapore (Wholly Owned Subsidiary) and MosChip Semiconductor Technology, USA (Wholly Owned Subsidiary) for the year ended 31 March 2013. 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.</p>	20.1.4	<p>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.</p>
20.1.2	<p>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/shortage 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</p>	20.1.5	<p>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.</p>
20.1.6	<p>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. Fixed Assets sold or retired from active use are eliminated from accounts by removing the</p>	20.1.6	<p>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. Fixed Assets sold or retired from active use are eliminated from accounts by removing the</p>

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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

20.1.7 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 20.2.10.

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.

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.

20.1.8 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.

20.1.9 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.

20.1.10 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.

20.1.11 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.

20.2 Notes on Accounts

20.2.1 Contingent Liabilities:

(Amount in Rupees)

Particulars	As at 31 March	
	2013	2012
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by bankers	9,075,000	585,301
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards execution of Govt. contract	90,514,145	5,500,000

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

20.2.2 Short Term Borrowings

During the period the Company has obtained unsecured loan from a Director of an amount Rs.6.63 crores and the outstanding as on 31.03.2013 is Rs. 5.87 crores at varying interest rates payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2013.

During the period the Subsidiary Moschip Semiconductor Technology, USA has obtained loan from a Director an amount of Rs. 1.08 crore (USD \$200,000) at the rate of 18% interest payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2013.

20.2.3 Exceptional Items

Exceptional Items consist of assets discarded during the year which were retired from active use and as no further benefit was expected Rs. 617,360 and obsolete stocks of Rs. 755,031.

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

20.2.4 Extraordinary Items

The extraordinary items consist of Impairment loss on Goodwill of Rs.62,361,897 pertaining to the investment made by Moschip India in its 100% wholly owned Subsidiary of Moschip USA. This impairment loss was due to changes in underlying business conditions of Moschip USA.

20.2.5 Earnings per Share

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

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

(Amount in Rupees except share numbers)

	Year ended 31 March 2013	Year ended 31 March 2012
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(80,118,231)	(101,843,899)
Net Profit/(Loss) for the period after exceptional, extraordinary and Discontinuing Operations	(143,852,518)	(130,067,992)
Weighted average number of equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(1.77)	(0.60)
EPS after extraordinary and prior period item	(3.12)	(2.83)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(80,118,231)	(101,843,899)
Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(143,852,518)	(130,067,992)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(80,118,231)	(101,843,899)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and Discontinuing Operations	(143,852,518)	(130,067,992)
Weighted average number of equity shares	46,035,517	46,035,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(1.77)	(0.60)
EPS after extraordinary and prior period item	(3.12)	(2.83)

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

20.2.6 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

a) Business Segment Information:

Particulars	Year ended 31 March 2013	
	Software Rs.	ASICs Rs.
Revenue		
Sales to external customers	100,996,918	(3,074,048)
Segment Profit / (loss)	(68,014,423)	(12,571,148)
Other Income	466,192	1,148
Profit / (loss) before Tax	(67,548,231)	(12,570,000)
Tax	0	0
Exceptional Item	1,372,391	0
Profit/(loss) after Tax before Extraordinary and Discontinuing operations	(68,920,621)	(12,570,000)
Extraordinary Items and Profit / (Loss) on Discontinuing Operations	62,361,897	0
Net profit/(loss)	(131,282,518)	(12,570,000)
Other Segment Information		
Depreciation	5,619,758	74,494
Non-cash expenses other than depreciation	0	0
Particulars of Segment Assets and Liabilities		
Segment Assets	62,489,000	72,468,692
Investments	0	0
Cash and Bank Deposits	12,617,245	722,868
Other Assets	0	0
Total Assets	75,106,245	73,191,560
Segment Liabilities	110,758,827	14,122,383
Total Liabilities	110,758,827	14,122,383

b) Geographic Segment Information:

Particulars	Year ended 31 March 2013	
	Software Rs.	ASICs Rs.
Revenue		
Hong Kong	0	3,559,844
Canada	0	(7,573,185)
USA	30,869,228	0
India	66,287,580	0
Rest of World	3,840,110	899,293
Carrying amount of segment fixed assets		
India		85,439,475
North America		125,146,426
Additions to fixed assets		
India		332,040
North America		2,193,342

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

20.2.7 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 2013. 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.

20.2.8 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 i.e., 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

	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	47,400	61,800
Granted during the year	0	0
Forfeited during the year	3,000	14,400
Exercised during the year	0	0
Outstanding at the end of the year	44,400	47,400

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	102,000	106,000
Granted during the year	0	0
Forfeited during the year	9,000	4,000
Exercised during the year	0	0
Outstanding at the end of the year	93,000	102,000

Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	120,000	176,000
Granted during the year	0	0
Forfeited during the year	21,000	56,000
Exercised during the year	0	0
Outstanding at the end of the year	99,000	120,000

CONSOLIDATED

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	110,000	110,000
Granted during the year	0	0
Forfeited during the year	0	0
Exercised during the year	0	0
Outstanding at the end of the year	110,000	110,000

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	38,000	50,000
Granted during the year	0	0
Forfeited during the year	7,000	12,000
Exercised during the year	0	0
Outstanding at the end of the year	31,000	38,000

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	200,000	0
Granted during the year	350,000	200,000
Forfeited during the year	200,000	0
Exercised during the year	0	0
Outstanding at the end of the year	350,000	200,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	359,822	539,700
Granted during the year	900,000	0
Forfeited during the year	480,293	179,878
Exercised during the year	0	0
Outstanding at the end of the year	779,529	359,822

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	311,674	345,924
Granted during the year	0	0
Forfeited during the year	169,000	34,250
Exercised during the year	0	0
Outstanding at the end of the year	142,674	311,674

CONSOLIDATED

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	700,000	300,000
Granted during the year	0	500,000
Forfeited during the year	0	100,000
Exercised during the year	0	0
Outstanding at the end of the year	700,000	700,000

20.2.9 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 2013
<u>Gratuity cost for the period</u>	
Current Service Cost	609,770
Interest cost on defined benefit obligation	463,890
Expected Return on Plan Assets	(137,765)
Net Actuarial losses/(gain) recognised in year	1,309,829
Net Gratuity cost	2,245,724
<u>Balance Sheet</u>	
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	1,520,523
Present Value of the funded obligation at the end of the year	598,931
Asset/(Liability) recognized in the balance sheet	(5,887,566)
<u>Change in the present value of defined benefit obligation are as follows:</u>	
Present value of obligations at the beginning of year	5,436,770
Current Service Cost	609,770
Interest cost	463,890
Actuarial (gain)/loss	1,247,298
Benefits paid	(1,271,231)
Present value of obligations as at the end of year	6,486,497
<u>Change in the fair value of plan assets are as follows:</u>	
Fair Value of Plan Assets at beginning of year	1,520,523
Expected return on plan assets	137,765
Actuarial gain/(loss)	(62,531)
Contributions	274,405
Benefits paid	(1,271,231)
Fair Value of Plan Assets at end of year	598,931

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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

Discount Rate	—	8.05%
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 31 March 2013 is Rs. 2,278,460.

20.2.10 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 2013 would have been lower by Rs.264,703/- and loss for the period would have been lower by Rs.264,703/-.

20.2.11 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 : 28 May 2013

CONSOLIDATED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

	31 March 2013 Rs.	31 March 2012 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(80,118,231)	(101,843,899)
Adjustments for:		
Depreciation	5,694,252	19,073,652
Interest Income	(467,340)	94,090
Loss on fixed assets sold / discarded	0	0
Profit on sale of Investments	0	(153,215)
Provision for Retirement Benefits	2,654,862	(246,440)
Exchange differences on translation of foreign currency cash	0	7,513
Operating Profit before changes in working capital	(72,236,457)	(83,068,299)
Increase/(Decrease) in Secured/Unsecured loans	67,193,045	(59,487,500)
(Increase)/Decrease in Sundry Debtors	(5,050,005)	(37,243,274)
(Increase)/Decrease in Inventories	(3,365,340)	41,211,361
(Increase)/Decrease in Loans and Advances	(3,262,847)	1,636,159
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	(8,489,699)	0
Increase/(Decrease) in Current Liabilities	10,908,570	(164,470,561)
Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items	(14,302,734)	(301,422,114)
Income-taxes paid	0	0
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	(14,302,734)	(301,422,114)
Exceptional Item	0	0
Extra ordinary and prior period item	0	0
Income from discontinuing operations	0	(205,440,000)
Net Cash from Operating Activities [A]	(14,302,734)	(95,982,114)
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(2,525,382)	(6,861,029)
Sale proceeds of Fixed Assets	3,000	1,408,820
Interest received on Fixed Deposits	281,307	55,896
Purchase of Current Investments	0	(39,800,000)
Sale of Current Investments	0	39,953,215
Foreign currency translation adjustment for non-integral operation	4,643,679	109,927,265
Net Cash used for Investing Activities [B]	2,402,604	104,684,167
C. Cash flow from Financing Activities:		
Proceeds from Issue of Share Capital	0	0
Securities Premium	(127,225)	0
Convertible Warrants	0	0
Net Cash from Financing Activities [C]	(127,225)	0

CONSOLIDATED**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

	31 March 2013 Rs.	31 March 2012 Rs.
D. Exchange differences on translation of foreign currency cash	<u>0</u>	<u>(7,513)</u>
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	(12,027,354)	8,694,540
Cash and Cash equivalents at the beginning of the year	<u>16,292,468</u>	<u>7,597,928</u>
Cash and Cash equivalents at the end of the year	<u><u>4,265,114</u></u>	<u><u>16,292,468</u></u>
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	13,340,114	16,877,769
Less: Fixed Deposits towards Bank Guarantee considered as investments	9,075,000	585,301
	<u><u>4,265,114</u></u>	<u><u>16,292,468</u></u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants**Chandrashekhar Gokhale**
Partner
Membership No 23839**K. Ramachandra Reddy**
Chairman & CEO**C. Dayakar Reddy**
Managing DirectorPlace: Hyderabad
Date : 28 May 2013

AUDITORS' REPORT

The Members
MosChip Semiconductor Technology Limited
Hyderabad

Report on the Financial Statements

We have audited the accompanying financial statements of **Moschip Semiconductor Technology Limited**, which comprise the Balance Sheet as at March 31, 2013, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by

the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- a. In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2013;
- b. In the case of the Profit and Loss Account, of the loss for the year ended on that date, and
- c. In the case of the Cash Flow Statement of the Cash Flows for the year ended on March 31, 2013

Report on Other Legal and Regulatory Requirements

1. 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, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. As required by section 227(3) of the Act, 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 and Statement of Profit and Loss dealt with by this Report are in agreement with the books of account;
 - d. In our opinion, the Balance Sheet and Statement of Profit and Loss comply with the accounting standards referred to in Subsection (3C) of Section 211 of the Companies Act, 1956;
 - e. On the basis of written representations received from the Directors, as on 31st March, 2013 and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2013 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **Gokhale & Co.**
Chartered Accountants
Chandrashekhhar Gokhale
Partner
Membership No 23839
Firm Regn. No 000942S

28 May 2013

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. For the year under audit the company had no semiconductor chip sales and its entire revenue is from software services. Hence, the clause relating to inventory is not applicable.
- iii.
 - a. The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Act.
 - b. The company has taken unsecured loans and advances from one of its directors as well as its US subsidiary company. The balance outstanding in loan account of director as at the year end is Rs 5.87 crores. The balance outstanding in advance account of US subsidiary as at the year end is Rs 2.65 crores. The advance from subsidiary company is in the nature of trade advance and hence, does not carry any interest. The rate of interest and other terms and conditions of the loan from director 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 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 nature of transactions. However, no comparative market prices are available because of the nature of products and services.
- vi. The company has not accepted deposits from the public covered by the provisions of section 58 A of the Companies Act.
- vii. The company has an internal audit system commensurate with its size and nature of its business.
- viii. We have been informed that 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 generally 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. The company had incurred cash losses in the immediately preceding financial year also.
- xi. The Export Packing Credit balance of Rs 2.48 crores payable to UCO Bank as at the yearend is overdue. The company has asked for extension of time. 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. During the year 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
Membership No 23839
Firm Regn. No 000942S

28 May 2013

MOSCHIP INDIA

BALANCE SHEET AS AT 31 MARCH 2013

PARTICULARS	Note No.	As at 31 March 2013 Rs.	As at 31 March 2012 Rs.
I. EQUITY AND LIABILITIES			
1. Shareholders' funds			
a. Share Capital	1	460,355,170	460,355,170
b. Reserves and Surplus	2	(424,850,835)	(349,596,963)
		<u>35,504,335</u>	<u>110,758,207</u>
2. Non-current liabilities			
a. Long-term Provisions	3	8,166,026	5,293,898
		<u>8,166,026</u>	<u>5,293,898</u>
3. Current Liabilities			
a. Short term borrowings	4	110,065,589	74,757,550
b. Trade payables		2,669,530	2,438,840
c. Other current liabilities	5	-	127,225
d. Short term provisions	6	5,861,641	832,804
		<u>118,596,760</u>	<u>78,156,419</u>
TOTAL		<u><u>162,267,121</u></u>	<u><u>194,208,524</u></u>
II ASSETS			
1. Non-current assets			
a. Fixed assets	7		
i. Tangible assets		24,037,452	27,138,437
ii. Intangible assets		2,406,634	3,352,426
b. Non-current investments	8	11,852,843	73,240,156
c. Long-term loans and advances	9	5,304,814	5,830,971
d. Other non-current assets		-	-
		<u>43,601,743</u>	<u>109,561,990</u>
2. Current assets			
a. Trade receivables	10	96,137,901	74,465,562
b. Cash and Cash equivalents	11	11,259,542	2,010,892
c. Short-term loans and advances	12	11,267,935	8,170,080
		<u>118,665,378</u>	<u>84,646,534</u>
TOTAL		<u><u>162,267,121</u></u>	<u><u>194,208,524</u></u>
Significant accounting policies and notes to accounts	19		

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 : 28 May 2013

MOSCHIP INDIA

**PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

PARTICULARS	Note No.	For the year ended 31 March 2013		For the year ended 31 March 2012	
		Rs.	Rs.	Rs.	Rs.
I. Revenue from operations	13	122,278,949		132,453,409	
II. Other Income	14	466,192		246,651	
III. Total Revenue (I + II)			122,745,141		132,700,060
IV. Expenses					
Cost of Materials Consumed	15	-		43,345,637	
Employee benefits expense	16	92,027,728		66,786,722	
Finance Costs	17	6,495,159		15,414,754	
Depreciation and amortization expense		5,619,758		5,643,319	
Other expense	18	30,877,111		19,888,792	
Total Expense			135,019,756		151,079,224
V. Profit/(Loss) before exceptional and extraordinary items and tax (III-IV)			(12,274,615)		(18,379,163)
VI. Exceptional Items			617,360		2,970,924
VII. Profit/ (Loss) before extraordinary items and tax (V-VI)			(12,891,975)		(21,350,087)
VIII. Extraordinary items			62,361,897		303,647,300
IX. Profit/(Loss) before tax (VII-VIII)			(75,253,872)		(324,997,387)
X. Tax expense:					
1. Current tax		-		-	
2. Deferred tax		-		-	
XI. Profit/(Loss) for the period from continuing operations (IX - X)			(75,253,872)		(324,997,387)
XII. Profit/(Loss) for the period from discontinuing operations			-		45,070,000
XIII. Tax expense of discontinuing operations			-		-
XIV. Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			-		45,070,000
XV. Profit/(Loss) for the period (XI + XIV)			(75,253,872)		(279,927,387)
XVI. Earnings per equity share:					
Equity Share of face value Rs.10/- each					
1. Basic			(1.63)		(6.08)
2. Diluted			(1.63)		(6.08)
Significant accounting policies and notes to accounts	19				

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 : 28 May 2013

NOTES FORMING PART OF
BALANCE SHEET

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 1		
SHARE CAPITAL:		
Authorised Share Capital		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	550,000,000	550,000,000
Issued share capital		
47,750,589 (Previous Year 47,750,589) equity shares of Rs.10/- each	477,505,890	477,505,890
Subscribed and fully paid share capital		
46,035,517 (Previous Year 46,035,517) equity shares of Rs.10/- each	460,355,170	460,355,170
Shareholders having more than 5% of the shares with the number of shares & Percentage		
Name of the Shareholder	2012-13 No. of Shares	2011-12 No. of Shares
	%	%
1.K Ramachandra Reddy	3,050,037	3,050,037
	6.63%	6.63%
2. ESS Tech. International Inc.	2,329,092	2,329,092
	5.06%	5.06%
Total	460,355,170	460,355,170
NOTE - 2		
RESERVES AND SURPLUS:		
Capital Reserves		
State Govt Subsidy	1,250,000	1,250,000
Forfeited Share Warrants:		
Opening Balance	5,431,250	5,431,250
Additions	-	-
	5,431,250	5,431,250
Securities Premium Reserves		
Opening Balance	666,633,920	666,633,920
Additions	-	-
	666,633,920	666,633,920
Surplus, showing allocations and appropriations such as dividend, Bonus Shares and transfer to / from reserves		
Opening Balance	(1,022,912,133)	(742,984,746)
Add: Current Year Surplus	(75,253,872)	(279,927,387)
	(1,098,166,005)	(1,022,912,133)
Total	(424,850,835)	(349,596,963)

**NOTES FORMING PART OF
BALANCE SHEET**

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 3		
LONG TERM PROVISIONS:		
Leave Encashment	2,278,460	1,377,651
Gratuity	5,887,566	3,916,247
Total	8,166,026	5,293,898
NOTE - 4		
SHORT TERM BORROWINGS:		
Loan from Bank (Packing Credit) (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) Terms of repayment is 180 days from the date of availment of loan	24,814,817	27,238,925
Loans from Directors	58,745,153	-
Loans and Advances from Related Parties - Unsecured Moschip Semiconductor Technology, USA	26,505,619	47,518,625
Total	110,065,589	74,757,550
NOTE - 5		
OTHER CURRENT LIABILITIES:		
Application money received for allotment of securities and due for refund	-	127,225
Total	-	127,225
NOTE - 6		
SHORT TERM PROVISIONS:		
Provision for Expenses	1,462,330	38,783
TDS Payable	1,443,615	794,021
Service Tax Payable	2,955,696	-
Total	5,861,641	832,804

NOTES FORMING PART OF
BALANCE SHEET

S.No.		Description	(Amount in Rupees)						NET BLOCK	
			GROSS BLOCK			DEPRECIATION			Balance as at 31.03.13	Balance as at 31.03.12
		Balance as at 01.04.12	Additions during the year	Deletions during the year	Balance as at 31.03.13	Balance as at 01.04.12	For the Year	Deletions during the year	Balance as at 31.03.13	Balance as at 31.03.12
		Tangible Assets								
1	Computers	30,008,254	1,982,808	3,198,733	28,792,329	26,782,174	2,597,072	3,194,866	26,184,380	3,226,080
2	Electrical Installation	2,130,508	-	172,455	1,958,053	810,335	91,146	59,380	842,101	1,320,173
3	Plant and Machinery	23,167,767	-	20,674,305	2,493,462	21,844,260	118,239	20,674,305	1,288,194	1,323,507
4	Furniture and Fittings	5,720,519	88,485	97,904	5,711,100	2,880,466	346,858	52,884	3,174,440	2,840,053
5	Office Equipment	4,744,173	41,520	492,496	4,293,197	1,634,425	191,984	289,026	1,537,383	3,109,748
6	Vehicles	84,257	-	-	84,257	71,883	3,023	-	74,906	12,374
7	Lab Equipment	16,492,766	80,530	385,003	16,178,293	4,447,655	777,910	140,075	5,085,490	12,045,111
8	Leasehold Improvements	3,286,421	-	-	3,286,421	25,031	547,734	-	572,765	3,261,390
TOTAL		85,634,665	2,193,342	25,030,896	62,797,111	58,486,229	4,673,966	24,410,536	38,789,659	24,037,452
Intangible Assets										
1	Software	62,515,981	-	166,664	62,349,317	59,163,555	945,792	166,664	59,942,683	3,352,426
TOTAL		62,515,981	-	166,664	62,349,317	59,163,555	945,792	166,664	59,942,683	2,406,634
GRAND TOTAL		148,150,646	2,193,342	25,197,560	125,146,428	117,669,784	5,619,758	24,577,200	98,702,342	26,444,086
Previous Year		154,122,772	6,786,827	12,758,953	148,150,646	120,222,114	5,643,319	8,205,649	117,689,784	30,490,862

NOTES FORMING PART OF
BALANCE SHEET

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 8		
NON CURRENT INVESTMENTS:		
Investments		
Unquoted		
a) Wholly-owned Subsidiary:		
19,192,404 (Previous Year 19,192,404) shares of MosChip Semiconductor Technology USA (a company incorporated in USA)		
At Cost	71,931,787	71,931,787
Less: Diminution in Value	<u>62,361,897</u>	-
	9,569,890	71,931,787
Unquoted		
b) Wholly-owned Subsidiary:		
55,001 (Previous Year 1 Share) shares of MosChip Semiconductor Technology Pte Ltd. (a company incorporated in Singapore)		
Amount pending for Allotment	2,282,953	39
	-	1,308,330
Total	<u><u>11,852,843</u></u>	<u><u>73,240,156</u></u>
NOTE - 9		
LONG TERM LOANS & ADVANCES - (Unsecured, Considered Good):		
Deposits		
Deposit - Government Authorities		
Deposits - Electricity	116,800	626,957
Deposits - Telephone	141,714	157,714
Deposits - Others		
Deposits - Others	10,100	10,100
Deposits - Rent	2,241,200	2,241,200
Other Loans & Advances		
MosChip Employees Trust	2,795,000	2,795,000
Total	<u><u>5,304,814</u></u>	<u><u>5,830,971</u></u>
NOTE - 10		
TRADE RECEIVABLES:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	65,709,033	64,086,717
Others	30,428,868	10,378,845
Total	96,137,901	74,465,562
NOTE - 11		
CASH AND CASH EQUIVALENTS:		
Cash on hand	15,476	6,131
Balance with Scheduled Banks		
- In Current accounts	2,169,066	1,419,460
- In fixed deposit accounts (Rs.9,075,000/- (Previous Year Rs.585,301/-) pledged towards margin on Bank Guarantee)	9,075,000	585,301
Total	<u><u>11,259,542</u></u>	<u><u>2,010,892</u></u>

NOTES FORMING PART OF
BALANCE SHEET

NOTES	As At 31 March 2013 Rs.	As At 31 March 2012 Rs.
NOTE - 12 SHORT TERM LOANS & ADVANCES: Other Loans & Advances - (Unsecured , Considered Good)		
Prepaid Expenses	2,894,811	2,052,040
Service Tax Input Credit	3,877,309	3,877,307
Interest Accrued but not due	366,591	180,558
Prepaid Income Tax - TDS	4,027,188	1,609,808
Loans & Advances to Employees	-	2,503
Other Advances	102,036	447,865
Total	11,267,935	8,170,080
NOTES FORMING PART OF PROFIT AND LOSS STATEMENT	For the year ended 31 March 2013 Rs.	For the year ended 31 March 2012 Rs.
NOTE - 13 REVENUE FROM OPERATIONS:		
Semiconductor Sales	-	56,026,526
Software Services	122,278,949	76,426,883
Total	122,278,949	132,453,409
NOTE - 14 OTHER INCOME:		
Interest Earned (Gross)	466,192	93,437
(Tax Deducted at Source Rs.43,533 (previous year Rs.6,155)		
Profit on Sale of Investment	-	153,215
Total	466,192	246,651
NOTE - 15 COST OF MATERIAL CONSUMED:		
Materials, Finished and Processed stocks	-	42,976,205
Import Clearance Charges	-	369,432
Total	-	43,345,637

**NOTES FORMING PART OF
PROFIT AND LOSS STATEMENT**

NOTES	For the year ended 31 March 2013 Rs.	For the year ended 31 March 2012 Rs.
NOTE - 16		
EMPLOYEE BENEFITS EXPENSES:		
Salaries and Other Allowances to Employees	79,189,916	54,348,355
Contribution to PF, ESI & Gratuity	2,990,967	1,705,389
Directors Remuneration	7,200,000	7,200,000
Staff Welfare Expenses	2,646,845	3,532,978
Total	92,027,728	66,786,722
NOTE - 17		
FINANCE COST:		
Interest on Packing Credit	3,505,303	13,935,275
Interest on loan from Directors	2,649,228	709,850
Interest on ICDs	-	416,258
Bank Charges	340,628	353,371
Total	6,495,159	15,414,754
NOTE - 18		
OTHER EXPENSES:		
Rent	6,723,600	5,775,900
Electricity Charges	2,163,454	1,848,862
Consumables	2,154,208	1,278,744
Software Charges	5,511,360	3,377,556
Communication Expenses	428,855	452,804
Directors Sitting Fee	206,000	134,000
Export freight and insurance charges	-	549,956
Printing and Stationery	130,915	86,964
Postage, Telegrams and Telephones	703,214	540,985
Fees, Rates and Taxes	36,137	193,229
Repairs and Maintenance	748,467	677,418
Travelling and Conveyance	5,579,333	2,630,581
Advertisement Expenses	146,710	202,004
Payment to Auditors	255,000	240,506
Insurance	2,201,353	2,483,779
Professional charges	1,738,734	1,602,142
Recruitment Expenses	114,485	554,481
General Expenses	3,663,827	3,209,066
Bad Debts Written off	423,700	-
Realised Loss/(Gain) on Forex Fluctuation	1,572,890	1,321,891
Unrealised Loss/(Gain) on Forex Fluctuation	(3,625,131)	(7,272,076)
Total	30,877,111	19,888,792

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Notes to the Financial Statements for the year ended 31 March 2013

19. Significant accounting policies and notes on accounts

Company overview

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") is a fabless semiconductor company engaged in providing customized application specific integrated circuits (ASICs), System on Chip (SOC) and Software technology services to its clients across the globe. MosChip has its headquarters in Hyderabad, India

19.1 Significant Accounting Policies

19.1.1 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.

19.1.2 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.

19.1.3 Revenue Recognition

Revenue from software sales / Services are recognized and billed as per the terms of specific contracts.

Interest income is recognized on accrual basis.

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

19.1.4 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.

19.1.5 Depreciation

Depreciation on Fixed Assets other than Improvement to Leasehold Premises 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.

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

19.1.6 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.

19.1.7 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

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

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.

19.1.8 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.

19.1.9 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.

19.1.10 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.

19.1.11 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.

19.2 Notes on Accounts

19.2.1 Contingent Liabilities:

(Amount in Rupees)

Particulars	As at 31 March	
	2013	2012
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by bankers	9,075,000	585,301
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards execution of Govt. contract	90,514,145	5,500,000

19.2.2 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. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2013. 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.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

19.2.3 Short Term Borrowings

During the period the Company has obtained unsecured loans from a Director of an amount Rs.6.63 crores and the outstanding as on 31.03.2013 is Rs. 5.87 crores at varying interest rates payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2013.

19.2.4 Employee Stock Option Plans

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

The Company has established nine schemes i.e, 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 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	47,400	61,800
Granted during the year	0	0
Forfeited during the year	3,000	14,400
Exercised during the year	0	0
Outstanding at the end of the year	44,400	47,400

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	102,000	106,000
Granted during the year	0	0
Forfeited during the year	9,000	4,000
Exercised during the year	0	0
Outstanding at the end of the year	93,000	102,000

Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	120,000	176,000
Granted during the year	0	0
Forfeited during the year	21,000	56,000
Exercised during the year	0	0
Outstanding at the end of the year	99,000	120,000

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES ON ACCOUNTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	110,000	110,000
Granted during the year	0	0
Forfeited during the year	0	0
Exercised during the year	0	0
Outstanding at the end of the year	110,000	110,000

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	38,000	50,000
Granted during the year	0	0
Forfeited during the year	7,000	12,000
Exercised during the year	0	0
Outstanding at the end of the year	31,000	38,000

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	200,000	0
Granted during the year	350,000	200,000
Forfeited during the year	200,000	0
Exercised during the year	0	0
Outstanding at the end of the year	350,000	200,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	359,822	539,700
Granted during the year	900,000	0
Forfeited during the year	480,293	179,878
Exercised during the year	0	0
Outstanding at the end of the year	779,529	359,822

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	311,674	345,924
Granted during the year	0	0
Forfeited during the year	169,000	34,250
Exercised during the year	0	0
Outstanding at the end of the year	142,674	311,674

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

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Options outstanding at the beginning of the year	700,000	300,000
Granted during the year	0	500,000
Forfeited during the year	0	100,000
Exercised during the year	0	0
Outstanding at the end of the year	700,000	700,000

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES ON ACCOUNTS**
19.2.5 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 2013	Year ended 31 March 2012
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional ,extraordinary, prior period item and discontinuing operations	(12,274,615)	(18,379,163)
Net Profit/(Loss) for the period after exceptional ,extraordinary, prior period item j and discontinuing operations	(75,253,872)	(279,927,387)
Weighted average number of equity shares	46,035,517	46,035,517
EPS before extraordinary item	(0.28)	(0.46)
EPS after extraordinary item	(1.63)	(6.08)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional ,extraordinary, prior period item and discontinuing operations	(12,274,615)	(18,379,163)
Net Profit/(Loss) for the period after exceptional ,extraordinary, prior period item j and discontinuing operations	(75,253,872)	(279,927,387)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional ,extraordinary, prior period item and discontinuing operations	(12,274,615)	(18,379,163)
Diluted Net Profit/(Loss) for the period after exceptional ,extraordinary, prior period item and discontinuing operations	(75,253,872)	(279,927,387)
Weighted average number of equity shares	46,035,517	46,035,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	46,035,517
EPS before extraordinary item	(0.28)	(0.46)
EPS after extraordinary item	(1.63)	(6.08)

19.2.6 Directors' Remuneration:

(Amounts in Rupees)

	Year ended 31 March 2013	Year ended 31 March 2012
1. Salary and allowances	7,200,000	7,200,000
2. No Provision for Commission to Whole Time Directors has been made in the books, as there is no profit in accordance with Section 198 of the Companies Act, 1956.		

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES ON ACCOUNTS**
19.2.7 Related Party disclosures
A. List of Related Parties

Description of Relationship	Name of Related Parties	Designation
Subsidiaries	MosChip Semiconductor Technology, USA	—
	Moschip Semiconductor Technology PTE Ltd., Singapore	—
Key Management Personnel	K. Ramachandra Reddy	Chairman & CEO
	C. Dayakar Reddy	Managing Director

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

(Amounts in Rupees)

Nature of Transaction	Transactions during the year	Balance as on 31 March 2013
Transactions with Subsidiary		
Reimbursement of expenses / Payable	1,543,668	1,049,596
Reimbursement of expenses / Receivable	472,588	188,159
Advance for sales/ Payable	34,982,345	25,505,619
Sales / Receivable	55,991,370	67,422,300
Transactions with whole time directors		
Remuneration to Chairman & CEO	3,600,000	Nil
Remuneration to Managing Director	3,600,000	Nil
Loan from Directors/Payables	66,300,000	587,45,153
Interest Payable on Directors Loan	2,649,228	1,369,582

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

(Amounts in Rupees)

Particulars	Year ended 31 March 2013 Rs.	Year ended 31 March 2012 Rs.
A. C I F Value of Imports :		
Capital Goods	154,673	138,119
Material purchase	0	42,976,205
B. Expenditure in Foreign currency		
Software Charges	3,889,607	3,201,628
Traveling Expenses	1,143,805	841,019
Professional Charges	0	330,042
Consumables	594,674	178,326
Other Expenses	8,199	213,006
C. Earnings in Foreign Exchange		
Sales Revenue	57,390,560	177,523,409

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES ON ACCOUNTS**
19.2.9 Segment Reporting

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

a) Business Segment Information:

(Amounts in Rupees)

Particulars	Year ended 31 March 2013 Rs.	Year ended 31 March 2012 Rs.
Revenue		
Sales to external customers	122,278,949	132,453,409
Segment Profit / (loss)	(12,740,807)	(18,625,815)
Other Income	466,192	246,651
Profit / (loss) before Tax	(12,274,615)	(18,379,163)
Fringe Benefit Tax	0	0
Exceptional Item	617,360	2,970,924
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(12,891,975)	(21,350,087)
Extraordinary items and Profit/(loss) on discontinuing operations	62,361,897	258,577,300
Net profit/(loss)	(75,253,872)	(279,927,387)
Other Segment Information		
Depreciation	5,619,758	5,643,319
Non-cash expenses other than depreciation	0	0
Particulars of Segment Assets and Liabilities		
Segment Assets	139,154,736	118,957,476
Investments	11,852,843	73,240,156
Cash and Bank Deposits	11,259,542	2,010,892
Other Assets	0	0
Total Assets	162,267,121	194,208,524
Segment Liabilities	126,762,786	83,450,317
Total Liabilities	126,762,786	83,450,317

b) Geographic Segment Information:

(Amounts in Rupees)

Revenue		
North America	54,695,745	116,164,868
Singapore	2,694,815	Nil
Others	64,888,389	61,358,541
Carrying amount of segment fixed assets		
India	125,146,428	127,031,050
North America	0	21,119,596
Additions to fixed assets		
India	2,193,342	6,786,827
North America	Nil	Nil

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES ON ACCOUNTS**
19.2.10 Amounts paid/payable to Auditors:

(Amounts in Rupees)

	Year ended 31 March 2013 Rs.	Year ended 31 March 2012 Rs.
For Statutory Audit	125,000	125,000
For Tax Audit	50,000	50,000
For Certification	80,000	65,506
Total	255,000	240,506

19.2.11 Gratuity Plan

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

The following 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 2013 Rs.
Gratuity cost for the period	
Current Service Cost	609,770
Interest cost on defined benefit obligation	463,890
Expected Return on Plan Assets	(137,765)
Net Actuarial losses/(gain) recognised in year	1,309,829
Net Gratuity cost	2,245,724
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	1,520,523
Present Value of the funded obligation at the end of the year	598,931
Asset/(Liability) recognized in the balance sheet	(5,887,566)
Change in the present value of defined benefit obligation are as follows:	
Present value of obligations at the beginning of year	5,436,770
Current Service Cost	609,770
Interest cost	463,890
Actuarial (gain)/loss	1,247,298
Benefits paid	(1,271,231)
Present value of obligations as at the end of year	6,486,497
Change in the fair value of plan assets are as follows:	
Fair Value of Plan Assets at beginning of year	1,520,523
Expected return on plan assets	137,765
Actuarial gain/(loss)	(62,531)
Contributions	274,405
Benefits paid	(1,271,231)
Fair Value of Plan Assets at end of year	598,931

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

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

Discount Rate	–	8.05%
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 2013 is Rs. 2,278,460.

19.2.12 Extraordinary Items

The extraordinary item consists of diminution in value of Rs. 62,361,897 in the carrying cost of investment in MosChip USA which is 100% subsidiary of MosChip India. This diminution loss was due to changes in underlying business conditions of MosChip USA. The charge on account of diminution has been determined on the basis of the MosChip USA's Net Worth as on 31.03.2013.

19.2.13 Investments

During the year Moschip Semiconductor Technology Limited has further invested in its 100% wholly owned Subsidiary in Singapore named Moschip Semiconductor Technology PTE Limited an amount of Rs.974,584 (SGD 22,500).

19.2.14 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.

19.2.15 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 : 28 May 2013

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

1 Name of subsidiary	:	MosChip Semiconductor Technology, USA	MosChip Semiconductor Technology PTE Ltd. Singapore
2 Financial year ended	:	Year ended 31 March 2013	Year ended 31 March 2013
3 Holding Company's Interest	:	100%	100%
4 Shares held by the holding company in the subsidiary's common stock	:	19,192,404 shares	55,001 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	Nil
b. not dealt with or provided for : in the Accounts of the holding company		US \$ (1,238,560)	SG \$ (31,837)
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	NA
b. not dealt with or provided for : in the Accounts of the holding company as on 31.03.2013		US \$ (2,867,694)	SG \$ (31,837)

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 : 28 May 2013

Information on Subsidiaries for 2012-13

Name of the Company	MosChip Semiconductor Technology, USA	MosChip Semiconductor Technology PTE Ltd.
Currency	USD	SGD
Financial Year of the Subsidiary ended on	March 31, 2013	March 31, 2013
A. Capital	3,044,000	55,001
B. Reserves	(2,867,694)	(31,837)
C. Total Assets	1,359,429	60,874
D. Total Liabilities	1,183,123	37,710
E. Details of Investment	-	-
F. Turnover	623,293	87,550
G. Profit Before Taxation	(1,237,760)	(31,837)
H. Provision for Taxation	800	-
I. Profit After Taxation	(1,238,560)	(31,837)
J. Dividends Paid	-	-

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2013**

	31 March 2013 Rs.	31 March 2012 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(12,274,615)	(18,379,163)
Depreciation	5,619,758	5,643,319
Interest Income	(466,192)	93,437
Profit on sale of Investments	0	(153,216)
Provision for Retirement Benefits	2,872,128	(195,579)
Exchange differences on translation of foreign currency cash	0	7,513
Operating Profit before changes in working capital	(4,248,921)	(12,983,689)
Increase/(Decrease) in Secured/Unsecured loans	56,321,045	(26,000,000)
(Increase)/Decrease in Sundry Debtors	(21,672,339)	42,056,251
(Increase)/Decrease in Investment	(974,584)	(1,308,369)
(Increase)/Decrease in Loans and Advances	(2,571,698)	11,745,334
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	(8,489,699)	0
Increase/(Decrease) in Current Liabilities	(15,753,479)	(56,116,058)
Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items	2,610,326	(42,606,531)
Income-taxes paid	0	0
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	2,610,326	(42,606,531)
Exceptional Item	0	0
Extra ordinary and prior period item	0	0
Income from discontinuing operations	0	(45,070,000)
Net Cash from Operating Activities [A]	2,610,326	2,463,469
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(2,193,342)	(6,786,827)
Sale proceeds of Fixed Assets	3,000	1,395,506
Interest received on Fixed Deposits	466,192	93,437
Purchase of Current Investments	0	(39,800,001)
Sale of Current Investments	0	39,953,215
Net Cash used for Investing Activities [B]	(1,724,150)	(5,144,670)
C. Cash flow from Financing Activities:		
Proceeds from Issue of Share Capital	0	0
Share Application money refund	(127,225)	0
Convertible Warrants	0	0
Net Cash from Financing Activities [C]	(127,225)	0

MOSCHIP INDIA**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2013**

	31 March 2013 Rs.	31 March 2012 Rs.
D. Exchange differences on translation of foreign currency cash	<u>0</u>	<u>(7,514)</u>
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	758,951	(2,688,714)
Cash and Cash equivalents at the beginning of the year	<u>1,425,591</u>	<u>4,114,305</u>
Cash and Cash equivalents at the end of the year	<u>2,184,542</u>	<u>1,425,591</u>
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	11,259,542	2,010,892
Less: Fixed Deposits towards Bank Guarantee considered as investments	<u>9,075,000</u>	<u>585,301</u>
	<u>2,184,542</u>	<u>1,425,591</u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants**Chandrashekhar Gokhale**
Partner
Membership No 23839**K. Ramachandra Reddy**
Chairman & CEO**C. Dayakar Reddy**
Managing DirectorPlace: Hyderabad
Date : 28 May 2013

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, Banjara Hills, Hyderabad - 500 034

ATTENDANCE SLIP

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

I hereby record my presence at the **Fourteenth Annual General Meeting** of the Company held at the Regd. Office of the Company at 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, Banjara Hills, Hyderabad - 500 034 on Monday, the 30 September 2013 at 10:30 hrs.

NAME OF THE SHAREHOLDER (IN BLOCK LETTERS) _____

NAME OF THE PROXY (IN BLOCK LETTERS) _____

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

SIGNATURE OF SHAREHOLDER _____

SIGNATURE OF PROXY (1) _____ PROXY (2) _____

*Note: Please complete the attendance slip and hand it over at the entrance of the meeting hall. Joint Shareholders desiring to attend the meeting may obtain additional Attendance Slips on request provided the Company receives such request **before 23 September 2013**. 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: 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, 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/member 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 **Fourteenth Annual General Meeting** of the Company to be held at the Regd. Office of the Company at 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, Banjara Hills, Hyderabad - 500 034 on Monday, the 30 September 2013 at 10:30 hrs.

Dated _____ September, 2013

Notes:

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

Affix
Revenue
Stamp
of Re.1 and
sign across

Blank Space



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No.2, Banjara Hills, Hyderabad-500 034.