

10TH
ANNUAL REPORT



MOSCHIP SEMICONDUCTOR
TECHNOLOGY LIMITED

C O N T E N T S

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BOARD OF DIRECTORS

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

COMMITTEES OF THE BOARD

Audit

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

Remuneration

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

Shareholders / Investor Grievance

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

Sathya Kalyanasundaram

Chief Financial Officer

Raj Kumar Singh

Company Secretary

REGISTERED OFFICE

H. No: 8-2-685/1/1, Road No. 12,
Banjara Hills, Hyderabad - 500034.

Tel : 040-6622-9292

Fax : 040-6622-9393

BANKERS

IndusInd Bank Limited
Corporation Bank
HDFC Bank Limited
ICICI Bank Limited
UCO Bank Limited

BRANCH

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

AUDITORS

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

REGISTRAR AND SHARE TRANSFER AGENTS

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Tenth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on Wednesday, the 30th September 2009 at 10.30 hrs at the Registered Office of the Company situated at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad-500 034 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Report of Directors, Profit and Loss Account for the financial year ended 31 March 2009 and the Balance Sheet as on that date and the report of Auditors thereon.
2. To appoint a Director in place of Mr. A. Ramesh who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Prof. Vijaya Chandru who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint M/s Gokhale & Co., Chartered Accountants, Hyderabad as Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorize Board of Directors or any of its Committee(s) to fix their remuneration.

SPECIAL BUSINESS

5. ***To consider and if thought fit, to pass with or without modifications(s), the following Resolution as a Special Resolution:***

"RESOLVED THAT in conformity with the provisions of Section 81 (1A) and all other applicable provisions, if any, of the Companies Act, 1956; Listing Agreements entered with the Bombay Stock Exchange Limited ; Guidelines issued by RBI under FEMA 1999 and by SEBI on Preferential Issue of shares and its other regulations/guidelines, if any, and subject to the consent of all other concerned authorities, if and to the extent required and subject to such conditions and modifications as may be prescribed or imposed while according such consents, which may be considered appropriate by the Board of Directors of the company and / or a duly authorised committee thereof (hereinafter called as 'the Board') in its absolute discretion, consent of the Company be and is hereby conveyed to the Board to create, offer, issue, allot and deliver in one or more tranches, to (1) Chiu Shun Yee Julia, (2) Paul Sung Lui and (3) Chun Yuan Wang, on preferential basis up to 26,50,000 Equity Shares of face value of Rs.10/- each, at a price of Rs. 12.50/- per share (including premium of Rs. 2.50/-) and up to 2,50,000 warrants to Dr. Madhu Mohan Katikineni where each warrant is convertible into one Equity Share of the face value of Rs.10/- each, at a price of Rs.12.50/- per share,(including premium of

Rs.2.50/-) resulting in the aggregate after conversion / exercise of rights attached to those instruments, not exceeding 29,00,000 Equity Shares of the Company, on the following terms and conditions:-

- (a) Conversion of option can be exercised in one or more tranches at any time within a period of 18 months from the date of issue of such warrants.
- (b) An amount equal to 25 percent of the issue price shall be payable on the date of issue of the warrants, with the balance amount being payable at the time of conversion.
- (c) The amount paid on issue of warrants shall be forfeited if the warrants are not exercised within a period of 18 months from the date of issue of warrants.
- (d) The entire pre preferential shareholding of the proposed allottee, if any, is subject to a lock-in from the relevant date i.e. 31 August 2009 upto a period of Six (6) months from the date of preferential allotment.
- (e) The proposed preferential allotment is void if the proposed allottee has sold its shares in the company during the six months period prior to the relevant date i.e. 31 August 2009.
- (f) Other terms and conditions as may be prescribed by the Board at its absolute discretion consider fit.

RESOLVED FURTHER THAT the Relevant Date in relation to the issue of equity shares and shares resulting upon exercise of warrants for the purpose of determining the issue price under the SEBI Guidelines for Preferential Issues shall be **31 August 2009**.

"RESOLVED FURTHER THAT the equity shares allotted and shares allotted upon exercise of warrants shall rank *pari passu* with the existing equity shares of the company in all respects.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, deeds and things as may be necessary for the purpose and to settle any questions, difficulties or doubts that may arise in this connection and incidental thereto, in their absolute discretion consider fit without being required to seek any further consent or approval of the company or otherwise to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution."

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

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 302, 309, 310, 311 and

Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to Central Government approval and other sanctions and approvals as may be necessary, approval of the Company be and is hereby accorded to the re-appointment of Mr. K. Ramachandra Reddy as Chairman and Chief Executive Officer of the company for a period of three years with effect from 1 September 2009, on revised terms and conditions as mentioned below:

Terms of Remuneration

Salary and Perquisites : Rs.5,00,000/- (Rupees Five Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the scale of Rs. 5,00,000 – 1,00,000 – 7,00,000.

Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Board of Directors of the Company at the end of each financial year; and such percentage of commission together with the salary and perquisites paid during the financial year shall not exceed 5% of the net profits, subject to overall ceilings stipulated in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of Companies Act, 1956 as amended from time to time.

Mr. K. Ramachandra Reddy, shall also be eligible for Gratuity payable at a rate not exceeding half a months salary for each completed year of service which shall not be included in the computation of the ceiling on remuneration specified above.

Notwithstanding anything contained herein, wherein any financial year during the currency of the tenure of the appointee, the Company has no profit or its profits are inadequate, the Company will pay to Mr. K. Ramachandra Reddy, the above mentioned amount as a remuneration by way of salary and perquisites as minimum remuneration.

FURTHER RESOLVED THAT the Board of Directors be and is hereby authorized to do all such acts, deeds, matters and things as may be necessary or desirable to give effect to this Resolution."

7. To Consider and if thought fit, to pass with or without modifications, the following Resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 302, 309, 310, 311 and

Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to Central Government approval and other sanctions and approvals as may be necessary, approval of the Company be and is hereby accorded to the re-appointment of Mr. C. Dayakar Reddy as Managing Director of the company for a period of three years with effect from 1 September 2009, on revised terms and conditions as mentioned below :

Terms of Remuneration

Salary and Perquisites : Rs.5,00,000/- (Rupees Five Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the scale of Rs. 5,00,000 – 1,00,000 – 7,00,000.

Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Board of Directors of the Company at the end of each financial year; and such percentage of commission together with the salary and perquisites paid during the financial year shall not exceed 5% of the net profits, subject to overall ceilings stipulated in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of Companies Act, 1956 as amended from time to time.

Mr. C. Dayakar Reddy, shall also be eligible for Gratuity payable at a rate not exceeding half a months salary for each completed year of service which shall not be included in the computation of the ceiling on remuneration specified above.

Notwithstanding anything contained herein, wherein any financial year during the currency of the tenure of the appointee, the Company has no profit or its profits are inadequate, the Company will pay to Mr. C. Dayakar Reddy, the above mentioned amount as a remuneration by way of salary and perquisites as minimum remuneration.

FURTHER RESOLVED THAT the Board of Directors be and is hereby authorized to do all such acts, deeds, matters and things as may be necessary or desirable to give effect to this Resolution."

By Order of the Board of Directors

Hyderabad
28 August 2009

Raj Kumar Singh
Company Secretary

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of him and such proxy need not be a member of the company. Proxies in order to be effective must be received by the company not less than 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the company will remain closed from 24-09-2009 to 30-09-2009 (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 Nos. for easier identification of attendance at the meeting.
5. A member desirous of getting any information on the accounts or operations of the company is requested to forward his/her queries to the company at least seven working days prior to the meeting, so that the required information can be made available at the meeting.
6. Members are requested to notify immediately any change in their address to the company or to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed onto their respective Depository Participants without any delay.
7. In all correspondence with the company, members are requested to quote their folio numbers and in case their shares are held in dematerialized form they must quote their Client ID Number and their DP ID Number.
8. Members are requested to carry their copies of Annual Report as these will not be supplied at the meeting.
9. Trading in the equity shares of the company is in the compulsory demat form. Those members who have not demated their shares are requested to open the demat accounts with the depositories and get the shares demated at the earliest.
10. Explanatory Statement under Section 173(2) of the Companies Act, 1956 in relation to item nos. 5, 6, & 7 above is annexed hereto.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**Item No.5****ISSUE OF FURTHER SHARES & WARRANTS ON PRIVATE PLACEMENT BASIS**

To augment resources for product development expenditure, long term working capital needs, capital expenditure and other corporate actions, your company has proposed to issue further 26,50,000 equity shares to Chiu Shun Yee Julia, Paul Sung Lui and Chun Yuan Wang and 2,50,000 warrants to Madhu Mohan Katikineni, on preferential allotment basis

Disclosure pursuant to Clause 13.1A of the SEBI Disclosure and Investor Protection Guidelines for Preferential Issues.**Objects of the issue through preferential offer.**

The objects of the proposed issue of equity shares and warrants to proposed allottees are:

- (1) to augment resources for :
 - Product Development expenditure
 - Long Term Working Capital requirements,
 - Capital expenditure,
 - General corporate requirements
- (2) to build and strengthen business relationships.

Shareholding pattern before and after the issue

| Category | Before the offer | | After the offer | |
|------------------------------|------------------|---------------|-----------------|---------------|
| | No. of shares | % | No. of shares | % |
| Promoters Holding | | | | |
| - Resident | 14600 | 0.03 | 14600 | 0.03 |
| - Non-Resident | 4834235 | 11.14 | 4834235 | 10.44 |
| Persons Acting in Concert | | | | |
| -Resident | 0 | 0.00 | 0 | 0.00 |
| - Non-Resident | 4035062 | 9.30 | 4035062 | 8.72 |
| Sub - Total | 8883897 | 20.48 | 8883897 | 19.19 |
| Non-Promoter Holdings | | | | |
| Venture Capital Funds | 150 | 0.00 | 150 | 0.00 |
| FII's | 659146 | 1.52 | 659146 | 1.42 |
| Private Corporate Bodies | | | | |
| - Domestic | 4497486 | 10.37 | 4497486 | 9.72 |
| - Foreign | 2896019 | 6.68 | 2896019 | 6.26 |
| Indian Public | 23881481 | 55.04 | 23881481 | 51.60 |
| Non - Resident's | 2285468 | 5.27 | 5185468 | 11.20 |
| Employees Welfare Trust | 281870 | 0.65 | 281870 | 0.61 |
| Depository for GDRs | 0 | 0.00 | 0 | 0.00 |
| Sub - Total | 34501620 | 79.52 | 37401620 | 80.81 |
| Grand Total | 43385517 | 100.00 | 46285517 | 100.00 |

Note: The post-issue capital considers only the issue of equity shares and warrants under Resolution No.5.

Proposed time within which the allotment shall be completed.

The allotment shall be completed within 15 (Fifteen) days from the date of passing of the resolution provided that where the allotment on preferential basis is pending on account of pendency of any approval of such allotment by any regulatory authority of the Central Government, the allotment shall be completed within 15 (Fifteen) days from the date of such approval.

The identity of the proposed allottees and the percentage of post-preferential issue capital that may be held by them.

The proposed allottees are:

| Sl.No. | Name of the allottee | Existing holding | No. of Shares/ warrants to be allotted | Percentage of post issue capital |
|--------|----------------------------|------------------|--|----------------------------------|
| 01 | Chiu Shun Yee Julia | Nil | 7,75,000 | 1.67 |
| 02 | Paul Sung Lui | Nil | 11,00,000 | 2.38 |
| 03 | Chun Yuan Wang | Nil | 7,75,000 | 1.67 |
| 04 | Dr. Madhu Mohan Katikineni | 312,480 | 250,000 | 1.22 |

None of the directors or promoters are interested or concerned with the above resolution

Identity of the class of the proposed allottees

Non-resident and Foreign Investors.

Consequential changes in the Board of Directors of the Company

There will be no change in the Board of Directors of the Company.

Change in the control over the company

This preferential issue of shares to the above-named investors will not result in change in the control over the affairs of the company.

Item No.6

RE-APPOINTMENT OF MR. K. RAMACHANDRA REDDY AS CHAIRMAN & CEO

Mr. K. Ramachandra Reddy was appointed as the Chairman & CEO with effect from 24 July 2000 for a period of 5 years & reappointed on 24 July 2005 and as a part of the initiative to create enduring leadership for the company, the Board of Directors of the company on 31 August 2006 has resolved to re-appoint Mr. K. Ramachandra Reddy as Chairman & CEO for a period of 3 years commencing from 01 September 2006 on revised terms and conditions and the same was passed by the members of the Company in their Annual General Meeting held on 29 September 2006. Despite the uncertain economic outlook and cash flow pressure, Mr. Ramachandra Reddy steered the Company towards the acquisition of prospective projects and responding to clients' requirements and now the Board of Directors of the company on 27th July 2009 has resolved to re-appoint Mr. K. Ramachandra Reddy as Chairman & CEO for a period of 3 years commencing from 01 September 2009 on revised terms and conditions.

The appointment is subject to the approval of members and the Central Government. The terms and conditions of his appointment are as follows:

1. Period of appointment: 3 years beginning 01 September 2009 and ending on 31 August 2012.
2. Details of remuneration: As provided in resolution will be paid for a period of 3 years with effect from 01 September 2009.
3. Mr. K. Ramachandra Reddy shall perform such duties as shall from time to time be entrusted to him, subject to the superintendence, guidance and control of the Board of Directors and he shall perform such other duties as shall from time to time be entrusted to him by the Board of Directors of the company.

The terms of re-appointment of Mr. K. Ramachandra Reddy as stated in this notice may be treated as the abstract under Section 302 of the Companies Act, 1956. The Board accordingly recommends the resolution for approval of the members.

Disclosure pursuant to provisions of Schedule XIII

1. General Information:

- a. Nature of Industry: Software Development (ASIC Designing and IP Development)
- b. Date of commencement of commercial production: 01 August 2000.
- c. Financial performance based on given indicators :

(Rs. in Lakhs)

| Particulars | For the year 2006-07 | | For the year 2007-08 | | For the year 2008-09 | |
|---|----------------------|----------|----------------------|-----------|----------------------|-----------|
| | MosChip, India | Cons. | MosChip, India | Cons. | MosChip, India | Cons. |
| Total Income from operations | 625.56 | 2773.92 | 672.68 | 2438.05 | 1054.29 | 2750.70 |
| Operating Profit before Depreciation & Tax | (479.25) | (84.47) | (811.65) | (758.13) | (698.73) | (1089.88) |
| Less: Depreciation | (149.91) | 240.74 | 128.62 | 340.93 | 114.28 | 438.37 |
| Profit before tax (PBT) | (629.16) | (355.21) | (940.27) | (1099.06) | (813.01) | (1528.25) |
| Less: Provision for FBT | 3.29 | 3.29 | 4.34 | 4.34 | 3.80 | 3.80 |
| Profit after Tax before extraordinary and prior period item | (632.45) | (358.50) | (944.61) | (1103.04) | (816.81) | (1532.05) |
| Less: Extraordinary and prior period item | (39.34) | (39.34) | (38.87) | (38.87) | (0.06) | (0.06) |
| Profit after tax after extraordinary and prior period item | (593.11) | (319.16) | (905.74) | (1064.53) | (816.75) | (1531.99) |
| Earnings per share (EPS) Before extraordinary and prior period item | | | | | | |
| Basic | (1.46) | (0.83) | (2.18) | (2.54) | (1.88) | (3.53) |
| Diluted | (1.46) | (0.83) | (2.18) | (2.54) | (1.88) | (3.53) |
| After extraordinary and prior period item | | | | | | |
| Basic | (1.37) | (0.74) | (2.09) | (2.54) | (1.88) | (3.53) |
| Diluted | (1.37) | (0.74) | (2.09) | (2.54) | (1.88) | (3.53) |

- d. Export performance and net foreign exchange collaborations :
- Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2009) : Rs. 2578.86 Lacs
 - Net Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2009) : Rs. 1451.96 Lacs
- e. Foreign Investments or collaborators, if any: 35.95% equity shares are held by Non-residents and there is no foreign collaboration.

2. Information about Mr. K. Ramachandra Reddy:

- a. Background details: Mr. K. Ramachandra Reddy aged 60, is a graduate in Electronics Engineering from IIT, Madras and M.S.E.E. from University of Wisconsin, Madison, Wisconsin, USA. He has over 24 years of experience in Silicon Valley in the area of design, manufacturing and marketing of various integrated circuits (ICs). He has successfully started semiconductor design companies and sold them to larger companies in the last 19 years. His companies were Lotus Designs Corp., Silicon Logic and Startech Semiconductor. All these companies were based in Silicon Valley, USA. Prior to starting his first company in 1982, he worked as a Section Manager at American Micro Systems in Santa Clara, California. Mr. Ramachandra Reddy has extensive experience in sub contracting manufacturing needs of semiconductors and marketing these products worldwide. His customer list included major PC manufacturers such as Compaq Computers and communication technology companies such as Nokia Systems out of Finland.
- b. Past remuneration: Rs. 4,50,000/- per month.
- c. Recognition or awards: He was responsible for designing the world's first DSP chip.
- d. Job profile and his suitability: As CEO and Chairman of the Company, Mr. K. Ramachandra Reddy, is the person responsible for giving business direction to consolidated entity.
- Mr. K. Ramachandra Reddy has over 20 years of experience in the semiconductor industry in USA and 30 years overall.
- e. Remuneration proposed:
- Salary and Perquisites : Rs. 5,00,000/- (Rupees Five Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the scale of Rs. 500,000 – 100,000 – 700,000.

3. Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Board of Directors of the company at the end of each financial year; and such percentage of commission together with the salary and perquisites paid during the financial year shall not exceed 5% of the net profits, subject to overall ceilings stipulated in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of Companies Act, 1956 as amended from time to time

- a. Comparative remuneration profile with respect to industry, size of the company, profile of the position and persons:

The remuneration package of Rs. 500,000/- in the scale of Rs. 500,000 – 100,000 – 700,000 is very reasonable in comparison to the semiconductor industry standards.

- b. Pecuniary relationship directly or indirectly with the company or relationship with the managerial personnel if any: Mr. K. Ramachandra Reddy holds 7.03 % of equity shares in the Company.

4. Other Information:

a. Reasons of loss or inadequate profits

As a fabless semiconductor company, MosChip Semiconductor Technology Ltd designs products and developed ASIC & SOC software. The manufacturing of products is outsourced to the ASIC service providers. The ASIC software is licensed to its wholly owned subsidiary MosChip Semiconductor Technology USA which subcontracts the manufactured chip through its worldwide distribution network. MosChip USA collects the revenue from the sales of products and pays a license fee to MosChip India which is linked to the gross margins on the products designed by MosChip India. In addition, MosChip India also sells products directly to MosChip USA, utilizing the export working capital facility availed through its bankers.

MosChip enjoyed the two best quarters in terms of revenue, for the quarters ending June 2008 and September 2008 respectively. The Company's acquisition of Indigita in May 2008 has also opened avenues to the Audio Video worldwide segment, which includes major electronic players such as Sony, Toshiba, Hitachi & Samsung to name a few. However, the global slowdown in consumption as a result of the financial crisis in the United States has impacted the semiconductor industry worldwide, with consumption dropping as much as 30%. As a result, the investments in people and technologies that the Company has made in

2008 have not borne fruit fully, though the consolidated revenues for the financial year 2008-09 are higher than the prior financial year.

b. Steps taken or proposed to be taken for improvement

The Company has launched two new chips in January 2009 and April 2009 respectively. These chips are extremely powerful, cutting edge technology chips that have been very well received by potential customers. These chips are months ahead of competition in their respective market spaces, they are also competitively priced. The volume production of these chips is set to begin in August 2009, when customers are expected to complete their sample testing for these chips. The revenues and the corresponding gross margins generated by these chips are anticipated to improve the top line by at least 30% in the year ending March 2010. In addition, as global demand for consumer electronics begins to rebound slowly, the sales of the legacy chips are expected to begin their upward rise as well. The investments in people and technologies during the last year are expected to bear fruit.

c. Expected increase in productivity and profits in measurable terms.

The Company plans to achieve cash profitability by December 2009 and net profitability by March 2010, with total revenues exceeding Rs. 35 crores for the year ending March 2010.

Except Mr. K. Ramachandra Reddy, none of the Directors is interested or concerned with the above resolution.

Item No.7

RE-APPOINTMENT OF MR. C. DAYAKAR REDDY AS MANAGING DIRECTOR

Mr. C. Dayakar Reddy was initially appointed as the Managing Director with effect from 24 July 2000 for a period of 5 years and was reappointed w.e.f. 24 July 2005 as Managing Director on revised remuneration and again as a part of the initiative to create enduring leadership for the Company, the Board of Directors of the company on 31 August 2006 has resolved to re-appoint Mr. C. Dayakar Reddy as Managing Director of the Company for a period of 3 years commencing from 01 September 2006 on revised terms and conditions and the same was passed by the members of the Company in their Annual General Meeting held

on 29 September 2006. The Company was immensely benefitted by his hard work and innovative ideas. The Company was thus in a better position to face the economic slow down and benefit quicker from the recovery. So, the Board of the Company on 7 August 2009 has resolved to re-appoint Mr. C. Dayakar Reddy as Managing Director for a period of 3 years commencing from 01 September 2009 on revised terms and conditions.

The appointment is subject to the approval of members and the Central Government. The terms and conditions of his appointment are as follows:

1. Period of appointment: 3 years beginning 01 September 2009 and ending on 31 August 2012.
2. Details of remuneration: As provided in resolution will be paid for a period of 3 years with effect from 01 September 2009.
3. Mr. C. Dayakar Reddy shall perform such duties as shall from time to time be entrusted to him, subject to the superintendence, guidance and control of the Board of Directors and he shall perform such other duties as shall from time to time be entrusted to him by the Board of Directors of the company.

The terms of re-appointment of Mr. C. Dayakar Reddy as stated in this notice may be treated as the abstract under Section 302 of the Companies Act, 1956. The Board accordingly recommends the resolution for approval of the members.

Disclosure pursuant to provisions of Schedule XIII

1. General Information:

- a. Nature of Industry: Software Development (ASIC Designing and IP Development)
- b. Date of commencement of commercial production: 01 August 2000.
- c. Export performance and net foreign exchange collaborations:
 - Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2009): Rs. 2578.86 Lacs
 - Net Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2009) Rs. 1451.96 Lacs
- d. Foreign Investments or collaborators, if any: 35.95% equity shares are held by Non-residents and there is no foreign collaboration.
- e. Financial performance based on given indicators:

NOTICE

(Rs. in Lakhs)

| Particulars | For the year 2006-07 | | For the year 2007-08 | | For the year 2008-09 | |
|---|----------------------|----------|----------------------|-----------|----------------------|-----------|
| | MosChip, India | Cons. | MosChip, India | Cons. | MosChip, India | Cons. |
| Total Income from operations | 625.56 | 2773.92 | 672.68 | 2438.05 | 1054.29 | 2750.70 |
| Operating Profit before Depreciation & Tax | (479.25) | (84.47) | (811.65) | (758.13) | (698.73) | (1089.88) |
| Less: Depreciation | (149.91) | 240.74 | 128.62 | 340.93 | 114.28 | 438.37 |
| Profit before tax (PBT) | (629.16) | (355.21) | (940.27) | (1099.06) | (813.01) | (1528.25) |
| Less: Provision for FBT | 3.29 | 3.29 | 4.34 | 4.34 | 3.80 | 3.80 |
| Profit after Tax before extraordinary and prior period item | (632.45) | (358.50) | (944.61) | (1103.04) | (816.81) | (1532.05) |
| Less: Extraordinary and prior period item | (39.34) | (39.34) | (38.87) | (38.87) | (0.06) | (0.06) |
| Profit after tax after extraordinary and prior period item | (593.11) | (319.16) | (905.74) | (1064.53) | (816.75) | (1531.99) |
| Earnings per share (EPS) Before extraordinary and prior period item | | | | | | |
| Basic | (1.46) | (0.83) | (2.18) | (2.54) | (1.88) | (3.53) |
| Diluted | (1.46) | (0.83) | (2.18) | (2.54) | (1.88) | (3.53) |
| After extraordinary and prior period item | | | | | | |
| Basic | (1.37) | (0.74) | (2.09) | (2.54) | (1.88) | (3.53) |
| Diluted | (1.37) | (0.74) | (2.09) | (2.54) | (1.88) | (3.53) |

2. Information about Mr. C. Dayakar Reddy

- a. Background details: Dayakar is a post-graduate in Electronics Engineering from California State University, San Jose, USA (1985). He has over 16 years of experience in Silicon Valley, USA. He started his career with Cirrus Logic, Fremont, USA and held Senior Management positions in Engineering.. He founded his own company in 1994, Future Integrated Systems. He sold his company to National Semiconductors in 1997 and worked with them as Director of Systems Engineering till early 1999.
- b. Past remuneration: Rs. 4,50,000/- per month.
- c. Recognition or awards: He has developed several graphics controllers, which helped Cirrus Logic in becoming the leading supplier of graphics controllers. He had filed for 12 patents in 10 years during his stint with the company. He had also filed for 2 patents in the field of LCD display technology.
- d. Job profile and his suitability: The Managing Director shall have, subject to the supervision, control and directions of the Board, the management of the whole of the business of the Company and all of its affairs and shall exercise all powers and perform all duties in relation to the management of the affairs and transactions of the company, except such powers and duties as are required by law or by these presents to be exercised done by the Company in General Meeting or by the Board of Directors and also subject to such conditions or restrictions, imposed by the Companies Act, 1956 Further, Managing

Director of the Company shall exercise all the powers as set out in the Articles of Association of the Company except those which are by law or by these presents or by any resolutions of the Board required to be done by the Company in General Meeting or by the Board.

e. Remuneration proposed:

Salary and Perquisites : Rs. 5,00,000/- (Rupees Five Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the scale of Rs. 500,000 – 100,000 – 700,000.

3. Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Board of Directors of the company at the end of each financial year; and such percentage of commission together with the salary and perquisites paid during the financial year shall not exceed 5% of the net profits, subject to overall ceilings stipulated in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of as amended from time to time

- a. Comparative remuneration profile with respect to industry, size of the company, profile of the position and persons:

The remuneration package of Rs. 500,000/- in the scale of Rs. 500,000 – 100,000 – 700,000 is very

reasonable in comparison to the semiconductor industry standards.

- b. Pecuniary relationship directly or indirectly with the company or relationship with the managerial personnel if any: Mr. C. Dayakar Reddy holds 1.35 % of equity shares in the Company.

4. Other Information:

a. Reasons of loss or inadequate profits

As a fabless semiconductor company, MosChip Semiconductor Technology Ltd designs products and developed ASIC & SOC software. The manufacturing of products is outsourced to the ASIC service providers. The ASIC software is licensed to its wholly owned subsidiary MosChip Semiconductor Technology USA which subcontracts the manufactured chip through its worldwide distribution network. MosChip USA collects the revenue from the sales of products and pays a license fee to MosChip India which is linked to the gross margins on the products designed by MosChip India. In addition, MosChip India also sells products directly to MosChip USA, utilizing the export working capital facility availed through its bankers.

MosChip has enjoyed the two best quarters in terms of revenue, for the quarters ending June 2008 and September 2008 respectively. The Company's acquisition of Indigita in May 2008 has also opened avenues to the Audio Video worldwide segment, which includes major electronic players such as Sony, Toshiba, Hitachi & Samsung to name a few. However, the global slowdown in consumption as a result of the financial crisis in the United States has impacted the semiconductor industry worldwide, with consumption dropping as much as 30%. As a result, the investments in people and technologies that the Company has made in 2008 have not

borne fruit fully, though the consolidated revenues are higher than the prior financial year.

b. Steps taken or proposed to be taken for improvement

The Company has launched two new chips in January 2009 and April 2009 respectively. These chips are extremely powerful, cutting edge technology chips that have been very well received by potential customers. These chips are months ahead of competition in their respective market spaces, they are also competitively priced. The volume production of these chips is set to begin in August 2009, when customers are expected to complete their sample testing for these chips. The revenues and the corresponding gross margins generated by these chips are anticipated to improve the top line by at least 30% in the year ending March 2010. In addition, as global demand for consumer electronics begins to rebound slowly, the sales of the legacy chips are expected to begin their upward rise as well. The investments in people and technologies during the last year are expected to bear fruit.

c. Expected increase in productivity and profits in measurable terms.

The Company plans to achieve cash profitability by December 2009 and net profitability by March 2009, with total revenues exceeding Rs. 35 crores for the year ending March 2010.

Except Mr. C. Dayakar Reddy, none of the Directors is interested or concerned with the above resolution.

By Order of the Board of Directors

Hyderabad
28 August 2009

Raj Kumar Singh
Company Secretary

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

Mr. A. Ramesh

Mr. Alur Ramesh has B.Tech. in Chemical Engineering from REC, Warangal and Master in Business Administration from Indian Institute of Management, Bangalore with specialization in Marketing and Finance. He has over 29 years of experience in various fields. He is currently the Senior Vice President of APIDC-Venture Capital Limited.

Prof. Vijaya Chandru

Dr. Vijaya Chandru has been a Professor of Computer Science at the Indian Institute of Science since 1992 and also serves as an honorary professor of the national Institute of Advanced Studies in Bangalore. He was elected as a fellow of the Indian Academy of Sciences in 1996. he taught at Purdue University form

1982 to 1992 and the University of Pennsylvania in 1999-2000. He has also worked at IBM's Watson Research Centre as a visiting academic during 1990-1994.

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

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

By Order of the Board of Directors

Hyderabad
28 August 2009

Raj Kumar Singh
Company Secretary

DIRECTORS' REPORT

To the members,

Your Directors have pleasure in presenting the Tenth Annual Report together with the Audited Accounts (including consolidated accounts) of the company for the year ended 31st March 2009.

FINANCIAL RESULTS

(Rs. in Lakhs)

| | Year ended 31 March 2009 | | Year ended 31 March 2008 | |
|---|--------------------------|--------------|--------------------------|--------------|
| | Standalone | Consolidated | Standalone | Consolidated |
| Total Income | 1054.29 | 2750.70 | 672.68 | 2438.05 |
| Operating Profit before Depreciation & Tax | (698.73) | (1089.88) | (811.65) | (758.13) |
| Less: Depreciation | 114.28 | 438.37 | 128.62 | 340.93 |
| Profit before Tax | (813.01) | (1528.25) | (940.27) | (1099.06) |
| Less: provision for FBT | 3.80 | 3.80 | 4.34 | 4.34 |
| Profit after Tax before extraordinary and prior period item | (816.81) | (1532.05) | (944.61) | (1103.40) |
| Less: Extraordinary and prior period item | (0.06) | (0.06) | (38.87) | (38.87) |
| Profit after tax after extraordinary and prior period item | (816.75) | (1531.99) | (905.74) | (1064.53) |
| Earnings per Share (EPS) | | | | |
| Before extraordinary and prior period item | | | | |
| Basic | (1.88) | (3.53) | (2.18) | (2.54) |
| Diluted | (1.88) | (3.53) | (2.18) | (2.54) |
| After extraordinary and prior period item | | | | |
| Basic | (1.88) | (3.53) | (2.09) | (2.45) |
| Diluted | (1.88) | (3.53) | (2.09) | (2.45) |

Operations

The consolidated income of the Company was Rs.27.51 crores and the consolidated loss was Rs. 15.32 crores.

MosChip India

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

The Company's revenues have increased as a result of direct sales to its US Subsidiary, by availing Export Packing Credit facilities through its bankers.

MosChip USA, a wholly owned subsidiary

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded nearly 3.3 percent growth in revenue from USD 5.895 million in 2007-08 to USD 6.087 million during the year ended March 31, 2009.

Dividend

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

Increase in Share Capital

There was no increase in the share capital of the Company in the financial year under review.

Marketing and distribution

The manufacturing and sale of products developed by the company is handled by MosChip USA, which has a worldwide distribution network for its semiconductor products. The company has signed up an additional distributor in Japan and a new distributor in Korea in 2008 to enable wider marketing and sales penetration in these markets. In addition the company is leveraging its presence in Hong Kong with closer access to key markets in China, Taiwan and South East Asia. Investment in sales personnel in Taiwan as well as planned investment in Field Application resources in China will enable the company to grow the existing customer base in its key Asian markets by improving on its top class applications and system

design support. A broad product portfolio enables access to the fast growing consumer electronics and home networking markets. Ongoing Europe and US based design-wins are contributing to increased customer awareness.

Employee Stock Option Plan

During the year under report the company has 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.

- (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

Dr. M. Rammohan Rao, Director of the Company, has tendered his resignation from the post of Director on personal grounds. The Board has accepted his resignation and has placed on record its appreciation for the valuable services rendered by him during his tenure as Director of the Company.

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

Auditors

The Auditors of the Company M/s Gokhale & Co., Chartered Accountants, who retire at the ensuing Annual General Meeting of the company, are eligible for reappointment as Statutory Auditors of the company till the next Annual General Meeting. The company has received their willingness for re-appointment as auditors of the company and as

required have furnished a Certificate under Section 224 (1B) of the Companies Act, 1956.

Qualification on the accounts and Boards clarification

Pursuant to the provisions of Sub-Section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 30th June 2009 on the accounts of the company and Board's clarification on the same are furnished below:

Qualification in Auditors Report

The Company has made a total investment of Rs. 375,579,087/- in its wholly owned unlisted subsidiary Company MosChip Semiconductor Technology, USA (formerly NetMosTechnology Inc, USA). The investment is being carried at cost. The difference between the investment amount of Rs. 375,579,087/- and the networth amount of Rs. 55,257,399/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2009 has not been charged to the Profit and loss account.

Board's clarification

The Board is of the opinion that the difference between the investment amount and the networth amount of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2009 is not a reflection in the diminution of the value of the investment. The fair market value of MosChip USA, which is based on expected future cash flows over several years and other intangible assets (intellectual property developed and owned by it, the international distribution network, customer base, foundry relationships, etc.), is much higher than its networth at book value. The book value does not capture the real intrinsic worth of an investment. The decline in fair market value of investment in MosChip USA, if any, is temporary in nature and hence no provision has been made in the books of accounts.

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

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

Particulars of Employees

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

interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

Management Discussion & Analysis

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

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

The Board of Directors of MosChip states that:

- a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- b) they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2008-09 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.

Acknowledgments

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

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

For and on behalf of the Board of Directors

Hyderabad
28 August 2009

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'A' TO DIRECTORS REPORT

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

During the year under report the company has eight schemes in operation i.e. 'MosChip Stock Option Plan – 2001', "MosChip Stock Option Plan – 2002", MosChip Stock Option Plan – 2004, MosChip Stock Option Plan – 2005(MI), MosChip Stock Option Plan – 2005(WOS) ", MosChip Stock Option Plan – 2008, MosChip Stock Option Plan – 2008(ALR) and MosChip Stock Option Plan – 2008(Director)for issue and grant of stock options to its directors, employees and employees of its wholly owned subsidiary, in accordance with the provisions of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999.

The requisite disclosures of particulars in respect of these Schemes during the year 2008-09 are as under.

| | 2001 | 2002 | 2004 | 2005 (MI) | 2005 (WOS) | 2008 | 2008 (ALR) | 2008 (D'TOR) |
|--|--|--------|--------|--------------|---------------|---------|---------------|-----------------|
| a) Options granted during the year | 153000 | 448000 | 572000 | 0 | 0 | 2814327 | 741554 | 400000 |
| b) The Pricing formula | Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue for those options Issued before October 2008. Premium over Par Value for those options issued after October 2008 | | | | | | | |
| c) Options Vested | 7500 | 2000 | 14500 | 34000 | 100000 | 0 | 0 | 0 |
| d) Options exercised | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| e) The total number of shares arising as a result of exercise of options: | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| f) Options lapsed (As per the plan, options lapsed i.e. unexercised options on account of resignation et., shall become available for future grants under the existing plans) | 149375 | 547129 | 938000 | 352000 | 75000 | 804700 | 30000 | 100000 |
| 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 |
| l) Total number of options in force | 174500 | 402000 | 495000 | 132000 | 400000 | 2009627 | 711554 | 300000 |
| j) Employee wise details of options granted to | | | | | | | | |
| 1) Senior Managerial Personal | | | | | | | | |
| a) Sathya Kalyanasundaram | | | 100000 | Nil | Nil | 100000 | Nil | Nil |
| 2) Any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year | | | | | | | | |
| a) Melvin G. Gable (an employee of wholly owned Subsidiary) | | | | | | 400000 | | |
| b) Vamshi Kandalla (an employee of wholly owned Subsidiary) | | | | | | 300000 | | |
| 3) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant; | | | Nil | Nil | Nil | Nil | Nil | Nil |
| k) Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20. | | | | Rs. (1.88) | | | | |

- (l) The exercise price at which the company has granted stock options is equal to the Market Price as defined in SEBI (ESOS&ESPS) Guidelines, 1999 for those options issued through October 2008. Options issued after October 2008 have an exercise price of 5% over the par value of the common stock. The Intrinsic Value of the stock options in both these cases 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 Earning Per Share would thus not change as a result.
- (m) Weighted average exercise price and weighted average-fair value of options granted where the exercise price is equal to the Market Price as on the date of grant:
 Weighted average exercise price: Rs. 20.66
 Weighted average fair value of options: Rs. 6.53
- (n) The fair value of the options have been computed using the Black Scholes method, where the following assumptions were made:
- Risk free interest rate was assumed between 4.5085% and 9.8199% depending on the timing of grant and vesting period of the option, for the options granted during the year.
 - The expected life of the option is taken as the vesting period of the option.
 - The expected volatility has been computed using the daily share price movements of 240 trading days prior to the grant date. For annualizing the standard deviation, it is assumed that there are 240 trading days in a year.

| Date of Grant | Std Deviation | Date of Grant | Std Deviation | Date of Grant | Std Deviation |
|---------------|---------------|---------------|---------------|---------------|---------------|
| 21/08/2002 | 92.67% | 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% | | |

- d) Since the company has been making losses, we have not assumed any dividend payments.
- e) The grant 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 and 04 March 2009 were issued at Rs. 10.05 per option.

For and on behalf of the Board of Directors

Hyderabad
28 August 2009

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'B'

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

1. Conservation of Energy

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

2. Technology Absorption on Form B

a. Research & Development (R&D)

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

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

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

Due to the portfolio of IP's that have been developed, the Company has been able to leverage and complete three products (MCS8142, MCS 8144 & MCS9990) development.

The ARM9 based MCS8142 is a highly integrated Network Appliance Processor with Gigabit Ethernet, PCI Express, USB, DDR-II Memory Interface and other key features supported. This highly integrated SoC combined with Moschip's comprehensive systems and applications software targets applications such as Consumer NAS, Point Of Sale (POS), Docking Stations, Small Office Home Office (SOHO), USB Virtual Server, Print Server, Industrial Control Unit (CAN), Smart VOIP gateways, Home Network Automation, Ethernet to Serial Servers and Media Servers

The ARM9 based MCS8144 is a highly integrated Network Appliance Processor with Gigabit Ethernet, Display Controller Support, PCI Express, USB, DDR-II Memory Interface and other key features supported. This highly integrated SoC combined with Moschip's comprehensive systems and applications software targets similar applications as the MCS8142 but geared towards models driving displays.

The MCS9990 PCIe to Quad USB peripheral IO Controller is a highly integrated co-processor with the necessary features and Moschip's comprehensive systems and applications software to support applications such as USB extension add on cards, PCIe add-on Cards, Media Docking Stations, USB Port Replicators and Test Equipment

b. Future plan of action

The Company continues to invest in R&D for future products. Some newer market opportunities in storage

& remote access create opportunities for new products. The Company plans to leverage the next generation SOC products with software for various applications. This opens up opportunities for new market segments & helps our customer differentiate by software value addition.

c. Expenditure on R&D

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

d. Technology absorption, adaptation and innovation

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

3. Foreign Exchange Earnings and Outgo

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

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

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

b. Foreign exchange earnings and outgo

(Amount in Rs.)

| | Year ended March 31, 2009 | Year ended March 31, 2008 |
|---------------------------|------------------------------|------------------------------|
| Foreign Exchange earnings | 104,02,863 | 61,477,432 |
| Foreign Exchange outgo | 8,172,418 | 16,361,313 |

For and on behalf of the Board of Directors

Hyderabad
28 August 2009

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'C'**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

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

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

Overview

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

As a fabless semiconductor Company, MosChip focuses on product design while manufacturing of products is outsourced. The product design and ASIC software development is generally done by MosChip, but is also jointly developed with MosChip USA at certain times. The software is licensed to/used by MosChip USA, which subcontracts the manufacturing to ASIC Service Providers. The resulting chips are imported by MosChip and sold to MosChip USA. MosChip USA then sells these chips to end customers around the world, through its worldwide distribution networks.

MosChip Group's product focus had initially been on data connectivity between computers and peripherals & other consumer electronic devices, the company invested in the growing networking processors market and released a SOC product in 2007 to address fast growth verticals like Network Attached Storage, SOHO and Embedded. Going forward new product

launches have been focused on the opportunity brought on by the convergence of PC and consumer electronic devices and the growing need for Internet Security, Triple Play, Storage and networking. At present, the Company is concentrating on releasing a mix of products; specifically Networking SOCs for fast growth verticals and PCIe based bridging controllers for socket retention and new customer designs. Apart from developing its own products, MosChip also develops custom products and IP for its customers and has plans to tap opportunities in offshore software services for semiconductor companies.

Industry

According to the Worldwide Semiconductor Trade Statics Inc (WSTS), worldwide sales of semiconductors stood at \$248 billion in 2008, a decrease of 3 percent from the \$256 billion reported in 2007.

The steep decline in the market in the final calendar quarter of 2008, combined with the ongoing economic weakness in the first calendar quarter of 2009, signal far worse declines in 2009, according to Gartner.

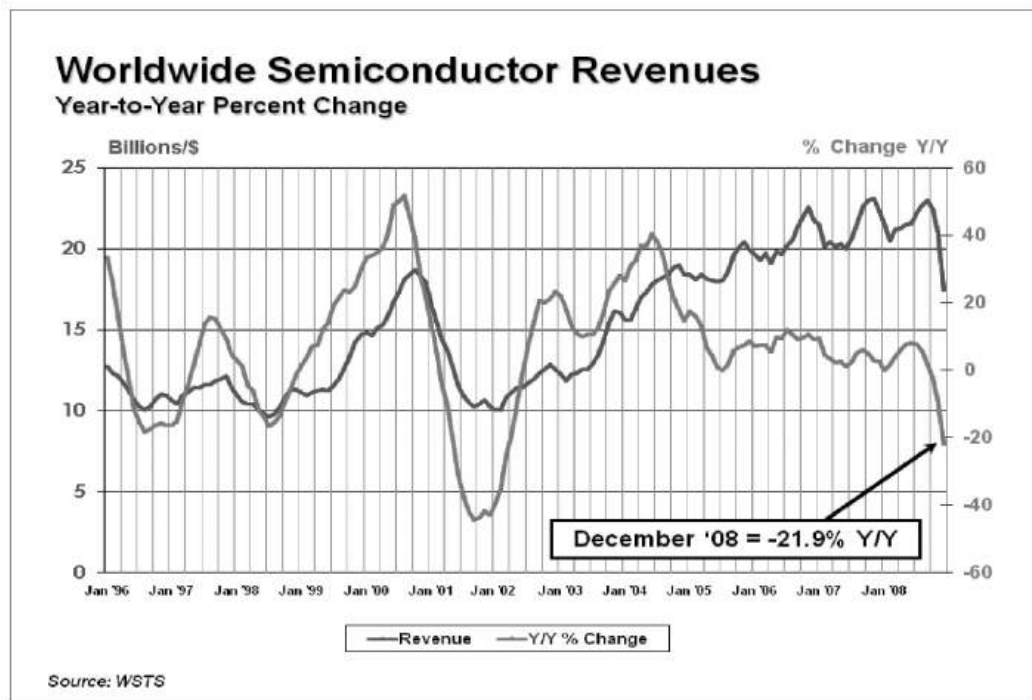
The global semiconductor market is expected to decline 21.6 percent on an annualized basis to \$194.8 billion in 2009, according to the spring 2009 forecast of WSTS. Due to the real economical crisis the worldwide semiconductor market will further decrease from the decline in 2008. WSTS expects the semiconductor market to reach the bottom of the current cycle during the first half of 2009 and projects a positive growth beginning in the first quarter 2010. This leads to a growth rate for the semiconductor market of 7.3 percent to \$209B in 2010 followed by a stronger increase of 8.9 percent in 2011 to \$228B.

"The WSTS foresees a continued growth in demand for electronic products such as PCs, digital consumer appliances, mobile communications, and last but not least automotive electronics, enhanced by increase of semiconductor content per installed system." said Dr. Ulrich Schaefer, Worldwide Chairman of WSTS. He continued, "These trends are expected to unfold despite one of the strongest economical crisis in more than 80 years. Although we expect a significant reduction of sales this year, in the long run this trend is not influenced."

However, the Organization for Economic Cooperation and Development (OECD) has indicated that emerging markets such as China, India and Brazil are set to rebound strongly in the year 2009 as Europe, Japan and the United States recover slower. Similarly, WSTS also anticipates the worldwide semiconductor industry to show positive growth from 2010 and on, peaking in 2011. In the long run the Asia Pacific region continues to be the fastest growing geographical area, due to the dynamics of both the strong rise in domestic demand and the continued manufacturing shift to this region, according to WSTS.

The chart and table below offer trends in worldwide semiconductor revenues and projected revenues by region.

| December 2008 | | | |
|---|------------------------|------------------------|-----------------|
| Billions | | | |
| Month-to-Month Sales | | | |
| Market | Last Month | Current Month | % Change |
| Americas | 3.08 | 2.70 | -12.4% |
| Europe | 3.17 | 2.55 | -19.6% |
| Japan | 4.05 | 3.74 | -7.8% |
| Asia Pacific | 10.57 | 8.42 | -20.3% |
| Total | 20.87 | 17.41 | -16.6% |
| Year-to-Year Sales | | | |
| Market | Last Year | Current Month | % Change |
| Americas | 3.65 | 2.70 | -26.2% |
| Europe | 3.53 | 2.55 | -27.8% |
| Japan | 4.31 | 3.74 | -13.2% |
| Asia Pacific | 10.79 | 8.42 | -21.9% |
| Total | 22.28 | 17.41 | -21.9% |
| Three-Month-Moving Average Sales | | | |
| Market | Jul / Aug / Sep | Oct / Nov / Dec | % Change |
| Americas | 3.21 | 2.70 | -15.9% |
| Europe | 3.48 | 2.55 | -26.7% |
| Japan | 4.26 | 3.74 | -12.2% |
| Asia Pacific | 12.02 | 8.42 | -29.9% |
| Total | 22.96 | 17.41 | -24.2% |



PCI and PCI Express

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

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

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

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

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

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

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

Universal Serial Bus (USB)

USB is the most popular external bus standard in the history of PCs. Today, USB connections can be found

in a range of devices, from PCs, MP3 players, cameras to scanners, printers, digital camcorders and digital modems.

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

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

USB 2.0 can connect peripherals such as mouse, keyboards, game pads and joysticks, scanners, digital cameras, printers, external storage, networking components, etc.

USB3.0 standard also called Super speed USB is an improvement over USB2.0 and can support up to 5 Gigabits per second. This technology is backwards compatible with USB2.0 and is expected to replace a majority of USB2.0 designs by 2012/2013. Products with USB3.0 will start shipping in volume by 2010. This speed is expected to be harnessed primarily by data- and media-intensive peripherals and consumer electronics, such as external hard-disk drives, portable digital media players, and digital cameras, as well as the PCs that these devices connect to. Unit shipments of SuperSpeed USB-enabled products are expected to multiply twenty-fold by 2012/2013

USB OTG (On-The-Go) has also emerged to meet the challenge for connecting devices together without the PC. USB OTG will enable consumers to print photos directly from a camera, directly email pictures from a still camera using a mobile phone, print directly from a PDA, etc. Wireless USB is the next emerging standard in the USB world. Wireless USB will allow the USB standard to operate wirelessly. It promises to have an effect particularly on those portable USB-enabled devices that make frequent ad-hoc connections such as portable digital audio players, digital still cameras and digital camcorders. However, the increasing bandwidth needs of the growing mass of USB devices and an inadequate volume of wireless USB is posing a challenge to the development and adoption of the wireless USB.

USB shipped in more than three billion devices in 2009, including the PC, PC Peripheral, Consumer Electronics (CE), Communications, and Automotive segments. By 2013, the number of wired USB-enabled devices shipped will exceed four billion. While high-speed USB shipments currently dominate, new 5Gbps SuperSpeed USB products will hit the store shelves by the end of 2009. Initially, SuperSpeed

USB will be found in PCs and storage devices. This speed is expected to be harnessed primarily by data- and media-intensive peripherals and consumer electronics, such as external hard-disk drives, portable digital media players, and digital cameras, as well as the PCs that these devices connect to.

Soon, SuperSpeed USB will also be found in portable devices with increasing amounts of storage capacity, including digital still cameras, digital camcorders, portable media players, and high-end mobile phones. SuperSpeed D.B will greatly speed the downloading of data from these devices.

2009 is expected to continue be a pivotal marker of USB's achievements as well, as the number of high-speed USB-enabled device shipments will surpass those of low- and full-speed devices. The CE segment has been a strong driver of this success, with continued adoption of USB in digital cameras, portable digital media players, and digital televisions.

Outlook

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

Healthy organic growth

MosChip has released 3 complex System on Chip products (SOCs) in 2009. These ARM based solutions are the MCS60C80 targeting the high-end Consumer AV products, the MCS8142 targeting the Network Storage, SOHO and Embedded Markets and the MCS8144 targeting display based Digital Signage, Network Storage, Media Docking markets. MosChip has obtained positive reviews to these products. The MCS8142 is being considered for many NAS designs in Asia and to date has many design-in and design win opportunities.

In addition MosChip will also release 2 more PCIe based controllers in the next few months. The MCS9990 is a PCIe to multiple USB2.0 Host bridge controller with tremendous potential. Similarly the MCS9950 is a PCIe to Display Bridge Controller. Both these solutions are targeting the fast growth Embedded, SOHO and Consumer markets.

The USB products have also won OEM designs into various applications such as laptop and industrial docking stations. Additionally the Company released a lower pin count USB2.0 to Ethernet Controller (64 pin) to win high volume DTV and Netbook designs.

The engineering capability of MosChip is extremely mature and repeatedly proven by delivering many products into production without any rework. The team has also handled projects that have more than 6 million transistors in a single chip & delivered along with it software that is several millions of bytes.

Strong customer demand for products and emergence of new technology.

We expect sales from PCI products to remain stable as

the need for UARTs is stable. The broadening of our PCI Express products in 2008-09 will help us to retain our market position in this segment.

Identification of new opportunities for inorganic growth

MosChip is also looking to grow inorganically by identifying acquisition opportunities and tie ups for licensing arrangements that can complement the product and technology mix that MosChip offers, specifically in areas of ASIC design, software drivers and custom application development.

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

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

Risks and concerns

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

Semiconductor products are difficult to manufacture without defects

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

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

MosChip Group develops products based on anticipated market and customer requirements and incurs substantial product development expenditures prior to generating associated revenues. The customers typically perform numerous tests and extensively evaluate MosChip Group's products before incorporating them into their systems. The time required for testing, evaluation and design of MosChip Group's products, into a customer's equipment can take up to six months or more.

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

A case in point, as 2008 saw one of the strongest reductions in economic conditions in over 80 years. During this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia, Europe and North America. The cyclical nature of the semiconductor industry has led to significant variances in product demand and production capacity. It has also accelerated the reduction of average selling prices per unit. The Group may experience periodic fluctuations in its future financial results because of changes in industry-wide conditions.

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

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

Internal control systems

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

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

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

Human Resources

The Company currently employs a total of 125 employees. All the employees are located at Hyderabad, India. Of these 100 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 of employees are in line with industry levels and grants stock options to retain talent.

COMMENTARY ON THE FINANCIAL STATEMENTS OF MOSCHIP INDIA

Balance Sheet

1. Share Capital

The Company has only one class of shares. The Company has not allotted any shares during the year under review. The total paid-up equity share capital of the company is Rs. 433,855,170 as on 31 March 2009.

There are no calls-in-arrears.

2. Share Application Money

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

3. Reserves and Surplus

Capital Reserve

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

Convertible Warrants

In the financial Year 2006-07 Company allotted 1,500,000 convertible warrants at a price of Rs.31 each. The warrants were issued for an upfront consideration of Rs. 4,650,000. The warrants issued were convertible into Equity Shares within a period of 18 months from the date of allotment of warrants. The Convertible warrants lapsed on 21 June 2008 and the amounts have been credited to capital reserve.

4. Secured Loans

The Company has availed a working capital loan from UCO Bank during the financial year. This borrowing 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.

5. Fixed Assets

During the year under review, the company has invested an amount of Rs.17.98 lakhs towards capital expenditure. Additions to fixed assets increased by 1.2% during the financial year.

6. 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.

7. Interest Accrued on Deposits

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

8. Cash and Bank Balances

The bank balances in India include both Rupee accounts and Foreign Currency Accounts. Fixed Deposits of Rs. 889,185/- are given as security for issue of bank guarantees.

9. Sundry Debtors

The entire amount of Sundry Debtors of Rs. 35,755,563/- is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA.

10. Loans and Advances

Deposits

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

Advance to MosChip Employees' Trust

Advance to MosChip Employees' Trust of Rs. 2,835,000 is the balance amount of interest free loan given to the Trust as a part of the ESOP scheme of the Company.

Advance to Suppliers

Advance to suppliers of Rs. 47,989,791 is the amount paid to suppliers towards import of finished goods for the purpose of re-export the same.

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.

11. Current Liabilities

Sundry Creditors

Sundry Creditors (Others) of Rs. 4,415,078/- represents all current liabilities.

Advance from Customers

The entire amount of Advance from Customers of Rs. 12,758,123/- was received from the wholly owned subsidiary MosChip Semiconductor Technology, USA against future exports.

12. Provisions

Provision of Rs. 3,720,343 includes provision for Leave Encashment amounting to Rs. 1,787,053 and Rs. 1,895,415 towards Gratuity and Rs. 37,875 towards Fringe benefits tax.

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

13. Miscellaneous Expenditure

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

14. Guarantees

The Company has outstanding guarantees for various purposes amounting to Rs. 3,414,185 (previous year Rs. 3,414,185) for the year ended 31 March 2009.

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

Profit and Loss Account**15. Sales Revenue**

The sales revenue for the year under review amounted to Rs. 104,072,863 as against Rs. 61,477,432 during the previous year. Of this Rs. 47,392,583 was on account of export sales of finished goods (semiconductor chips) and the remaining amount was on account of software development and royalty charges billed to the wholly owned subsidiary.

16. Non Operating Income

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

17. Expenditure

The expenditure for the year under review amounted to Rs. 172,881,606 as against Rs. 145,905,137 during the previous year.

18. Depreciation

During the year, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each amounting to Rs. 25,608/-.

19. Loss for the year

The loss for the year after tax but before extraordinary and prior period item is Rs. 81,680,731 compared to the previous year loss of Rs. 94,461,673.

The loss for the year after tax after extraordinary and prior period item is Rs. 81,674,904 compared to the previous year loss of Rs. 90,574,236.

20. Earnings Per Share

The Basic and Diluted Earnings per Share computed in accordance with the Accounting Standard 20 issued by the Institute of Chartered Accountants of India is Rs. -1.88 before taking into consideration extraordinary and prior period item

and Rs. -1.88 after taking into consideration extraordinary and prior period item. More details on computation of EPS are given in Note 14.2.6 of Notes on Accounts.

21. Foreign Exchange Difference

An amount of Rs. 2,027,941 has been considered as unrealized gain and an amount of Rs. 2,946,525 as realized gain 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.

22. Related Party Transactions

The transactions with the related parties other than employees are given in Note 14.2.8 of Notes on Accounts.

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

23. Leases

The Company has operating leases for Office Buildings. The rental expenses for operating leases for the year ended 31 March 2009 amounted to Rs. 9,999,047. The Company has the right to terminate the lease agreement for Hyderabad office building by giving three months written notice.

24. Employees Stock Options

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

The Company has eight 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 14.2.5 of Notes on Accounts and Annexure -A to Directors Report.

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy

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

2. Board of Directors

The Company has an Executive Chairman. The Chairman along with Managing Director manages the day-to-day affairs of the Company. The Board of the Company has a combination of Executive and Non-Executive directors. Non-Executive directors comprise 60% of the Board.

a) Composition and category of directors as on 31st March 2009

Table - 1

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

b) Attendance of each director at the Board meetings held during the year 2008- 09 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 | 05 | 04 | Yes |
| Mr. C. Dayakar Reddy | 05 | 04 | Yes |
| Mr. Alur Ramesh | 05 | 04 | No |
| Prof. Vijaya Chandru | 05 | 02 | No |
| Mr. G. Prasad | 05 | 05 | Yes |
| * Dr. M. Rammohan Rao | 05 | 01 | No |

* Dr. M. Rammohan Rao has resigned from the office of the Director with effect from 16th January 2009 and the same has been duly intimated to the Registrar of Companies, Andhra Pradesh.

c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2008-09

Table - 3

| Name of the Director | Board | | Committee | |
|--------------------------|----------|--------|-----------|--------|
| | Chairman | Member | Chairman | Member |
| Mr. K. Ramachandra Reddy | Nil | Nil | Nil | Nil |
| Mr. C. Dayakar Reddy | Nil | 01 | Nil | Nil |
| Mr. Alur Ramesh | Nil | 12 | Nil | 01 |
| Prof. Vijaya Chandru | 01 | 04 | Nil | Nil |
| Mr. G. Prasad | Nil | Nil | Nil | Nil |

d) No. of Board Meetings held and dates on which they were held during 2008-09

Table - 4

| Quarter | No. of Meetings | Dates on which held |
|--------------------|-----------------|-----------------------------|
| April - June | 02 | 30 April 2008, 30 June 2008 |
| July – September | 01 | 29 July 2008 |
| October – December | 01 | 23 October 2008 |
| January – March | 01 | 30 January 2009 |
| Total | 05 | |

CORPORATE GOVERNANCE REPORT

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

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

3. Audit Committee

The Audit Committee was formed on 19th January 2001 with qualified and independent members of the Board of Directors of the Company. The Company Secretary acts as Secretary of the Committee. This Committee was re-constituted on 30th June 2003 and on 26th August 2004.

a) Brief description of terms of reference

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

Overseeing the Company's financial reporting process and ensuring correct, adequate and credible disclosure of financial information.

Recommending appointment and removal of external auditors and fixing of their fees.

Reviewing with management the annual financial statements with special emphasis on accounting policies and practices, compliances with accounting standards and other legal requirements concerning financial statements.

Reviewing the adequacy of the Audit and compliance functioning including their policies, procedures, techniques and other regulatory requirements.

Reviewing the adequacy of internal control systems and significant audit findings.

b) Composition, name of members and Chairperson

The Audit Committee comprises of the following directors

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

c) Meetings and attendance during the year 2008-09

Four meetings of the Audit Committee were held during the year 2008-09. Mr. G. Prasad attended all four meetings. Mr. A. Ramesh attended three meetings and Prof. Vijaya Chandru attended two 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. The Committee was re-constituted on 30th June 2003, and 26th August 2004.

b) Composition, name of members and Chairperson

The Remuneration Committee comprises of the following directors

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

c) Attendance during the year 2008-09

No meeting was held during the year 2008-09 as no remuneration packages were contemplated for Non-Executive directors during the year and there was no revision of remuneration package of Executive directors.

Besides, sitting fee for attending Board and Committee meetings, no special compensation to Non-Executive directors are envisaged during the year 2008-09.

d) Details of remuneration to all the directors

Table - 5

| Sl. No. | Name | Designation | Salary In Rs. | Performance Incentives (in Rs) | Commission in Rs. | Total In Rs. | Severance Fee in Rs. | Notice period | Sitting Fee in Rs. | Stock options |
|---------|-----------------------|-------------|---------------|--------------------------------|-------------------|--------------|----------------------|---------------|--------------------|---------------|
| 01 | K. Ramachandra Reddy | Chairman | 4,857,500 | Nil | Nil | 4,857,500 | NA | NA | Nil | Nil |
| 02 | C. Dayakar Reddy | M.D. | 4,857,500 | Nil | Nil | 4,857,500 | NA | NA | Nil | Nil |
| 03 | A. Ramesh | Director | NA | NA | NA | NA | NA | NA | 29,000 | 1,00,000 |
| 04 | G. Prasad | Director | NA | NA | NA | NA | NA | NA | 35,000 | 1,00,000 |
| 05 | Prof. Vijaya Chandru | Director | NA | NA | NA | NA | NA | NA | 14,000 | 1,00,000 |
| 06 | * Dr. M. Rammohan Rao | Director | NA | NA | NA | NA | NA | NA | 8,000 | Nil |

5. Shareholders / Investors Grievance Committee

This Committee was re-constituted on 30th June 2003 and on 26th August 2004.

a) Terms of reference

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

b) Composition, name of members and Chairperson

The Committee comprises of the following Non-Executive directors

| | | |
|----------------------|-----|----------|
| Mr. Alur Ramesh | --- | Chairman |
| Mr. G. Prasad | --- | Member |
| Prof. Vijaya Chandru | --- | Member |

c) Name and Designation of Compliance Officer

Mr. Raj Kumar Singh --- Company Secretary

d) No. of Shareholders Complaints received during the year 2008-09

During the year 2008-09, in total 02 Nos. of complaints / letters were received from the investors and all were disposed of during the year. Please see the Table-6 given below.

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

There was no complaint that was not solved to the satisfaction of shareholders.

f) No. of pending share transfer

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

Details of Shareholders complaints during the year 2008-09

Table - 6

| Sl. No. | Nature of Complaint/Request | Received | Disposed | Pending |
|---------|--|-----------|-----------|------------|
| 1 | Change / Correction of address | 01 | 01 | Nil |
| 2 | Loss/Issue of duplicate Share Certificate | Nil | Nil | Nil |
| 3 | Non-receipt of Share Certificate | Nil | Nil | Nil |
| 4 | Non-receipt of Refund order/dividend warrant | 01 | 01 | Nil |
| 5 | Others | Nil | Nil | Nil |
| | TOTAL | 02 | 02 | Nil |

6. General Body Meetings

a) Details of last three AGMs

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

Table - 7

| Annual General Meeting | Venue | Time & Date |
|------------------------|---|---|
| Seventh | 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034 | 29 th September 2006 at 10.30 hrs. |
| Eighth | 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034 | 29 th September 2007 at 10.30 hrs. |
| Ninth | 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034 | 29 th August 2008 at 10.30 hrs |

7. Disclosures

- a) During the year 2008-09 the Company has entered into related party transactions worth Rs.120,304,201/- (both receivables and payables) with MosChip Semiconductor Technology, USA the Wholly Owned Subsidiary of the Company. All these transactions were at arm's length and do not have potential conflict with the interest of the Company at large.

8. Means of Communication

Quarterly and Half-yearly results will normally be published in Financial Express in English and Andhra Prabha Regional Language Daily (Telugu).

Apart from the financial results, all official press releases of the Company and presentation made to the institutional investors and analysts if any, are being made available on the Company's website www.MosChip.com.

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

9. General Shareholder Information

AGM – Date, Time and Venue : 30th September 2009, 10.30 am at
Registered Office of the Company at
8-2-685/1/1, Road No.12, Banjara Hills,
Hyderabad – 500 034

Financial Calendar :

The following is the tentative financial calendar of the Company, which is subject to change:

Un-Audited Financial Results for the FY 2009-10:

Table -8

| | | |
|---|---|--|
| First Quarter Results | : | 27 th July 2009 |
| Second Quarter & Half-yearly Results | : | Between 20 th & 31 st October 2009 |
| Third Quarter Results | : | Between 20 th & 31 st January 2010 |
| Fourth Quarter & Annual Results | : | Between 20 th & 30 th June 2010 |
| (Audited in lieu of un-audited results) | | |

- Date of Book Closure : 24th September to 30th September 2009 (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 2008-09 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 MosChip Share price on BSE and in comparison with BSE Sensex.

CORPORATE GOVERNANCE REPORT

Table -9

| Month & Year | MOSCHIP | | SENSEX | |
|--------------|---------|-------|-----------|-----------|
| | High | Low | High | Low |
| Apr 08 | 23.95 | 17.20 | 17,480.74 | 15,297.96 |
| May 08 | 20.95 | 16.80 | 17,735.70 | 16,196.02 |
| Jun 08 | 18.25 | 14.15 | 16,632.72 | 13,405.54 |
| Jul 08 | 17.39 | 12.90 | 15,130.09 | 12,514.02 |
| Aug 08 | 20.90 | 15.50 | 15,579.78 | 14,002.43 |
| Sep 08 | 15.95 | 11.25 | 15,107.01 | 12,153.55 |
| Oct 08 | 11.69 | 6.75 | 13,203.86 | 7,697.39 |
| Nov 08 | 8.06 | 5.05 | 10,945.41 | 8,316.39 |
| Dec 08 | 7.64 | 5.20 | 10,188.54 | 8,467.43 |
| Jan 09 | 7.89 | 4.55 | 10,469.72 | 8,631.60 |
| Feb 09 | 5.55 | 4.55 | 9,724.87 | 8,619.22 |
| Mar 09 | 8.01 | 3.87 | 10,127.09 | 8,047.17 |

Registrar and Transfer Agents :

Sathguru Management Consultants Private Limited.

Plot No.15, Hindi Nagar, Behind Saibaba Temple, Punjagutta,
Hyderabad – 500 034. Tel: +91-40-2335-0586 / 2335-6507 /
2335-6975 Fax: +91-40-2335-4042
Email: sta@sathguru.com
Web: www.sathguru.com

Share Transfer System

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

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

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

- **Distribution of Shareholding**

The Distribution of shareholding of the Company as on 31st March 2009 is shown in Table-10

CORPORATE GOVERNANCE REPORT

Distribution of Shareholding as on 31st March 2009

Table -10

| Sl.No | Category | | No. of members | | No. of shares | | % of equity | |
|--------------------|----------|-------|----------------|--------------|-----------------|-----------------|---------------|--------------|
| | From | To | Physical | Electronic | Physical | Electronic | Physical | Electronic |
| 1 | 1 | 500 | 82 | 24035 | 14368 | 5490332 | 15 | 12.65 |
| 2 | 501 | 1000 | 2 | 4365 | 1800 | 3816314 | 16 | 8.80 |
| 3 | 1001 | 2000 | 0 | 2069 | 0 | 3335305 | 13 | 7.69 |
| 4 | 2001 | 3000 | 5 | 680 | 13000 | 1785406 | 12 | 4.12 |
| 5 | 3001 | 4000 | 0 | 292 | 0 | 1061499 | 14 | 2.45 |
| 6 | 4001 | 5000 | 4 | 313 | 20000 | 1511129 | 12 | 3.48 |
| 7 | 5001 | 10000 | 2 | 373 | 14590 | 2789433 | 7 | 6.43 |
| 8 | 10001 | Above | 19 | 296 | 3363511 | 20168830 | 8 | 46.49 |
| Total | | | 114 | 32423 | 3427269 | 39958248 | 7.90 | 92.10 |
| Grand Total | | | 32537 | | 43385517 | | 100.00 | |

Dematerialisation of shares and liquidity

As per SEBI guidelines on investors' protection, the Company's shares are to be traded only in dematerialized mode. Accordingly, the Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to establish electronic connectivity and facilitate scrip-less trading. As at the end of 31st March 2009, 92.10% of the outstanding equity shares of the company are in electronic form.

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

Plant locations

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

Table-11

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

Address for Correspondence and contact persons for investors queries

Investors' correspondence may be addressed to the Company Secretary and Compliance Officer at the registered office of the company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034, Tel: +91-40-6622-9292 Fax: +91-6622-9393, Email : investorrelations@moschip.com

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

Sathguru Management Consultants Private Limited

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

Contact Person: Mr. K. Raghunathan – Director / Mr. R. Chandrasekher – Sr. Divisional Manager (Capital Markets)

Tel: +91-40-2335-0586 / 2335-6507 / 2335-6975 Fax: +91-40-2335-4042, Email: sta@sathguru.com Web: www.sathguru.com

For and on behalf of the Board of Directors

Hyderabad,
28 August 2009

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'D'

CERTIFICATE ON CORPORATE GOVERNANCE

The Members

MosChip Semiconductor Technology Limited

1. We have examined the registers, records, books of and the implementation of Corporate Governance procedures by MosChip Semiconductor Technology Limited for the year ended 31 March 2009, with the relevant records and documents maintained by the company, furnished to us for our examination and the report on corporate governance as approved by the Board of Directors.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company. We further state that, such compliance is neither an assurance

as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

3. We state that in respect of investor grievances received during the year ended on 31 March 2009, no investor grievances are pending against the company for a period exceeding one month as per the records maintained by the company and presented to the shareholders / investors grievance committee.
4. In our opinion and to the best of our information and according to the explanations given to us, the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement(s) with the Bombay Stock Exchange Limited, have been complied with in all material respects by the company.

For LD Reddy & CO.,
Company Secretaries

Hyderabad
13 July 2009

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

ANNEXURE 'E'

CEO'S DECLARATION

The Members,
MosChip Semiconductor Technology Limited.

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

Hyderabad
28 August 2009

K. Ramachandra Reddy
Chairman & CEO

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

The Members
MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED
Hyderabad

We have examined the attached Consolidated Balance Sheet of MosChip Semiconductor Technology Limited and its wholly owned subsidiary MosChip Semiconductor Technology, USA as at 31 March 2009 and the Profit and Loss Account as well as the Cash Flow statement for the year ended on that date.

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

1. The company has made a total investment of Rs. 375,579,087/- in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The difference between the investment amount of Rs. 375,579,087/- and the Networth amount of Rs 55,257,399/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2009 has not been charged to the Profit & Loss Account.

2. We report that the Consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21 on Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of MosChip Semiconductor Technology Limited and the wholly owned subsidiary MosChip Semiconductor Technology, USA

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

- a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of MosChip semiconductor Technology Limited and its wholly owned subsidiary MosChip Semiconductor Technology, USA as at 31 March 2009 ;
- b) the Consolidated Profit & Loss Account for the year ended 31 March 2009 gives a true and fair view of the Consolidated results of operations of the company and
- c) the Consolidated Cash Flow Statement shows a true and fair view of the Consolidated Cash Flows for the year ended on 31 March 2009.

For Gokhale & Co.,
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Place: Hyderabad
Date: 30 June 2009

**CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2009**

CONSOLIDATED

| | Schedule No. | As at 31 March 2009 | | As at 31 March 2008 | |
|--|--------------|----------------------|-----|----------------------|-----|
| | | Rs. | Rs. | Rs. | Rs. |
| SOURCES OF FUNDS: | | | | | |
| SHAREHOLDERS' FUNDS: | | | | | |
| Share Capital | 1 | 433,855,170 | | 433,855,170 | |
| Share Application Money | | 115,123 | | 129,415 | |
| Reserves and Surplus | 2 | 672,426,562 | | 650,879,147 | |
| Secured Loans | 3 | 71,399,207 | | 0 | |
| Unsecured Loans | 4 | 50,710,000 | | 0 | |
| Total | | 1,228,506,062 | | 1,084,863,732 | |
| APPLICATION OF FUNDS: | | | | | |
| FIXED ASSETS: | | | | | |
| Gross Block | 5 | 274,524,171 | | 229,731,556 | |
| Less: Depreciation | | 191,731,873 | | 132,397,394 | |
| Net Block | | 82,792,297 | | 97,334,162 | |
| Capital work in progress | | 88,586,519 | | 13,905,150 | |
| Goodwill | | 235,817,338 | | 235,817,338 | |
| INVESTMENTS | 6 | 151,582 | | 58,764,550 | |
| NET CURRENT ASSETS: CURRENT ASSETS, LOANS AND ADVANCES: | | | | | |
| Inventories | 7 | 55,965,794 | | 19,708,486 | |
| Sundry Debtors | 8 | 49,568,087 | | 42,736,662 | |
| Cash and Bank Balances | 9 | 12,476,277 | | 23,331,792 | |
| Loans and Advances | 10 | 16,321,221 | | 17,063,338 | |
| Interest accrued on Deposits | | 127,182 | | 57,973 | |
| GROSS CURRENT ASSETS | 11 | 134,458,561 | | 102,898,251 | |
| Less: Current Liabilities and provisions | | 76,021,759 | | 36,196,349 | |
| NET CURRENT ASSETS | | 58,436,802 | | 66,701,902 | |
| MISCELLANEOUS EXPENDITURE | 12 | 2,818,095 | | 5,636,163 | |
| PROFIT AND LOSS ACCOUNT | | 759,903,429 | | 606,704,467 | |
| NOTES TO ACCOUNTS | 17 | | | | |
| Total | | 1,228,506,062 | | 1,084,863,732 | |

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

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,

Chartered Accountants

Chandrashekhhar Gokhale

Partner

Membership No. 23839

K. Ramachandra Reddy

Chairman & CEO

C. Dayakar Reddy

Managing Director

Place Hyderabad

Date 30 June 2009

Sathya Kalyanasundaram

Chief Financial Officer

Raj Kumar Singh

Company Secretary

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2009**

CONSOLIDATED

| | Schedule No. | For the year ended 31 March 2009 Rs. | For the year ended 31 March 2008 Rs. |
|--|--------------|--|--|
| I INCOME: | | | |
| Sales Revenue | 13 | 271,598,463 | 236,164,257 |
| Other Income | 14 | 3,471,592 | 7,641,478 |
| | | 275,070,055 | 243,805,735 |
| II EXPENDITURE: | | | |
| Material Cost, Software and Administrative Expenses | 15 | 377,479,776 | 317,090,924 |
| Financial Charges | 16 | 6,577,943 | 62,754 |
| Depreciation | 5 | 43,837,280 | 34,093,876 |
| | | 427,894,999 | 351,247,554 |
| III Profit/(Loss) Before Tax | | (152,824,944) | (107,441,819) |
| Less : Fringe Benefit Tax | | 379,845 | 433,996 |
| Profit/(Loss) After Tax Before Exceptional Item | | (153,204,789) | (107,875,815) |
| Less: Exceptional Item | | 0 | 2,465,114 |
| Profit/(Loss) After Tax and Exceptional item Before Extraordinary and Prior Period Item | | (153,204,789) | (110,340,929) |
| Less: Extra Ordinary and Prior Period Items | | (5,827) | (3,887,437) |
| Profit/(Loss) After tax and After Extraordinary and Prior Period Item | | (153,198,962) | (106,453,492) |
| Add: Balance brought forward from previous year | | (606,704,467) | (500,250,975) |
| Balance carried to Balance Sheet | | (759,903,429) | (606,704,467) |
| IV Earnings Per Share (EPS) | | | |
| Equity Share of face value Rs.10/- each | | | |
| Before Extraordinary and Prior Period Items | | | |
| Basic | | (3.53) | (2.54) |
| Diluted | | (3.53) | (2.54) |
| After Extraordinary and Prior Period Items | | | |
| Basic | | (3.53) | (2.45) |
| Diluted | | (3.53) | (2.45) |
| Number of shares used in computing EPS | | | |
| Basic | | 43,385,517 | 43,383,856 |
| Diluted | | 43,385,517 | 43,383,856 |

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

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,

Chartered Accountants

Chandrashekhar Gokhale

Partner

Membership No. 23839

K. Ramachandra Reddy

Chairman & CEO

C. Dayakar Reddy

Managing Director

Place Hyderabad

Date 30 June 2009

Sathya Kalyanasundaram

Chief Financial Officer

Raj Kumar Singh

Company Secretary

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

| | As At 31 March 2009 Rs. | As At 31 March 2008 Rs. |
|---|-------------------------------|-------------------------------|
| SCHEDULE 1 | | |
| SHARE CAPITAL: | | |
| <u>Authorised:</u> 55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each | <u>550,000,000</u> | <u>550,000,000</u> |
| <u>Issued:</u> 45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/- each | <u>451,005,890</u> | <u>451,005,890</u> |
| <u>Subscribed and Paid-up:</u> 43,385,517 (Previous year 43,385,517) equity shares of Rs.10/- each | <u>433,855,170</u> | <u>433,855,170</u> |
| (Of the above 8,325,770 shares of Rs. 10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA) (Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Veracity Technologies, Inc with the Company) | | |
| SCHEDULE 2 | | |
| RESERVES AND SURPLUS: | | |
| Foreign Currency Translation Reserve | 6,517,642 | (15,029,773) |
| <u>Capital Reserve</u> | | |
| State Govt. Subsidy | 1,250,000 | 1,250,000 |
| Forfeited share warrants | 4,650,000 | 0 |
| Convertible Warrants | 0 | 4,650,000 |
| <u>Securities Premium</u> | | |
| Opening Balance | 660,008,920 | 659,975,420 |
| Additions | 0 | 33,500 |
| Closing Balance | <u>660,008,920</u> | <u>660,008,920</u> |
| | <u>672,426,562</u> | <u>650,879,147</u> |
| SCHEDULE 3 | | |
| SECURED LOANS: | | |
| Packing Credit | 71,399,207 | 0 |
| | <u>71,399,207</u> | <u>0</u> |
| SCHEDULE 4 | | |
| UNSECURED LOANS: | | |
| Unsecured loans | 50,710,000 | 0 |
| | <u>50,710,000</u> | <u>0</u> |

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

CONSOLIDATED

**SCHEDULE - 5
CONSOLIDATED FIXED ASSETS**

| S.No | Description | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | | |
|------|-------------------------|--------------------------|---------------------------|------------------------------|---------------------------|--------------------------|-------------------|-------------------------------|---------------------------|--------------------------|--------------------------|-------------------|
| | | Balance as at 01.04.2008 | Additions during the year | Adjustments during the year* | Deletions during the year | Balance as at 31.03.2009 | For the year | Adjustments during the year** | Deletions during the year | Balance as at 31.03.2009 | Balance as at 31.03.2008 | |
| 1 | Computers | 29,363,300 | 933,845 | 0 | 173,829 | 30,123,316 | 3,748,661 | 0 | 58,183 | 17,629,764 | 12,493,552 | 15,424,014 |
| 2 | Electrical Installation | 2,298,675 | 0 | 0 | 0 | 2,298,675 | 106,988 | 0 | 0 | 578,898 | 1,719,777 | 1,826,765 |
| 3 | Plant and Machinery | 28,144,442 | 14,500 | 0 | 99,830 | 28,059,112 | 349,325 | 0 | 38,120 | 22,631,463 | 5,427,649 | 5,824,184 |
| 4 | Software | 64,242,836 | 1,531,833 | 1,821,275 | 0 | 67,595,944 | 7,203,739 | 517,585 | 0 | 54,785,316 | 12,810,628 | 17,178,843 |
| 5 | Furniture and Fittings | 9,134,798 | 300,346 | 141,747 | 0 | 9,576,891 | 574,352 | 71,529 | 0 | 3,860,201 | 5,716,690 | 5,920,478 |
| 6 | Office Equipment | 6,997,209 | 3,761,258 | 1,552,336 | 0 | 12,310,803 | 959,445 | 636,566 | 0 | 4,655,122 | 7,655,681 | 3,938,098 |
| 7 | Vehicles | 84,257 | 0 | 0 | 0 | 84,257 | 7,804 | 0 | 0 | 54,714 | 29,543 | 37,347 |
| 8 | Lab Equipment | 16,065,867 | 72,469 | 0 | 0 | 16,138,336 | 761,973 | 0 | 0 | 2,132,845 | 14,005,491 | 14,694,995 |
| 9 | Leasehold Improvements | 3,938,681 | 0 | 0 | 0 | 3,938,681 | 1,065,176 | 0 | 0 | 2,220,531 | 1,718,150 | 2,783,326 |
| 10 | Mask Tools | 69,461,491 | 14,061,250 | 20,875,415 | 0 | 104,398,156 | 29,059,816 | 14,367,823 | 0 | 83,183,018 | 21,215,138 | 29,706,112 |
| | TOTAL | 229,731,556 | 20,675,501 | 24,390,773 | 273,659 | 274,524,171 | 43,837,280 | 15,593,503 | 96,303 | 191,731,873 | 82,792,297 | 97,334,162 |
| | Previous Year | 208,289,259 | 37,931,040 | (3,998,809) | 12,489,934 | 229,731,556 | 34,093,876 | (2,238,413) | 8,591,521 | 132,397,394 | 97,334,162 | - |

Note:

* Adjustments for the year includes Rs.24,390,773/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.
** Adjustments for the year includes Rs.15,593,503/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

| SCHEDULES | As at 31 March 2009 Rs. | As at 31 March 2008 Rs. |
|--|-------------------------------|-------------------------------|
| SCHEDULE 6 | | |
| INVESTMENTS: | | |
| Current | | |
| Principal Cash Management Fund Nil (Previous Year 45943.020 Units of Rs.1000/- each in Reliance Mutual Fund) | 0 | 50,000,000 |
| SVB Securities Liquid Fund | 151,582 | 8,764,550 |
| | 151,582 | 58,764,550 |
| SCHEDULE 7 | | |
| INVENTORIES: | | |
| Finished Goods | 55,965,794 | 19,708,486 |
| | 55,965,794 | 19,708,486 |
| SCHEDULE 8 | | |
| SUNDRY DEBTORS: | | |
| (Unsecured, Considered Good) | | |
| Outstanding for a period exceeding six months | 0 | 0 |
| Others | 49,568,087 | 42,736,662 |
| | 49,568,087 | 42,736,662 |
| SCHEDULE 9 | | |
| CASH AND BANK BALANCES: | | |
| Cash on hand | 14,643 | 66,766 |
| Balance with Scheduled Banks | | |
| - In Current accounts | 1,834,105 | 3,383,230 |
| - In fixed deposit accounts | 889,185 | 889,185 |
| (Rs.889,185/- (Previous Year Rs.889,185/-) pledged towards margin on bank Guarantee) | | |
| Balance with Non-Scheduled Banks in Current Accounts | 9,738,344 | 18,992,611 |
| | 12,476,277 | 23,331,792 |
| SCHEDULE 10 | | |
| LOANS AND ADVANCES: | | |
| (Unsecured, considered good, recoverable in cash Or in kind or for value to be received) | | |
| Deposits | 3,553,174 | 2,367,568 |
| MosChip Employees Trust | 2,835,000 | 2,835,000 |
| Other Advances and Receivables | 6,475,803 | 6,090,619 |
| Prepaid Expenses | 2,960,517 | 4,255,299 |
| Prepaid Income Tax | 496,726 | 1,514,852 |
| | 16,321,221 | 17,063,338 |

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

CONSOLIDATED

| SCHEDULES | As at 31 March 2009 Rs. | As at 31 March 2008 Rs. |
|---|-------------------------------|-------------------------------|
| SCHEDULE 11 | | |
| CURRENT LIABILITIES AND PROVISIONS: | | |
| CURRENT LIABILITIES: | | |
| Sundry Creditors: | | |
| Dues to Small Scale Industrial Undertakings | 0 | 0 |
| Others | 71,117,775 | 31,026,259 |
| | 71,117,775 | 31,026,259 |
| PROVISIONS: | | |
| Leave Encashment | 2,488,948 | 2,992,007 |
| Gratuity | 1,895,415 | 1,788,532 |
| Expenses | 481,745 | 355,555 |
| Fringe Benefit Tax (net) | 37,875 | 33,996 |
| | 4,903,983 | 5,170,090 |
| | 76,021,759 | 36,196,349 |
| SCHEDULE 12 | | |
| MISCELLANEOUS EXPENDITURE | | |
| (To the extent not written off or adjusted) | | |
| GDR Issue Expenses | 2,818,095 | 5,636,163 |
| | 2,818,095 | 5,636,163 |
| | | |

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

| SCHEDULES | For the year ended 31 March 2009 Rs. | For the year ended 31 March 2008 Rs. |
|---|--|--|
| SCHEDULE 13 | | |
| SALES: | | |
| Semiconductor Sales | 271,598,463 | 235,936,627 |
| Misc. Sales | 0 | 227,630 |
| | 271,598,463 | 236,164,257 |
| SCHEDULE 14 | | |
| OTHER INCOME: | | |
| Interest Earned (Gross) | 329,232 | 2,128,021 |
| (Tax Deducted at Source Rs.15,975/- (previous year Rs.479,758/-)) | | |
| Miscellaneous Income | 1,971,773 | 0 |
| Profit on Sale of Investments | 1,170,587 | 5,513,457 |
| | 3,471,592 | 7,641,478 |
| | | |

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

| SCHEDULES | For the year ended 31 March 2009 Rs. | For the year ended 31 March 2008 Rs. |
|---|--|--|
| SCHEDULE 15 | | |
| MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES: | | |
| Materials, Finished and Processed Stocks | 131,642,829 | 103,923,305 |
| Freight Expenses | 2,393,157 | 1,865,395 |
| Salaries and Other Allowances to Employees | 139,294,390 | 105,027,548 |
| Contribution to PF,ESI & Gratuity | 1,139,954 | 1,470,828 |
| Staff Welfare Expenses | 5,629,981 | 5,620,389 |
| Directors' Remuneration | 9,715,000 | 9,100,000 |
| Consumables | 11,134,399 | 7,969,787 |
| Research and Development Expenses | 3,456,353 | 3,217,941 |
| Software Charges | 1,908,037 | 4,030,131 |
| Communication Expenses | 665,142 | 719,521 |
| Computer Maintenance | 510,183 | 790,383 |
| Directors' Sitting Fee | 86,000 | 97,000 |
| Printing and Stationery | 465,172 | 107,098 |
| Postage, Telegrams and Telephones | 1,803,179 | 1,742,055 |
| Rent | 18,418,443 | 13,038,285 |
| Fees, Rates and Taxes | 4,527,941 | 1,797,844 |
| Vehicle Maintenance | 44,590 | 68,838 |
| Repairs and Maintenance | 257,811 | 1,038,932 |
| Traveling and Conveyance | 9,327,517 | 12,093,786 |
| Marketing Expenses | 4,954,987 | 4,635,770 |
| Advertisement Expenses | 4,313,159 | 3,421,748 |
| Payments to Auditors | 757,498 | 634,788 |
| Insurance | 5,319,736 | 3,591,491 |
| Export Freight and Insurance | 568,645 | 0 |
| Professional charges | 12,614,338 | 15,733,270 |
| Electricity Charges | 2,921,879 | 2,860,223 |
| Recruitment Expenses | 772,695 | 834,050 |
| General Expenses | 4,863,262 | 4,397,669 |
| Penalties | 0 | 4,738 |
| Loss on fixed assets sold / discarded | 129,898 | 141,255 |
| Realised Loss on Forex Fluctuation | (2,946,525) | 4,101,170 |
| Unrealised Loss on Forex Fluctuation | (2,027,941) | 197,618 |
| GDR Issue Expenses Written Off | 2,818,068 | 2,818,068 |
| | 377,479,776 | 317,090,924 |
| SCHEDULE 16 | | |
| FINANCIAL CHARGES: | | |
| Loan Processing Charges | 741,808 | 0 |
| Interest Paid on Loans | 5,632,274 | 0 |
| Bank charges | 203,861 | 62,754 |
| | 6,577,943 | 62,754 |

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

SCHEDULE 17

NOTES TO ACCOUNTS

17. Company overview

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

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

17.1 Significant Accounting Policies

17.1.1 Basis for Preparation of Financial Statements

The Consolidated financial statements present the accounts of the Company and its wholly owned subsidiary MosChip Semiconductor Technology, USA. The Consolidation is based on the audited financial statements of MosChip Semiconductor Technology Limited and MosChip Semiconductor Technology, USA (Wholly Owned Subsidiary) for the year ended 31 March 2009.

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

17.1.2 Principles of Consolidation

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

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

17.1.3 Use of Estimates

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

17.1.4 Foreign Currency Translation

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

17.1.5 Revenue Recognition

Revenue from product sales is recognised on dispatch of material.

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

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

Interest income is recognized on accrual basis.

17.1.6 Fixed Assets and Capital Work-in-Progress

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

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

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

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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

17.1.7 Depreciation

Depreciation on Fixed Assets other than Improvement to Leasehold Premises, Mask Tool Charges (Part of Plant & Machinery) and Computer Software is provided under Straight Line method at the rates specified in Schedule XIV of the Companies Act, 1956., except as stated in Note 17.2.8.

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

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

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

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

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

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

17.1.8 Foreign Exchange Transactions

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

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

Exchange Differences: Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise

except those arising on liabilities pertaining to fixed assets acquired from outside India, which are adjusted with the cost of the fixed assets.

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

17.1.9 Investments

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

17.1.10 Retirement benefits

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

Gratuity : The Company Contributes to LIC Group Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation as on the balance sheet date.

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

17.1.11 Earnings per share

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

17.1.12 Miscellaneous Expenditure

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

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

17.2 Notes on Accounts

17.2.1 Contingent Liabilities:

(Amount in Rupees)

| Particulars | As at 31 March | |
|--|----------------|------------|
| | 2009 | 2008 |
| Estimated amount of unexecuted capital contracts not provided | 12,555,967 | 25,268,375 |
| Outstanding Bank Guarantee given by bankers | 889,185 | 889,185 |
| Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty | 2,525,000 | 2,525,000 |

17.2.2 Secured and Unsecured Loans

Working Capital Borrowing from Bank

The Company has availed a working capital loan from UCO Bank during the financial year. This borrowing is secured by hypothecation by way of first charge on stocks of finished

goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director.

The unsecured loan includes a sum of USD 1 million (Rs.50,710,000) as external commercial borrowings by subsidiary.

17.2.3 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 2009 | Year ended 31 March 2008 |
|--|-----------------------------|-----------------------------|
| BASIC EARNINGS/(LOSS) PER SHARE | | |
| Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item | (153,204,789) | (107,875,815) |
| Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item | (153,198,962) | (106,453,492) |
| Weighted average number of equity shares | 43,385,517 | 43,383,856 |
| EPS before extraordinary and prior period item | (3.53) | (2.54) |
| EPS after extraordinary and prior period item | (3.53) | (2.45) |
| DILUTED EARNINGS/(LOSS) PER SHARE | | |
| Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item | (153,204,789) | (107,875,815) |
| Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item | (153,198,962) | (106,453,492) |
| Adjustments | Nil | Nil |
| Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item | (153,204,789) | (107,875,815) |
| Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item | (153,198,962) | (106,453,492) |
| Weighted average number of equity shares | 43,385,517 | 43,383,856 |
| Diluted Potential weighted average number of equity shares | Nil | Nil |
| Weighted average number of diluted equity shares | 43,385,517 | 43,383,856 |
| EPS before extraordinary and prior period item | (3.53) | (2.54) |
| EPS after extraordinary and prior period item | (3.53) | (2.45) |

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

17.2.4 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 2009 | |
|--|--------------------------|--------------|
| | Software Rs. | ASICs Rs. |
| Revenue | | |
| Sales to external customers | 0 | 271,598,463 |
| Segment Profit / (loss) | (188,701,678) | 32,405,142 |
| Other Income | 3,327,929 | 143,663 |
| Profit / (loss) before Tax | (185,373,749) | 32,548,805 |
| Fringe Benefit Tax | 379,845 | 0 |
| Exceptional Item | 0 | 0 |
| Profit / (loss) after Tax before Extraordinary and Prior Period Item | (185,753,594) | 32,548,805 |
| Extraordinary and Prior Period Income | (5,827) | 0 |
| Net profit/(loss) | (185,747,767) | 32,548,805 |
| Other Segment Information | | |
| Depreciation | 11,427,828 | 32,409,452 |
| Non-cash expenses other than depreciation | 2,947,966 | 0 |
| Particulars of Segment Assets and Liabilities | | |
| Segment Assets | 60,824,025 | 232,409,893 |
| Investments | 0 | 151,582 |
| Cash and Bank Deposits | 2,944,944 | 9,531,333 |
| Other Assets | 127,182 | 0 |
| Total Assets | 63,896,150 | 242,092,809 |
| Segment Liabilities | 7,486,588 | 68,535,171 |
| Secured Loans | 71,399,207 | 0 |
| Unsecured Loans | 0 | 50,710,000 |
| Total Liabilities | 78,885,795 | 119,245,171 |

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

b) Geographic Segment Information:

| | Year ended 31 March 2009 |
|--|-------------------------------------|
| Revenue | |
| Hong Kong | 157,218,742 |
| Taiwan | 49,044,600 |
| Japan | 35,997,922 |
| Rest of World | 29,337,199 |
| Carrying amount of segment fixed assets | |
| India | 231,545,058 |
| North America | 131,565,632 |
| Additions to fixed assets | |
| India | 1,797,949 |
| North America | 18,877,552 |

17.2.5 Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. Pursuant to the scheme of Amalgamation, the Company continues to carry on the business of erstwhile 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 2009. Hence, no provision has been made in the books of account for the tax liability for the year as well as for the deferred taxes as per the Accounting Standard – 22 on Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India.

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

17.2.6 Employee Stock Option Plans

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

The Company has established nine schemes Employee Stock Option Plan, MosChip Stock Option Plan 2001, MosChip Stock Option Plan 2002, MosChip Stock Option Plan 2004, MosChip Stock Option Plan 2005 (MI), MosChip Stock Option Plan 2005 (WOS), MosChip Stock Option Plan 2008, MosChip Stock Option Plan 2008(ALR) and MosChip Stock Option Plan 2008(Director) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 equity shares respectively. Of these the Employee Stock Options Plan was established when the Company was unlisted and consequently, the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 are not applicable to the options granted under this Plan.

Stock Options Outstanding under the Employee Stock Option Plan

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 243,800 | 99,600 |
| Granted during the year | 0 | 190,000 |
| Forfeited during the year | 63,600 | 15,900 |
| Exercised during the year | 0 | 29,900 |
| Outstanding at the end of the year | 180,200 | 243,800 |

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2001

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 170,875 | 109,875 |
| Granted during the year | 153,000 | 87,000 |
| Forfeited during the year | 149,375 | 26,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 174,500 | 170,875 |

Stock Options Outstanding under the MosChip Stock Option Plan 2002

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 501,129 | 296,629 |
| Granted during the year | 448,000 | 329,000 |
| Forfeited during the year | 547,129 | 122,500 |
| Exercised during the year | 0 | 2,000 |
| Outstanding at the end of the year | 402,000 | 501,129 |

Stock Options Outstanding under the MosChip Stock Option Plan 2004

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 861,000 | 802,000 |
| Granted during the year | 572,000 | 523,000 |
| Forfeited during the year | 938,000 | 464,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 495,000 | 861,000 |

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

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 484,000 | 412,000 |
| Granted during the year | 0 | 118,000 |
| Forfeited during the year | 352,000 | 46,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 132,000 | 484,000 |

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

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 475,000 | 500,000 |
| Granted during the year | 0 | 400,000 |
| Forfeited during the year | 75,000 | 425,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 400,000 | 475,000 |

Stock Options Outstanding under the MosChip Stock Option Plan 2008

| Particulars | Year ended 31 March 2009 |
|--|-------------------------------------|
| Options outstanding at the beginning of the year | 0 |
| Granted during the year | 2,814,327 |
| Forfeited during the year | 804,700 |
| Exercised during the year | 0 |
| Outstanding at the end of the year | 2,009,627 |

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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

| Particulars | Year ended 31 March 2009 |
|--|-----------------------------|
| Options outstanding at the beginning of the year | 0 |
| Granted during the year | 741,554 |
| Forfeited during the year | 30,000 |
| Exercised during the year | 0 |
| Outstanding at the end of the year | 711,554 |

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

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

17.2.7 Gratuity Plan

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

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

(Amount in Rupees)

| | Year ended 31 March 2009 |
|---|-----------------------------|
| Gratuity cost for the period | |
| Current Service Cost | 700,698 |
| Interest cost on defined benefit obligation | 356,967 |
| Expected Return on Plan Assets | (177,288) |
| Net Actuarial losses/(gain) recognised in year | (130,342) |
| Net Gratuity cost | 748,076 |
| Balance Sheet | |
| Reconciliation of present value of the obligation and the fair value of plan assets | |
| Fair Value of Plan Assets at the end of the year | 3,899,186 |
| Present Value of the funded obligation at the end of the year | 2,003,171 |
| Asset/(Liability) recognized in the balance sheet | (1,895,415) |
| Change in the present value of defined benefit obligation are as follows: | |
| Present value of obligations at the beginning of year | 3,654,732 |
| Current Service Cost | 700,698 |
| Interest cost | 356,967 |
| Actuarial (gain)/loss | (130,342) |
| Benefits paid | (682,869) |
| Present value of obligations as at the end of year | 3,899,186 |
| Change in the fair value of plan assets are as follows: | |
| Fair Value of Plan Assets at beginning of year | 1,866,200 |
| Expected return on plan assets | 177,288 |
| Actuarial gain/(loss) | 1,959 |
| Contributions | 641,193 |
| Benefits paid | (682,869) |
| Fair Value of Plan Assets at end of year | 2,003,771 |

**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 - 7.95%

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 2009 is Rs. 1,787,053.

17.2.8 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 2009 would have been lower by Rs. 2,348,400/- and loss for the period would have been lower by Rs. 2,348,400/-.

17.2.9 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 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009**

CONSOLIDATED

| | 31 March 2009 Rs. | 31 March 2008 Rs. |
|---|----------------------|----------------------|
| A. Cash Flow from Operating Activities | | |
| Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item | (152,824,944) | (109,906,933) |
| Adjustments for: | | |
| Depreciation | 43,837,280 | 34,093,876 |
| GDR issue expenses written off | 2,818,068 | 2,818,068 |
| Interest Income | (329,232) | (2,128,021) |
| Loss on Sale of Fixed Assets | 129,898 | 141,255 |
| Profit on sale of Current Investments | (1,170,587) | (5,513,457) |
| Provision for Retirement Benefits | (396,176) | (17,365) |
| Foreign Exchange adjustments | 39,925 | 35,359 |
| Operating Profit before changes in working capital | (107,895,768) | (80,477,218) |
| Increase/(Decrease) in Secured Loans | 71,399,207 | 0 |
| Increase/(Decrease) in Unsecured loans | 50,710,000 | 0 |
| (Increase)/Decrease in Sundry Debtors | (6,831,425) | 218,373 |
| (Increase)/Decrease in Inventories | (36,257,308) | 371,332 |
| (Increase)/Decrease in Loans and Advances | (276,009) | (3,055,811) |
| (Increase)/Decrease in Bank Guarantee Deposits with Bankers | 0 | (176,424) |
| Increase/(Decrease) in Current liabilities | 39,787,535 | 8,202,328 |
| Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items | 10,636,232 | (74,917,420) |
| Income-tax paid | (676,156) | 399,608 |
| Cash from operations before Exceptional, Extra Ordinary and Prior Period items | 11,312,388 | (75,317,028) |
| Fixed Assets Discarded (Exceptional Item) | 0 | 2,465,114 |
| Extra Ordinary Income | (5,827) | (5,004,638) |
| Net cash from operating Activities [A] | 11,318,215 | (67,847,276) |
| B. Cash flow from Investing Activities: | | |
| Purchase of Fixed Assets | (95,356,869) | (38,631,935) |
| Sale proceeds of Fixed Assets | 47,458 | 113,725 |
| Interest received on Fixed Deposits | 260,023 | 3,647,933 |
| Purchase of Current Investments | (47,000,000) | (263,000,000) |
| Sale of Current Investments | 48,170,587 | 268,513,457 |
| Foreign currency translation adjustment for non-integral operation | 13,146,320 | (9,082,671) |
| Net Cash used for Investing Activities [B] | (80,732,480) | (38,439,491) |
| C. Cash flow from Financing Activities: | | |
| Net proceeds from Issue of Share Capital | (14,292) | 20,000 |
| Securities Premium | 0 | 33,500 |
| Convertible Warrants | 0 | 0 |
| Net Cash from Financing Activities [C] | (14,292) | 53,500 |

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009**

CONSOLIDATED

| | 31 March 2009 Rs. | 31 March 2008 Rs. |
|---|--------------------------|--------------------------|
| D. Exchange differences on translation of foreign currency cash | (39,925) | (35,359) |
| Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D] | (69,468,483) | (106,268,626) |
| Cash and Cash equivalents at the beginning of the year | <u>81,207,157</u> | <u>187,475,783</u> |
| Cash and Cash equivalents at the end of the year | <u><u>11,738,674</u></u> | <u><u>81,207,157</u></u> |
| Supplementary Information | | |
| Cash and Cash Equivalents as per Balance Sheet | 12,627,859 | 82,096,342 |
| Less: Fixed Deposits towards Bank Guarantee considered as investments | <u>889,185</u> | <u>889,185</u> |
| | <u><u>11,738,674</u></u> | <u><u>81,207,157</u></u> |

Per and subject to our report of even date

For Gokhale & Co.,
Chartered Accountants
Chandrashekhhar Gokhale
Partner
Membership No. 23839

For and on behalf of the Board of Directors

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

AUDITORS' REPORT

The Members

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED
Hyderabad

We have audited the attached Balance Sheet of MosChip Semiconductor Technology Limited, Hyderabad as at March 31, 2009 and the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of subsection (4A) of Section 227 of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. The company has made a total investment of Rs.375,579,087/- in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The difference between the investment amount of Rs.375,579,087/- and the Networth amount of Rs 55,257,399/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2009 has not been charged to the Profit & Loss Account.
3. Further to our comments in the annexure referred to in paragraph 1, and subject to what is stated in paragraph 2 above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

- b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with books of account.
- d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956.
- e) On the basis of written representation received from the Directors, as on March 31, 2009 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on March 31, 2009 from being appointed as director in terms of clause (g) of subsection (1) of Section 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) In the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2009
 - ii) In the case of the Profit & Loss Account, of the Loss of the company for the year ended on March 31, 2009; and
 - iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on March 31, 2009

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

Chandrashekhar Gokhale
Partner
Membership No 23839

Place: Hyderabad
Date: 30 June 2009

ANNEXURE

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

- (i) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management according to the phased programme designed to cover all assets on rotation basis. In respect of assets verified according to this programme, which is reasonable, no material discrepancies were noticed. The company has not disposed off substantial part of its fixed assets during the year.
- (ii) The company is not holding any inventory in its premises and all the purchases made, which are imported from abroad, are directly dispatched from the customs ware house to the customers abroad. The company had no year end inventory on hand. Proper records relating to inventory have been maintained by the company.
- (iii) The company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. However the company has taken an advance from its wholly owned subsidiary MosChip Semiconductor Technology, USA towards sale of material. As this is a trade advance, no interest is payable on the same.
- (iv) In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of its products.
- (v) Transactions that need to be entered into a register in pursuance of Section 301 of the Act have been entered. In our opinion and based on information and explanations given to us transactions of the value of Rs 5 lakhs or more have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The company has not accepted deposits from the public covered by the provisions of section 58A of the Companies Act.
- (vii) The company has an internal audit system commensurate with its size and nature of its business.

- (viii) The company is not required to maintain any cost records under clause (d) of sub-section (1) of Section 209 of the Act.
- (ix) The company is regular in depositing the Provident Fund and ESI dues with the appropriate authorities. According to the explanations and information given to us there were no undisputed statutory dues including Investor Education and Protection Fund, Income tax, Sales tax, Wealth Tax, Custom Duty, Excise Duty etc. outstanding for a period of more than six months from the date they became payable.
- (x) The company's accumulated losses at the end of the financial year were more than fifty percent of its net worth. The company has incurred cash losses in the financial year under audit as well as in the immediately preceding financial year.
- (xi) The company has not defaulted in repayment of dues to its Bank. There were no dues payable to any financial institution/s during the year.
- (xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xiv) No part of the funds raised on short term basis have been used for long term investments.
- (xv) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- (xvi) On the basis of information and explanations given to us no fraud on or by the company has been noticed or reported during the year.

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

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

Chandrashekhhar Gokhale

Place: Hyderabad
Date: 30 June 2009

Partner
Membership No 23839

BALANCE SHEET AS AT 31 MARCH 2009
MOSCHIP INDIA

| | Schedule No. | As at 31 March 2009 | | As at 31 March 2008 | |
|--|--------------|----------------------|-----|----------------------|-----|
| | | Rs. | Rs. | Rs. | Rs. |
| SOURCES OF FUNDS: | | | | | |
| SHAREHOLDERS' FUNDS: | | | | | |
| Share Capital | 1 | 433,855,170 | | 433,855,170 | |
| Share Application Money | | 115,123 | | 129,415 | |
| Reserves and Surplus | 2 | 665,908,920 | | 665,908,920 | |
| Secured Loans | 3 | 71,399,207 | | 0 | |
| Total | | 1,171,278,420 | | 1,099,893,505 | |
| APPLICATION OF FUNDS: | | | | | |
| FIXED ASSETS: | | | | | |
| Gross Block | 4 | 152,685,227 | | 151,160,937 | |
| Less: Depreciation | | 100,926,092 | | 89,594,567 | |
| Net Block | | 51,759,135 | | 61,566,370 | |
| INVESTMENTS | 5 | 375,579,087 | | 425,579,087 | |
| NET CURRENT ASSETS: | | | | | |
| CURRENT ASSETS, LOANS AND ADVANCES: | | | | | |
| Sundry Debtors | 6 | 35,755,563 | | 11,875,155 | |
| Cash and Bank Balances | 7 | 2,944,944 | | 4,503,756 | |
| Loans and Advances | 8 | 60,642,004 | | 14,857,533 | |
| Interest accrued on Deposits | | 127,182 | | 57,973 | |
| GROSS CURRENT ASSETS | | 99,469,693 | | 31,294,417 | |
| Less: Current Liabilities and provisions | 9 | 20,893,544 | | 5,053,583 | |
| NET CURRENT ASSETS | | 78,576,148 | | 26,240,834 | |
| MISCELLANEOUS EXPENDITURE | 10 | 2,818,095 | | 5,636,163 | |
| PROFIT AND LOSS ACCOUNT | | 662,545,955 | | 580,871,051 | |
| NOTES TO ACCOUNTS | 14 | | | | |
| Total | | 1,171,278,420 | | 1,099,893,505 | |

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

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,
Chartered Accountants
Chandrashekhhar Gokhale
Partner
Membership No. 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2009**

MOSCHIP INDIA

| | Schedule No. | For the year ended 31 March 2009 Rs. | For the year ended 31 March 2008 Rs. |
|---|--------------|--|--|
| I INCOME: | | | |
| Sales Revenue | | 104,072,863 | 61,477,432 |
| Other Income | 11 | 1,356,156 | 5,790,642 |
| | | 105,429,019 | 67,268,074 |
| II EXPENDITURE: | | | |
| Material Cost, Software and Administrative Expenses | 12 | 172,881,606 | 145,905,137 |
| Financial Charges | 13 | 2,420,471 | 62,754 |
| Depreciation | 4 | 11,427,828 | 12,862,746 |
| | | 186,729,905 | 158,830,637 |
| III Profit/(Loss) Before Tax | | (81,300,886) | (91,562,563) |
| Add: Fringe Benefit Tax | | 379,845 | 433,996 |
| Profit/(Loss) After Tax Before Exceptional Item | | (81,680,731) | (91,996,559) |
| Add: Exceptional Item | | 0 | 2,465,114 |
| Profit/(Loss) After Tax and Exceptional Item Before Extraordinary and Prior Period Item | | (81,680,731) | (94,461,673) |
| Less: Extra Ordinary and Prior Period Items | | (5,827) | (3,887,437) |
| Profit/(Loss) After Tax and Exceptional Item and After Extraordinary and Prior Period Item | | (81,674,904) | (90,574,236) |
| Add: Balance brought forward from previous year | | (580,871,051) | (490,296,815) |
| Balance carried to Balance Sheet | | (662,545,955) | (580,871,051) |
| IV Earnings Per Share (EPS) | | | |
| Equity Share of face value Rs.10/□each | | | |
| Before Extraordinary and Prior Period Items | | | |
| Basic | | (1.88) | (2.18) |
| Diluted | | (1.88) | (2.18) |
| After Extraordinary and Prior Period Items | | | |
| Basic | | (1.88) | (2.09) |
| Diluted | | (1.88) | (2.09) |
| Number of shares used in computing EPS | | | |
| Basic | | 43,385,517 | 43,383,856 |
| Diluted | | 43,385,517 | 43,383,856 |

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

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,

Chartered Accountants
Chandrashekhar Gokhale
Partner
Membership No. 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

**SCHEDULES FORMING PART OF
BALANCE SHEET**

| SCHEDULES | As At 31 March 2009 Rs. | As At 31 March 2008 Rs. |
|---|-------------------------------|-------------------------------|
| SCHEDULE 1 | | |
| SHARE CAPITAL: | | |
| Authorised: 55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/□each | 550,000,000 | 550,000,000 |
| Issued: 45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/□each | 451,005,890 | 451,005,890 |
| Subscribed and Paid-up: 43,385,517 (Previous Year 43,385,517) equity shares of Rs.10/□each (Of the above 8,325,770 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA) (Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Veracity Technologies, Inc with the Company) | 433,855,170 | 433,855,170 |
| SCHEDULE 2 | | |
| RESERVES AND SURPLUS: | | |
| <u>Capital Reserve</u> | | |
| State Govt Subsidy | 1,250,000 | 1,250,000 |
| Forfeited Share Warrants | 4,650,000 | 0 |
| Convertible Warrants | 0 | 4,650,000 |
| <u>Securities Premium</u> | | |
| Opening Balance | 660,008,920 | 659,975,420 |
| Additions | 0 | 33,500 |
| | 660,008,920 | 660,008,920 |
| | 665,908,920 | 665,908,920 |
| SCHEDULE 3 | | |
| SECURED LOANS: | | |
| Packing Credit | 71,399,207 | 0 |
| | 71,399,207 | 0 |

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

**SCHEDULE - 4
FIXED ASSETS**

(Amount in Rupees)

| S.No | Description | GROSS BLOCK | | | | DEPRECIATION | | | NET BLOCK | | | |
|------|-------------------------|--------------------------|---------------------------|-----------------------------|---------------------------|--------------------------|-------------------|---------------------------|-----------------------------|--------------------------|--------------------------|-------------------|
| | | Balance as at 01.04.2008 | Additions during the year | Adjustments during the year | Deletions during the year | Balance as at 01.04.2008 | For the Year | Deletions during the year | Adjustments during the Year | Balance as at 31.03.2009 | Balance as at 31.03.2008 | |
| 1 | Computers | 29,363,300 | 933,845 | 0 | 173,829 | 13,939,286 | 3,748,661 | 58,183 | 0 | 17,629,764 | 12,493,552 | 15,424,014 |
| 2 | Electrical Installation | 2,298,675 | 0 | 0 | 0 | 471,910 | 106,988 | 0 | 0 | 578,898 | 1,719,777 | 1,826,765 |
| 3 | Plant and Machinery | 28,144,442 | 14,500 | 0 | 99,830 | 22,320,258 | 349,325 | 38,120 | 0 | 22,631,463 | 5,427,649 | 5,824,184 |
| 4 | Software | 58,090,256 | 434,583 | 0 | 0 | 46,288,943 | 4,664,770 | 0 | 0 | 50,953,713 | 7,571,126 | 11,801,313 |
| 5 | Furniture and Fittings | 8,855,498 | 32,396 | 0 | 0 | 2,967,320 | 534,499 | 0 | 0 | 3,501,819 | 5,386,075 | 5,888,178 |
| 6 | Office Equipment | 4,319,961 | 310,156 | 0 | 0 | 1,033,713 | 188,631 | 0 | 0 | 1,222,344 | 3,407,773 | 3,286,248 |
| 7 | Vehicles | 84,257 | 0 | 0 | 0 | 46,910 | 7,804 | 0 | 0 | 54,714 | 29,543 | 37,347 |
| 8 | Lab Equipment | 16,065,867 | 72,469 | 0 | 0 | 1,370,872 | 761,973 | 0 | 0 | 2,132,845 | 14,005,491 | 14,694,995 |
| 9 | Leasehold Improvements | 3,938,681 | 0 | 0 | 0 | 1,155,355 | 1,065,176 | 0 | 0 | 2,220,531 | 1,718,150 | 2,783,326 |
| | TOTAL | 151,160,937 | 1,797,949 | 0 | 273,659 | 89,594,567 | 11,427,828 | 96,303 | 0 | 100,926,092 | 51,759,135 | 61,566,370 |
| | Previous Year | 158,307,259 | 5,343,612 | 0 | 12,489,934 | 85,465,352 | 12,862,746 | 8,591,521 | (142,010) | 89,594,567 | 61,566,370 | 0 |

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

| SCHEDULES | As At 31 March 2009 Rs. | As At 31 March 2008 Rs. |
|--|-------------------------------|-------------------------------|
| SCHEDULE 5 | | |
| INVESTMENTS: | | |
| Long-Term | | |
| Unquoted, At cost | | |
| Wholly-owned Subsidiary: | | |
| 19,192,404 (Previous Year 19,192,404) shares of MosChip Semiconductor Technology USA (a company incorporated in USA) | 375,579,087 | 375,579,087 |
| | 375,579,087 | 375,579,087 |
| Current | | |
| Nil | 0 | 50,000,000 |
| (Previous Year 45943.020 Units of Rs.1000/□each in Reliance Mutual Fund) | 0 | 50,000,000 |
| (Aggregate market value of the non-trade investments in previous year is Rs. 50,062,822/□) | 375,579,087 | 425,579,087 |
| SCHEDULE 6 | | |
| SUNDRY DEBTORS: | | |
| (Unsecured, Considered Good) | | |
| Outstanding for a period exceeding six months | 0 | 0 |
| Others | 35,755,563 | 11,875,155 |
| | 35,755,563 | 11,875,155 |
| SCHEDULE 7 | | |
| CASH AND BANK BALANCES: | | |
| Cash on hand | 14,643 | 66,766 |
| Balance with Scheduled Banks | | |
| □In Current accounts | 1,834,105 | 3,383,230 |
| □In fixed deposit accounts | 889,185 | 889,185 |
| (Rs.889,185/□(Previous Year Rs.889,185/□) pledged towards margin on Bank Guarantee) | | |
| Bank of America, USA | 207,011 | 164,575 |
| (Maximum amount outstanding during the period Rs.281,377/□(previous year Rs.265,989/□) | | |
| | 2,944,944 | 4,503,756 |

**SCHEDULES FORMING PART OF
BALANCE SHEET**

MOSCHIP INDIA

| SCHEDULES | As At 31 March 2009 Rs. | As At 31 March 2008 Rs. |
|---|-------------------------------|-------------------------------|
| SCHEDULE 8 | | |
| LOANS AND ADVANCES: | | |
| (Unsecured, considered good, recoverable in cash Or in kind or for value to be received) | | |
| Deposits | 1,155,761 | 1,052,863 |
| MosChip Employees Trust | 2,835,000 | 2,835,000 |
| Advance to Suppliers | 47,989,791 | 0 |
| Other Advances and Receivables | 6,475,803 | 6,090,619 |
| Prepaid Expenses | 1,688,924 | 3,364,199 |
| Prepaid Income Tax | 496,726 | 1,514,852 |
| | 60,642,004 | 14,857,533 |
| SCHEDULE 9 | | |
| CURRENT LIABILITIES AND PROVISIONS: | | |
| CURRENT LIABILITIES: | | |
| Sundry Creditors: | | |
| Dues to Small Scale Industrial Undertakings | 0 | 0 |
| Others | 4,415,078 | 829,994 |
| Advance from Customers | 12,758,123 | 0 |
| | 17,173,201 | 829,994 |
| PROVISIONS: | | |
| Leave Encashment | 1,787,053 | 2,401,061 |
| Gratuity | 1,895,415 | 1,788,532 |
| Fringe Benefit Tax (Net of Advance Tax) | 37,875 | 33,996 |
| | 3,720,343 | 4,223,589 |
| | 20,893,544 | 5,053,583 |
| SCHEDULE 10 | | |
| MISCELLANEOUS EXPENDITURE: | | |
| (To the extent not written off or adjusted) | | |
| GDR Issue Expenses | 2,818,095 | 5,636,163 |
| | 2,818,095 | 5,636,163 |

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

| SCHEDULES | For the year ended 31 March 2009 Rs. | For the year ended 31 March 2008 Rs. |
|--|--|--|
| SCHEDULE 11 | | |
| OTHER INCOME: | | |
| Interest Earned (Gross) | 185,569 | 2,128,021 |
| [Tax Deducted at Source Rs.15,975/-(previous year Rs.479,758/-)] | | |
| Profit on Sale of Investments | 1,170,587 | 3,662,621 |
| | 1,356,156 | 5,790,642 |
| SCHEDULE 12 | | |
| MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES: | | |
| Materials, Finished and Processed Stocks | 36,467,399 | 0 |
| Import Clearance Charges | 518,390 | 0 |
| Salaries and Other Allowances to Employees | 82,380,434 | 78,537,784 |
| Contribution to PF, ESI & Gratuity | 1,127,855 | 1,470,828 |
| Staff Welfare Expenses | 4,921,035 | 5,119,624 |
| Directors' Remuneration | 9,715,000 | 9,100,000 |
| Rent | 9,999,047 | 9,629,505 |
| Electricity Charges | 2,364,196 | 2,484,025 |
| Consumables | 11,142,796 | 8,061,071 |
| Software Charges | 1,908,037 | 4,030,131 |
| Communication Expenses | 665,142 | 719,521 |
| Computer Maintenance | 510,183 | 790,383 |
| Directors' Sitting Fee | 86,000 | 97,000 |
| Export freight and insurance charges | 568,645 | 0 |
| Printing and Stationery | 92,687 | 87,121 |
| Postage, Telegrams and Telephones | 776,584 | 1,102,420 |
| Fees, Rates and Taxes | 190,385 | 118,479 |
| Vehicle Maintenance | 44,590 | 55,276 |
| Repairs and Maintenance | 257,811 | 1,038,932 |
| Traveling and Conveyance | 3,308,244 | 5,956,283 |
| Advertisement Expenses | 152,037 | 236,263 |
| Payments to Auditors | 215,118 | 212,001 |
| Insurance | 1,923,078 | 1,621,782 |
| Professional charges | 2,396,961 | 4,288,709 |
| Recruitment Expenses | 369,973 | 605,883 |
| General Expenses | 2,806,481 | 3,011,905 |
| Penalties | 0 | 4,738 |
| Marketing Expenses | 0 | 267,362 |
| Loss on fixed assets sold / discarded | 129,898 | 141,255 |
| Realised Loss / (Gain) on Forex Fluctuation | (2,946,525) | 4,101,170 |
| Unrealised Loss / (Gain) on Forex Fluctuation | (2,027,941) | 197,618 |
| GDR Issue Expenses Written Off | 2,818,068 | 2,818,068 |
| | 172,881,606 | 145,905,137 |
| SCHEDULE 13 | | |
| FINANCIAL CHARGES: | | |
| Interest on Packing Credit | 1,474,802 | 0 |
| Loan Processing Charges | 741,808 | 0 |
| Bank Charges | 203,861 | 62,754 |
| | 2,420,471 | 62,754 |

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

SCHEDULE 14

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

14. Company overview

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

MosChip has its headquarters in Hyderabad, India with a branch office in Santa Clara, CA, USA.

14.1 Significant Accounting Policies

14.1.1 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.

14.1.2 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.

14.1.3 Revenue Recognition

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

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

Interest income is recognized on accrual basis.

Revenue from product sales is recognized on dispatch of material.

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

14.1.4 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.

14.1.5 Depreciation

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

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

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

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

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

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

14.1.6 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

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds recoverable amount.

14.1.7 Foreign Exchange Transactions

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

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

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

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

14.1.8 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.

14.1.9 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.

14.1.10 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.

14.1.11 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.

14.1.12 Miscellaneous Expenditure

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

14.2 Notes on Accounts

14.2.1 Contingent Liabilities:

(Amount in Rupees)

| Particulars | As at 31 March | |
|--|----------------|-----------|
| | 2009 | 2008 |
| Estimated amount of unexecuted capital contracts not provided | Nil | Nil |
| Outstanding Bank Guarantee given by Bankers | 889,185 | 889,185 |
| Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty | 2,525,000 | 2,525,000 |

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

14.2.2 Working Capital Borrowing from Bank

The Company has availed a working capital loan from UCO Bank during the financial year. This borrowing 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.

14.2.3 Forfeited Share Warrants

In FY 2006-07 the company allotted 15,00,000 convertible warrants at the price of Rs.31 each and received 10% as upfront payment of Rs.46,50,000. Due to non payment of the balance amount within the stipulated time, the aforesaid 15,00,000 warrants stood lapsed and upfront payment received against these warrants was forfeited and credited to Capital Reserve Account.

14.2.4 Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. Pursuant to the scheme of Amalgamation, the Company continues to carry on the business of erstwhile Verasity Technologies and treats it as an overseas branch office. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2009. Hence, no provision has been made in the books of account for the tax liability for the year as well as for the deferred taxes as per the Accounting Standard – 22 on Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India.

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

14.2.5 Employee Stock Option Plans

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

The Company has established nine schemes Employee Stock Option Plan, MosChip Stock Option Plan 2001, MosChip Stock Option Plan 2002, MosChip Stock Option Plan 2004, MosChip Stock Option Plan 2005 (MI), MosChip Stock Option Plan 2005 (WOS), MosChip Stock Option Plan 2008, MosChip Stock Option Plan 2008(ALR) and MosChip Stock Option Plan 2008(Director) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 equity shares respectively. Of these the Employee Stock Options Plan was established when the Company was unlisted and consequently, the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 are not applicable to the options granted under this Plan.

Stock Options Outstanding under the Employee Stock Option Plan

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-----------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 243,800 | 99,600 |
| Granted during the year | 0 | 190,000 |
| Forfeited during the year | 63,600 | 15,900 |
| Exercised during the year | 0 | 29,900 |
| Outstanding at the end of the year | 180,200 | 243,800 |

Stock Options Outstanding under the MosChip Stock Option Plan 2001

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-----------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 170,875 | 109,875 |
| Granted during the year | 153,000 | 87,000 |
| Forfeited during the year | 149,375 | 26,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 174,500 | 170,875 |

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2002

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 501,129 | 296,629 |
| Granted during the year | 448,000 | 329,000 |
| Forfeited during the year | 547,129 | 122,500 |
| Exercised during the year | 0 | 2,000 |
| Outstanding at the end of the year | 402,000 | 501,129 |

Stock Options Outstanding under the MosChip Stock Option Plan 2004

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 861,000 | 802,000 |
| Granted during the year | 572,000 | 523,000 |
| Forfeited during the year | 938,000 | 464,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 495,000 | 861,000 |

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

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 484,000 | 412,000 |
| Granted during the year | 0 | 118,000 |
| Forfeited during the year | 352,000 | 46,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 132,000 | 484,000 |

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

| Particulars | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-------------------------------------|-----------------------------|
| Options outstanding at the beginning of the year | 475,000 | 500,000 |
| Granted during the year | 0 | 400,000 |
| Forfeited during the year | 75,000 | 425,000 |
| Exercised during the year | 0 | 0 |
| Outstanding at the end of the year | 400,000 | 475,000 |

Stock Options Outstanding under the MosChip Stock Option Plan 2008

| Particulars | Year ended 31 March 2009 |
|--|-------------------------------------|
| Options outstanding at the beginning of the year | 0 |
| Granted during the year | 2,814,327 |
| Forfeited during the year | 804,700 |
| Exercised during the year | 0 |
| Outstanding at the end of the year | 2,009,627 |

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

| Particulars | Year ended 31 March 2009 |
|--|-------------------------------------|
| Options outstanding at the beginning of the year | 0 |
| Granted during the year | 741,554 |
| Forfeited during the year | 30,000 |
| Exercised during the year | 0 |
| Outstanding at the end of the year | 711,554 |

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**

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

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

14.2.6 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 2009 | Year ended 31 March 2008 |
|--|-----------------------------|-----------------------------|
| BASIC EARNINGS/(LOSS) PER SHARE | | |
| Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item | (81,680,731) | (91,996,559) |
| Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item | (81,674,904) | (90,574,236) |
| Weighted average number of equity shares | 43,385,517 | 43,383,856 |
| EPS before extraordinary and prior period item | (1.88) | (2.18) |
| EPS after extraordinary and prior period item | (1.88) | (2.09) |
| DILUTED EARNINGS/(LOSS) PER SHARE | | |
| Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item | (81,680,731) | (91,996,559) |
| Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item | (81,674,904) | (90,574,236) |
| Adjustments | Nil | Nil |
| Diluted Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item | (81,680,731) | (91,996,559) |
| Diluted Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item | (81,674,904) | (90,574,236) |
| Weighted average number of equity shares | 43,385,517 | 43,383,856 |
| Diluted Potential weighted average number of equity shares | Nil | Nil |
| Weighted average number of diluted equity shares | 43,385,517 | 43,383,856 |
| EPS before extraordinary and prior period item | (1.88) | (2.18) |
| EPS after extraordinary and prior period item | (1.88) | (2.09) |

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

(Amount in Rupees)

| | | Year ended 31 March 2009 | Year ended 31 March 2008 |
|----|--|-----------------------------|-----------------------------|
| 1. | Salary and allowances | 9,715,000 | 9,100,000 |
| 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. | | |

14.2.8. Related Party disclosures
A. List of Related Parties

(Amount in Rupees)

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

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

(Amount in Rupees)

| Nature of Transaction | Transactions during the year | Balance as on 31 March 2009 |
|---|------------------------------|-----------------------------|
| Transactions with Subsidiary | | |
| Reimbursement of expenses / Payable | 2,740,129 | 1,381,920 |
| Reimbursement of expenses / Receivable | 733,086 | 733,086 |
| Advances | 12,758,123 | 12,758,123 |
| Sales / Receivable | 104,072,863 | 35,755,563 |
| Transactions with whole time directors | | |
| Remuneration to Chairman & CEO | 4,857,500 | Nil |
| Remuneration to Managing Director | 4,857,500 | Nil |
| Transactions with key Management Personnel | | |
| Remuneration to Key Management Personnel | 29,22,500 | Nil |
| Stock Options Granted/Outstanding to Key Management Personnel | 200,000 | 200,000 |

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

| Particulars | Year ended 31 March 2009 Rs. | Year ended 31 March 2008 Rs. |
|--|------------------------------------|------------------------------------|
| A. C I F Value of Imports : | | |
| Capital Goods | 78,289 | 1,621,443 |
| B. Expenditure in Foreign currency | | |
| Software Charges | 1,533,939 | 3,745,342 |
| Traveling Expenses | 1,304,423 | 2,110,331 |
| Professional Charges | 78,430 | 117,209 |
| Consumables | 4,893,504 | 4,238,794 |
| Other Expenses | (4,690,633) | 218,878 |
| C. Earnings in Foreign Exchange Sales Revenue | 104,072,863 | 61,477,432 |

14.2.10. Segment Reporting

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

a) Business Segment Information:

(Amount in Rupees)

| Particulars | Year ended 31 March 2009 Rs. | Year ended 31 March 2008 Rs. |
|--|------------------------------------|------------------------------------|
| Revenue | | |
| Sales to external customers | 104,072,863 | 61,477,432 |
| Segment Profit / (loss) | (82,657,042) | (97,353,205) |
| Other Income | 1,356,156 | 5,790,642 |
| Profit / (loss) before Tax | (81,300,886) | (91,562,563) |
| Fringe Benefit Tax | 379,845 | 433,996 |
| Exceptional Item | 0 | 2,465,114 |
| Profit / (loss) after Tax before Extraordinary and Prior Period Item | (81,680,731) | (94,461,673) |
| Extraordinary and Prior Period Item | (5,827) | (3,887,437) |
| Net profit/(loss) | (81,674,904) | (90,574,236) |
| Other Segment Information | | |
| Depreciation | 11,427,828 | 12,862,746 |
| Non-cash expenses other than depreciation | 2,947,966 | 2,959,323 |
| Particulars of Segment Assets and Liabilities | | |
| Segment Assets | 148,156,702 | 88,299,058 |
| Investments | 375,579,087 | 425,579,087 |
| Cash and Bank Deposits | 2,944,944 | 4,503,756 |
| Other Assets | 127,182 | 57,973 |
| Total Assets | 526,807,915 | 518,439,874 |
| Segment Liabilities | 92,292,751 | 5,053,583 |
| Total Liabilities | 92,292,751 | 5,053,583 |

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

(Amount in Rupees)

| | | |
|--|--------------------|-------------|
| Revenue | | |
| North America | 104,072,863 | 61,477,432 |
| Others | Nil | Nil |
| Carrying amount of segment fixed assets | | |
| India | 131,565,631 | 130,041,341 |
| North America | 21,119,596 | 21,119,596 |
| Additions to fixed assets | | |
| India | 1,797,949 | 5,343,612 |
| North America | Nil | Nil |

14.2.11 Amounts paid/payable to Auditors:

(Amount in Rupees)

| | Year ended 31 March 2009 | Year ended 31 March 2008 |
|-------------------|-------------------------------------|-----------------------------|
| As Auditors | 110,000 | 101,124 |
| For Tax Audit | 40,000 | 39,326 |
| For Certification | 65,118 | 71,551 |
| Total | 215,118 | 212,001 |

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
14.2.12 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:

(Amount in Rupees)

| | Year ended 31 March 2009 |
|---|-------------------------------------|
| Gratuity cost for the period | |
| Current Service Cost | 700,698 |
| Interest cost on defined benefit obligation | 356,967 |
| Expected Return on Plan Assets | (177,288) |
| Net Actuarial losses/(gain) recognised in year | (130,342) |
| Net Gratuity cost | 748,076 |
| Balance Sheet | |
| Reconciliation of present value of the obligation and the fair value of plan assets | |
| Fair Value of Plan Assets at the end of the year | 3,899,186 |
| Present Value of the funded obligation at the end of the year | 2,003,771 |
| Asset/(Liability) recognized in the balance sheet | (1,895,415) |
| Change in the present value of defined benefit obligation are as follows: | |
| Present value of obligations at the beginning of year | 3,654,732 |
| Current Service Cost | 700,698 |
| Interest cost | 356,967 |
| Actuarial (gain)/loss | (130,342) |
| Benefits paid | (682,869) |
| Present value of obligations as at the end of year | 3,899,186 |
| Change in the fair value of plan assets are as follows: | |
| Fair Value of Plan Assets at beginning of year | 1,866,200 |
| Expected return on plan assets | 177,288 |
| Actuarial gain/(loss) | 1,959 |
| Contributions | 641,193 |
| Benefits paid | (682,869) |
| Fair Value of Plan Assets at end of year | 2,003,771 |

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

Discount Rate \square 7.95%

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 2009 is Rs. 1, 787, 053.

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
14.2.13 Utilization of Global Depository Receipts (GDR) Proceeds

The following statement shows the total funds raised through issue of Global Depository Receipts, the amount utilized up to 31 March 2008 and the balance available as on that date:

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

14.2.14 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.

14.2.15 Quantitative Details

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

| Opening Balance | Quantity Purchased | Quantity Sold | Closing Balance |
|-----------------|--------------------|---------------|-----------------|
| Nil | 557,841 | 557,841 | Nil |

14.2.16 Regrouping/Reclassification

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

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

For and on behalf of the Board of Directors

Chandrashekhar Gokhale
Partner
Membership No. 23839

K.Ramachandra Reddy
Chairman & CEO

C.Dayakar Reddy
Managing Director

Place Hyderabad
Date 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2009**

| | 31 March 2009 Rs. | 31 March 2008 Rs. |
|---|----------------------|----------------------|
| A. Cash Flow from Operating Activities | | |
| Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item | (81,300,886) | (94,027,677) |
| Adjustments for: | | |
| Depreciation | 11,427,828 | 12,862,746 |
| GDR issue expenses written off | 2,818,068 | 2,818,068 |
| Interest Income | (185,569) | (2,128,021) |
| Loss on Sale of Fixed Assets | 129,898 | 141,255 |
| Profit on sale of Current Investments | (1,170,587) | (3,662,621) |
| Provision for Retirement Benefits | (541,120) | 1,099,836 |
| Foreign Exchange adjustments | 39,925 | 35,359 |
| Operating Profit before changes in working capital | (68,782,443) | (82,861,055) |
| Increase/(Decrease) in Secured Loans/Unsecured loans | 71,399,207 | 0 |
| (Increase)/Decrease in Sundry Debtors | (23,880,408) | 9,403,881 |
| (Increase)/Decrease in Loans and Advances | (46,802,597) | (2,977,594) |
| (Increase)/Decrease in Bank Guarantee Deposits with Bankers | 0 | (176,424) |
| Increase/(Decrease) in Current liabilities | 16,343,207 | (2,403,680) |
| Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items | (51,723,034) | (79,014,872) |
| Income tax paid | (676,156) | 399,608 |
| Cash from operations before Exceptional, Extra Ordinary and Prior Period items | (51,046,878) | (79,414,480) |
| Exceptional Item | 0 | 2,465,114 |
| Extra Ordinary and Prior Period item | (5,827) | (3,887,437) |
| Net cash from operating Activities [A] | (51,041,051) | (73,061,929) |
| B. Cash flow from Investing Activities: | | |
| Purchase of Fixed Assets | (1,797,949) | (4,906,982) |
| Sale proceeds of Fixed Assets | 47,458 | 113,725 |
| Interest received on Fixed Deposits | 116,360 | 3,647,933 |
| Purchase of Current Investments | (47,000,000) | (263,000,000) |
| Sale of Current Investments | 48,170,587 | 266,662,621 |
| Net Cash used for Investing Activities [B] | (463,543) | 2,517,297 |
| C. Cash flow from Financing Activities: | | |
| Net proceeds from Issue of Share Capital | (14,292) | 20,000 |
| Securities Premium | 0 | 33,500 |
| Convertible Warrants | 0 | 0 |
| Net Cash from Financing Activities [C] | (14,292) | 53,500 |

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2009**

| | 31 March 2009 Rs. | 31 March 2008 Rs. |
|---|-------------------------|-----------------------------|
| D. Exchange differences on translation of foreign currency cash | (39,925) | (35,359) |
| Net Increase/(Decrease) in cash & cash equivalents | | |
| [A+B+C+D] | (51,558,812) | (70,526,491) |
| Cash and Cash equivalents at the beginning of the year | <u>53,614,571</u> | <u>124,141,062</u> |
| Cash and Cash equivalents at the end of the year | <u><u>2,055,759</u></u> | <u><u>53,614,571</u></u> |
| Supplementary Information | | |
| Cash and Cash Equivalents as per Balance Sheet | 2,944,944 | 54,503,756 |
| Less: Fixed Deposits towards Bank Guarantee considered as investments | 889,185 | 889,185 |
| | <u><u>2,055,759</u></u> | <u><u>53,614,571 00</u></u> |

Per and subject to our report of even date

For Gokhale & Co.,
Chartered Accountants
Chandrashekhhar Gokhale
Partner
Membership No. 23839

Place Hyderabad
Date 30 June 2009

For and on behalf of the Board of Directors

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

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

| | | |
|---|---|---------------------------------------|
| 1. Registration Details | | |
| Registration No. | : | L31909AP19999PLC032184 |
| State Code | : | 01 |
| Balance Sheet Date | : | 31.03.2009 |
| 2. Capital raised during the year (Amount in Rs. Thousands) | | |
| Public Issue | : | Nil |
| Right Issue | : | Nil |
| Bonus Issue | : | Nil |
| Private Issue | : | Nil |
| 3. Position of Mobilisation and development of Funds | : | |
| (Amount in Rs. Thousands) | : | |
| Total Liabilities | : | 1,171,278 |
| Total Assets | : | 1,171,278 |
| Source of Funds | : | |
| Paid up Capital | : | 433,855 |
| Share Application Money | : | 115 |
| Reserves and Surplus | : | 665,909 |
| Secured Loans | : | 71,399 |
| Unsecured Loans | : | Nil |
| Application of Funds | : | |
| Net Fixed Assets | : | 51,759 |
| Investments | : | 375,579 |
| Net Current Assets | : | 78,576 |
| Misc. Expenditure | : | 2,818 |
| Accumulated Losses | : | 662,546 |
| 4. Performance of Company (Amount in Rs. Thousands) | : | |
| Turnover | : | 105,429 |
| Total Expenditure | : | 186,729 |
| Profit/(Loss) Before Tax | : | (81,300) |
| Profit After Tax | : | (81,675) |
| Earnings Per Share in Rs. (Basic) | : | (1.88) |
| Dividend Rate % | : | Nil |
| 5. Generic Names of Three Principal Products/Services of Company (As per Monetary terms) | | |
| Item Code (ITC Code) | : | 8491.90 |
| Product Description | : | DEVELOPMENT AND EXPORT OF SOFTWARE |

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No. 23839

Place Hyderabad
Date 30 June 2009

K.Ramachandra Reddy
Chairman & CEO

Sathya Kalyanasundaram
Chief Financial Officer

C.Dayakar Reddy
Managing Director

Raj Kumar Singh
Company Secretary

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

| | | | |
|----|---|---|---------------------------------------|
| 1. | Name of subsidiary | : | MosChip Semiconductor Technology. USA |
| 2. | Financial year ended | : | Year ended 31 March 2009 |
| 3. | Holding Company's Interest | : | 100% |
| 4. | Shares held by the holding company | : | 19,192,404 shares |
| 5. | The net aggregate of profits(lisses) For the current financial year of the Subsidiary so far as it concerns the Members of the holding company | | |
| | a. dealt with or provided for in the Accounts of the holding company | : | Nil |
| | b. not dealt with or provided for in the Accounts of the holding company | : | US \$ (1,389,879) |
| 6. | The net aggregate of profits or losses for the previous financial years of the Subsidiary so far as it concerns the Members of the holding company | | |
| | a. dealt with or provided for in the Accounts of the holding company | : | NA |
| | b. net dealt with or provided for in the Accounts of the holding company | : | US \$ (1,952,388) |

Per and subject to our report of even date

For and on behalf of the Board of Directors

For Gokhale & Co.,
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No. 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary

MOSCHIP USA

Directors' Report

To

The Shareholders of MosChip Semiconductor Technology, USA.
Your Directors present this report for the Financial Year 2008-09.

Financial Results

(USD in Millions)

| Particulars | 2008-09 | 2007-08 |
|---|---------|---------|
| Semiconductor Sales | 6.087 | 5.895 |
| Operating Profit/(Loss) before Depreciation | (0.741) | 0.086 |
| Less : Depreciation | 0.721 | 0.531 |
| Operating Profit/(Loss) | (1.462) | (0.444) |
| Add : Other Income | 0.073 | 0.045 |
| Net Profit/(Loss) Before Tax | (1.389) | (0.399) |

Your Company achieved total revenues of USD 6.087 million for the financial year ended 31 March 2009, an increase of 3.3% over the year ended 31 March 2008.

Outlook

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

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

Acknowledgments

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

For and on behalf of the Board of Directors

26 August 2009

K. Ramachandra Reddy
CEO



To the Stockholders of MosChip Semiconductor Technology, USA

I have audited the accompanying balance sheet of MosChip Semiconductor Technology, USA (a California corporation) as of March 31, 2009 and the related statements of net income, accumulated deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MosChip Semiconductor Technology, USA as of March 31, 2009 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Forney Accountancy
Bryce Forney, CPA (CALicense#76310)
Pleasant Hill, California
April 30, 2009

BALANCE SHEET

MOSCHIP USA

| | Amount in US \$ |
|---|-----------------------------------|
| | As at 31 March 2009 |
| Assets | |
| Current assets | |
| Cash | \$ 201,287 |
| Accounts receivable | 979,219 |
| Related party receivable | 4,854 |
| Inventory | 1,223,835 |
| Prepaid expenses | 25,120 |
| Total current assets | <u>2,434,315</u> |
| Deposits | 37,361 |
| Property and equipment | |
| Furniture & Fixtures | 13,611 |
| Equipment | 3,964,152 |
| Software | 179,200 |
| | <u>4,156,963</u> |
| Accumulated depreciation | <u>(1,793,872)</u> |
| | 2,363,091 |
| Total assets | <u><u>\$ 4,834,767</u></u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | \$ 2,169,021 |
| Related party payable | 445,286 |
| Distributor note payable | 1,000,000 |
| Accrued liabilities | 128,848 |
| Total current liabilities | <u>3,743,155</u> |
| Stockholders' equity | |
| Common Stock, no par value, 20,212,813 shares authorized 19,192,404 shares issued and outstanding | 1,724,000 |
| Additional paid in capital | 1,320,000 |
| Accumulated deficit | 1,952,388 |
| Total stockholders' equity | <u>1,091,612</u> |
| Total Liabilities | <u><u>\$ 4,834,767</u></u> |

**STATEMENT OF NET INCOME
AND ACCUMULATED DEFICIT**

MOSCHIP USA

| | Amount in US \$ |
|--------------------------------------|---|
| | For the year ended 31 March 2009 |
| Revenue | |
| Sales | \$ 6,087,041 |
| Cost of goods sold | 3,320,130 |
| Shipping and handling | 43,608 |
| Gross profit | <u>2,723,303</u> |
| Expenses | |
| Selling, general, and administrative | 2,000,689 |
| Research and development | 1,373,577 |
| Depreciation | 721,120 |
| Interest | 90,376 |
| Total operating expenses | <u>4,185,762</u> |
| Operating loss | (1,462,459) |
| Other income | |
| Miscellaneous income | 70,000 |
| Interest income | 3,380 |
| Income before income taxes | (1,389,079) |
| Current income tax | 800 |
| Net loss | (1,389,879) |
| Accumulated deficit, beginning | (562,509) |
| Accumulated deficit, ending | <u>\$ (1,952,388)</u> |

STATEMENT OF CASH FLOWS

MOSCHIP USA

| | Amount in US \$ |
|--|---|
| | For the year ended 31 March 2009 |
| Cash flows from operating activities | |
| Net loss | \$ (1,389,879) |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Depreciation | 721,120 |
| (Increase) decrease in: | |
| Accounts receivable | 91,875 |
| Related party receivable | (4,854) |
| Inventory | (729,888) |
| Prepaid expenses | (2,787) |
| Deposit | (14,411) |
| Increase (decrease) in: | |
| Accounts payable | 1,437,813 |
| Accrued liabilities | 80,512 |
| Net cash provided by operating activities | <u>189,501</u> |
| Cash flows from investing activities | |
| Purchases of property and equipment | <u>(1,839,274)</u> |
| Net cash used by investing activities | (1,839,274) |
| Cash flows from financing activities | |
| Increase in related party payable | 149,516 |
| Increase in distributor note payable | 1,000,000 |
| Net cash provided by financing activities | <u>1,149,516</u> |
| Net decrease in cash | (500,257) |
| Cash, beginning | 701,544 |
| Cash, ending | <u>\$ 201,287</u> |
| Supplemental disclosures of cash flow information | |
| Interest paid | \$ 376 |
| Income taxes paid | <u>\$ 800</u> |

NOTES TO FINANCIAL STATEMENT

A. Summary of significant accounting policies:

Nature of operations – MosChip Semiconductor Technology, USA (the Corporation), a California corporation, is a manufacturer of communication chips primarily sold within Hong Kong and Taiwan.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Concentrations of cash – The Corporation at times during operations has cash deposits in excess of \$100,000. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$100,000 of funds at member banks.

Accounts receivable – The Corporation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventories – Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method and market represents the lower of replacement cost or estimated net realizable value. Inventory consists of finished goods.

Property and equipment/Depreciation – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over estimated useful lives of two, three, five, and seven years. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.

Income taxes – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of current and deferred taxes. Deferred income tax assets and liabilities are computed annually for differences between the

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

- A. Operating lease – The Corporation leases its Santa Clara facilities under an operating lease agreement with an unrelated party. The Santa Clara rent is \$5,407 per month. The corporation subleases a portion of its facilities to an unrelated party. The Corporation leases its Irvine facilities under an operating lease agreement with an unrelated party. The Irvine rent is \$7,681 per month. The Corporation also leases a residential apartment for the temporary residence of visiting engineers. The apartment rent is \$1,727 per month. Rent expense for the year ended March 31, 2009 is \$162,151.
- B. Related party account payable – The Corporation has an account payable to MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The account payable represents amounts due for management fees, products, and royalty fees provided by MosChip Semiconductor Technology Limited, India less reimbursable costs paid on behalf of MosChip Semiconductor Technology Limited, India. The account payable does not bear interest and is payable on demand. The balance of the account payable at March 31, 2009 is \$445,286.
- C. Distributor note payable – The Corporation has a note payable to an individual, a 1.44% shareholder of the Corporation, and owner of a significant distributor of the Corporation. The note bears interest at 12% per year. Principal of \$1,000,000 and interest of \$187,500 are due in varying installments, the final of which are due March 31, 2010.

NOTES TO FINANCIAL STATEMENT

D. Related party transactions – The Corporation conducts business with MosChip Semiconductor Technology Limited, India, the sole shareholder of the Corporation. The Corporation contracts with its parent company for engineering, management, and product, and pays royalties to its parent company for the exclusive license of ASIC software from MosChip Semiconductor Technology Limited, India, as part of its production process on terms equivalent with those of other vendors. Transactions are as follows:

| | |
|--|--------------|
| Expenses due to related party transactions | \$ 2,180,278 |
| Related party account payable | \$ 445,286 |

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

| | |
|--|-----|
| Number of major customers | 2 |
| Percentage of revenue from major customers | 76% |
| Percentage of accounts receivable from major customers | 84% |

F. Income taxes – The total deferred tax asset due to taxable temporary differences is as follows:

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

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

Blank Space