

**13<sup>TH</sup>**  
**ANNUAL REPORT**



**MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED**

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**BOARD OF DIRECTORS**

Mr. K. Ramachandra Reddy	-	Chairman & CEO
Mr. C. Dayakar Reddy	-	Managing Director
Dr. Vijaya Chandru	-	Director
Mr. G. Prasad	-	Director
Dr. Madhu Mohan Venkat Katikineni	-	Director
Mr. Vivek Bhargava	-	Director
Mr. G. Venkatesh	-	Additional Director (w.e.f. 21 May 2012)

**COMMITTEES OF THE BOARD****Audit**

Mr. G. Prasad	-	Chairman
Dr. Vijaya Chandru	-	Member
Dr. Madhu Mohan K.	-	Member
Mr. Vivek Bhargava	-	Member

**Remuneration**

Mr. G. Prasad	-	Chairman
Dr. Vijaya Chandru	-	Member
Dr. Madhu Mohan K.	-	Member
Mr. Vivek Bhargava	-	Member

**Shareholders / Investor Grievance**

Mr. G. Prasad	-	Chairman
Mr. Vivek Bhargava	-	Member
Dr. Vijaya Chandru	-	Member
Dr. Madhu Mohan K.	-	Member

**REGISTERED OFFICE**

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

**BANKERS**

IndusInd Bank Limited  
HDFC Bank Limited  
UCO Bank Limited

**AUDITORS**

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

**REGISTRAR AND SHARE TRANSFER AGENTS**

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

## NOTICE

### NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Thirteenth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on Saturday, the 29th September 2012 at 10.30 hrs at the Registered Office of the Company Situated at Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No.2, Banjara Hills, Hyderabad - 500 034 to transact the following business:

#### **ORDINARY BUSINESS**

1. To receive, consider and adopt the Report of Directors, Profit and Loss Account for the financial year ended 31 March 2012 and the Balance Sheet as on that date and the report of Auditors thereon.
2. To appoint a Director in place of Mr. G. Prasad, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. Vivek Bhargava, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint M/s Gokhale & Co., Chartered Accountants, Hyderabad (ICAI Reg. No. 000942S) 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 as an ordinary resolution, the following:**

"RESOLVED THAT Mr. G. Venkatesh, who was co-opted as an Additional Director of the company by the Board of Directors, and who holds office under Section 260 of the Companies Act, 1956, until the date of Annual General Meeting, and in respect of whom the company has received a notice in writing proposing his candidature for the office of a Director, be and is hereby appointed as a Director of the company, liable to retire by rotation."

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 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 2012, on a revised terms and conditions as mentioned below:

#### **Terms of remuneration**

**Salary and Perquisites:** Rs.3,00,000 (Rupees Three Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites.

#### **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 month's 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 hereinabove mentioned 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 these Resolutions."

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 other sanctions and approvals as may be necessary, approval of the Company be and is hereby accorded to

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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 2012, on a revised terms and conditions as mentioned below:

**Terms of remuneration**

**Salary and Perquisites:** Rs.3,00,000 (Rupees Three Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances.

**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 month's 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 hereinabove mentioned 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 these Resolutions."

By Order of the Board of Directors

Hyderabad  
25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

**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 23-09-2012 to 29-09-2012 (both days inclusive).
3. To avoid inconvenience to members and to facilitate smooth conduct of the meeting, entry to the place of meeting will be only for members/proxies and is regulated by the attendance slip appended to the proxy form. Members are requested to affix their signature on it and hand it over at the entrance.
4. Members, who hold shares in de-materialized form, are requested to bring their Client ID and DP Id No's for easier identification of attendance at the meeting.
5. A member desirous of getting any information on the accounts or operations of the company is requested to forward his/her queries to the company at least seven working days prior to the meeting, so that the required information can be made available at the meeting.
6. Members are requested to notify immediately any change in their address to the company or to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed onto their respective Depository Participants without any delay.
7. In all correspondence with the company, members are requested to quote their folio numbers and in case their shares are held in dematerialized form they must quote their Client ID Number and their DP ID Number.
8. Members are requested to carry their copies of Annual Report as these will not be supplied at the meeting.
9. Trading in the equity shares of the company is in the compulsory demat form. Those members who have not demated their shares are requested to open the demat accounts with the depositories and get the shares demated at the earliest.

## NOTICE

### EXPLANATORY STATEMENT UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956

#### ITEM No. 5

Mr. G. Venkatesh was co-opted as an Additional Director of the company with effect from 21 May 2012, pursuant to Section 260 of the Companies Act, 1956. Mr. G. Venkatesh holds office of director up to the date of the ensuing Annual General Meeting. The Company has received notice in writing from a member along with a deposit of Rs.500 proposing the candidature of Mr. G. Venkatesh for the office of Director under the provisions of Section 257 of the Companies Act, 1956.

None of the Directors of the company other than Mr. G. Venkatesh is interested in this resolution.

#### Item No. 6

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

Mr. K. Ramachandra Reddy is Chairman & CEO since 24 July 2000. 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 25 August 2012 has resolved to re-appoint Mr. K. Ramachandra Reddy as Chairman & CEO for a period of 3 years commencing from 01 September 2012 on revised terms and conditions.

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

1. Period of appointment: 3 years beginning 01 September 2012 and ending on 31 August 2015.
2. Details of remuneration: As provided in resolution will be paid for a period of 3 years with effect from 1 September 2012.
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:

Particulars	For the year 2009-10		For the year 2010-11		For the year 2011-12	
	MosChip, India	Consolidated	MosChip, India	Consolidated	MosChip, India	Consolidated
Total Income from operations	1707.00	2570.44	2484.33	2708.44	1777.70	3596.34
Operating Profit before Depreciation & Tax	(615.73)	(783.44)	13.23	(467.65)	293.63	1969.34
Less: Depreciation	115.39	496.85	83.01	486.14	56.43	190.74
Profit before tax (PBT)	(731.12)	(1280.29)	(69.78)	(953.79)	237.20	1778.60
Less: Provision for Tax	0	0	0	0	0	42.81
Profit after Tax before extraordinary and prior period item	(731.12)	(1280.29)	(69.78)	(953.79)	237.20	1735.79
Less: Extraordinary and prior period item	2.01	40.86	1.47	4.15	3036.47	3036.47
Profit after tax after extraordinary and prior period item	(733.13)	(1321.15)	(71.26)	(957.94)	(2799.27)	(1300.68)
Earnings per share (EPS)						
Before extraordinary and prior period item						
<b>Basic</b>	(1.66)	(2.98)	(0.15)	(2.08)	(0.46)	(0.60)
<b>Diluted</b>	(1.66)	(2.98)	(0.15)	(2.08)	(0.46)	(0.60)
After extraordinary and prior period item						
<b>Basic</b>	(1.66)	(2.99)	(0.15)	(2.08)	(6.08)	(2.83)
<b>Diluted</b>	(1.66)	(2.99)	(0.15)	(2.08)	(6.08)	(2.83)

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d. Export performance and net foreign exchange collaborations:

- ◆ Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2012) : Rs.9,123.10 Lacs
- ◆ Net Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2012) : Rs.3,560.21 Lacs

e. Foreign Investments or collaborators, if any: 39.12% 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 63, 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.3,00,000 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 the company and its wholly owned subsidiary and the overall performance.

Mr. K. Ramachandra Reddy has over 20 years of experience in the semiconductor industry in USA.

e. Remuneration proposed:

**Salary and Perquisites** : Rs.3,00,000 (Rupees Three Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites.

**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

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

The remuneration package of Rs.300,000 is very reasonable in comparison to the semiconductor industry standards.

g. Pecuniary relationship directly or indirectly with the company or relationship with the managerial personnel if any: Mr. K. Ramachandra Reddy holds 6.63% of equity shares in the Company.

**3. 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.

The major reason for loss in previous years was due to global slowdown in semiconductor industry.

b. **Steps taken or proposed to be taken for improvement**

The Company has launched PC Virtualization System (PCVS) during April 2012. This technology links living room Television with the PC to enable a variety of display options and also includes intelligent video solutions for independent multi-display. The volume production from this system is set to begin during the year 2012-13. Apart from it, company is doing extremely well in design services sector. The revenues from the product and services are

anticipated to bring the Company into profit. The Company plans to achieve profitability during the financial year 2012-13.

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 is the Managing Director of the company since 24 July 2000. The Company was immensely benefited by his hard work and innovative ideas and kept the Company in a better place to face the economic slowdown and benefit quicker from the recovery. So, the Board of the Company on 25 August 2012 has resolved to re-appoint Mr. C. Dayakar Reddy as Managing Director for a period of 3 years commencing from 01 September 2012 on revised terms and conditions.

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

1. Period of appointment: 3 years beginning 01 September 2012 and ending on 31 August 2015.
2. Details of remuneration: As provided in resolution will be paid for a period of 3 years with effect from 01 September 2012.
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. Financial performance based on given indicators:

Particulars	For the year 2009-10		For the year 2010-11		For the year 2011-12	
	MosChip, India	Consolidated	MosChip, India	Consolidated	MosChip, India	Consolidated
Total Income from operations	1707.00	2570.44	2484.33	2708.44	1777.70	3596.34
Operating Profit before Depreciation & Tax	(615.73)	(783.44)	13.23	(467.65)	293.63	1969.34
Less: Depreciation	115.39	496.85	83.01	486.14	56.43	190.74
Profit before tax (PBT)	(731.12)	(1280.29)	(69.78)	(953.79)	237.20	1778.60
Less: Provision for Tax	0	0	0	0	0	42.81
Profit after Tax before extraordinary and prior period item	(731.12)	(1280.29)	(69.78)	(953.79)	237.20	1735.79
Less: Extraordinary and prior period item	2.01	40.86	1.47	4.15	3036.47	3036.47
Profit after tax after extraordinary and prior period item	(733.13)	(1321.15)	(71.26)	(957.94)	(2799.27)	(1300.68)
Earnings per share (EPS)						
Before extraordinary and prior period item						
<b>Basic</b>	(1.66)	(2.98)	(0.15)	(2.08)	(0.46)	(0.60)
<b>Diluted</b>	(1.66)	(2.98)	(0.15)	(2.08)	(0.46)	(0.60)
After extraordinary and prior period item						
<b>Basic</b>	(1.66)	(2.99)	(0.15)	(2.08)	(6.08)	(2.83)
<b>Diluted</b>	(1.66)	(2.99)	(0.15)	(2.08)	(6.08)	(2.83)

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- d. Export performance and net foreign exchange collaborations:
- ◆ Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2012) : Rs. 9,123.10 Lakhs
  - ◆ Net Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2012) : Rs.3,560.21 Lakhs
- e. Foreign Investments or collaborators, if any: 39.12% equity shares are held by Non-residents and there is no foreign collaboration.
- 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.3,00,000 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 or 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 or these presents. 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.3,00,000 (Rupees Three Lakhs only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites.
- 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
- f. Comparative remuneration profile with respect to industry, size of the company, profile of the position and persons:
- The remuneration package of Rs.300,000 is very reasonable in comparison to the semiconductor industry standards.
- g. Pecuniary relationship directly or indirectly with the company or relationship with the managerial personnel if any: Mr. C. Dayakar Reddy holds 1.27% of equity shares in the Company.
- 3. 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.
- The major reason for loss in previous years was due to global slowdown in semiconductor industry.
- b. Steps taken or proposed to be taken for improvement
- The Company has launched PC Virtualization System (PCVS) during April 2012. This
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technology links living room Television with the PC to enable a variety of display options and also includes intelligent video solutions for independent multi-display. The volume production from this system is set to begin during the year 2012-13. Apart from it, company is doing extremely well in design services sector. The revenues from the product and services are anticipated to bring the Company into profit. The Company plans to achieve profitability during the financial year 2012-13.

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  
25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

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

##### **Mr. G. Prasad**

Mr. Gajjala Prasad is a Chartered Accountant by profession. He is a partner of Nataraja Iyer & Co., Chartered Accountants based at Hyderabad. Mr. Prasad has more than 34 years of experience in audit and taxation matters of medium and large corporate.

##### **Mr. Vivek Bhargava**

Mr. Vivek Bhargava, a management Graduate from IIM Kolkata has over 21 years of experience in corporate finance, investment banking and capital markets. He started his career with Nagarjuna Group in 1987 and then joined the Eenadu Margadarsi Group to head its financial services and investment banking business in 1993. Thereafter, he joined MosChip Semiconductor as CFO. He has also helped many other companies with their business plans and fund raising. He is currently the founder and Executive Chairman of WealthBridge Capital Advisors Private Limited, a company in equity research business.

##### **Mr. G. Venkatesh**

His career in the personal computer industry began in 1979. He has a proven track record of nurturing companies and building profitable, high growth businesses. He has significant domain expertise in Storage, Communications and Graphics, from the semiconductor to systems level. He has an M.S.E.E from the University of Massachusetts, and a B. Tech from IIT Madras, India.

Mr. G. Venkatesh is currently Managing Member at Texan Ventures, an independent investment and consulting firm. He is an entrepreneur, executive and investor, and presently serves as the Chairman of the Board at Broadlogic. He was on the Board of Ikanos Communication (IKAN) from December 2001 to August 2009, the last three years as Chairman.

He was the Chairman of the Board at Aarohi Communications (sold to Emulex in May 2006), Infravio (sold to webMethods in September 2006) and Matisse Networks. Before founding Texan Ventures, he was Vice President for Switching Products at Broadcom Corporation. He was President and CEO of Maverick Networks, a company he founded in 1998 and was acquired by Broadcom in 1999. At Broadcom he was responsible for establishing the company as the market leader in switching products as well as driving several successful acquisitions. He has been a Resident Entrepreneur at Mayfield Fund, a leading Sand Hill Road Venture Capital firm.

Prior to this, Mr. Venkatesh spent ten years at Adaptec, Inc. where he was a senior executive officer and guiding general manager of this rapidly growing high technology company.

By Order of the Board of Directors

Hyderabad  
25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

## DIRECTORS' REPORT

### DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Thirteenth Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31st March 2012.

#### Financial Results

(Rs. In Lakhs)

	Year ended 31 March 2012		Year ended 31 March 2011	
	Standalone	Consolidated	Standalone	Consolidated
Total Income	1777.70	3596.34	2484.33	2708.44
Operating Profit before Depreciation & Tax	293.63	1969.34	13.23	(467.65)
Less: Depreciation	56.43	190.74	83.01	486.14
Profit before Tax	237.20	1778.60	(69.78)	(953.79)
Less: Provision for Tax	0	42.81	0	0
Profit after Tax before extraordinary and prior period item	237.20	1735.79	(69.78)	(953.79)
Less: Extraordinary and prior period item	3036.47	3036.47	1.47	4.15
Profit after tax after extraordinary and prior period item	(2799.27)	(1300.68)	(71.26)	(957.94)
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	(0.46)	(0.60)	(0.15)	(2.08)
Diluted	(0.46)	(0.60)	(0.15)	(2.08)
After extraordinary and prior period item				
Basic	(6.08)	(2.83)	(0.15)	(2.08)
Diluted	(6.08)	(2.83)	(0.15)	(2.08)

#### Operations

The consolidated income of the Company was Rs.35.96 Crores and the consolidated loss was Rs.13.01 Crores.

#### MosChip India

MosChip had very matured I/O product line and had been recording about \$5M in revenues annually without much growth. The division was sold to ASIX Electronics Corporation, a listed company in Taiwan, at a consolidated amount of \$7M and the inventory at cost. MosChip's SOC (System On a Chip) line is fairly new and has a potential to increase revenues much more than the I/O line but will require additional investment for marketing/sales. The Company is leveraging its SOC design/development experience to go after Value added services such as Custom ASIC development. With the increase in Design Services opportunities world wide, MosChip has

incorporated an office in Singapore to address the regional markets, MosChip decided to add another division to branch into Semiconductor Design Services. MosChip will focus on the SOC products and the Design Services.

#### Subsidiaries

##### MosChip Semiconductor Technology, USA

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded revenue of USD 7.03 million.

##### MosChip Semiconductor Technology Pte. Ltd., Singapore

MosChip Semiconductor Technology Pte. Ltd., Singapore (MosChip, Singapore) the wholly owned subsidiary was incorporated during the financial year 2011-12. The Company started generating revenues in the financial year 2012-13.

## DIRECTORS' REPORT

### Dividend

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

### Increase in Share Capital

The Company has only one class of shares. The Company has not allotted any shares during the year under review. The total paid-up equity share capital of the company is Rs.460,355,170 as on 31 March 2012.

### Marketing and distribution

The sale of products developed by the Company is handled by MosChip USA, through its worldwide marketing and distribution networks. The distribution network has enabled a strong presence in China and North America. With the focus in marketing and our experience in SOC line, Company is looking to do few Joint Ventures with large Corporations worldwide to decrease capital outlay but increase revenues by supplying the custom silicon to these corporations utilizing the wealth of technical expertise that the Company has accrued over the 11 years.

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

### Employee Stock Option Plan

During the year under report the company has eight schemes in operation as mentioned below, for granting stock options to the employees 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

Pursuant to the provisions of Article 133 of the Articles of Association of the company, Mr. G. Prasad and Mr. Vivek Bhargava retire by rotation in the ensuing Annual General Meeting and being eligible, offers themselves for re-appointment.

Mr. G. Venkatesh was appointed as Additional Director of the Company effective 21 May 2012 to hold office up to the date of Thirteenth Annual General Meeting.

The office of Mr. G. Venkatesh as Additional Director of the Company expires at the ensuing Annual General Meeting. The Company has received notice from a member along with Rs.500 as deposit, proposing his candidature, in accordance with the provisions of Section 257 of the Companies Act, 1956.

Mr. A. Ramesh resigned from the Board on 14 October 2011. The Board expresses its appreciation of the valuable contribution made by Mr. A. Ramesh during the tenure of his directorship.

The Board on the recommendation of Remuneration Committee has re-appointed Mr. K. Ramachandra Reddy as Chairman and CEO of the Company for a period of 3 years from 01 September 2012 and the resolutions for approval of his re-appointment and the terms of re-appointment have been included in the notice convening the Thirteenth Annual General Meeting of the Company.

The Board on the recommendation of Remuneration Committee has re-appointed Mr. C. Dayakar Reddy as managing Director of the Company for a period of 3 years from 01 September 2012 and the resolutions for approval of his re-appointment and the terms of re-appointment have been included in the notice convening the Thirteenth Annual General Meeting of the Company.

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.

## DIRECTORS' REPORT

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### Auditors

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

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

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

### Particulars of Employees

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

### Management Discussion & Analysis

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

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

The Board of Directors of MosChip states that:

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

affairs of the company at the end of the financial year 2011-12 and of the loss of the company for that period;

- c) they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- d) the annual accounts were prepared on the basis of a going concern.

### Corporate Governance

Pursuant to the provisions of Clause 49 of the Listing Agreement and Section 292A of the Companies Act 1956, a Report on the Corporate Governance, which, *inter alia*, includes the composition and constitution of audit committee, is featuring as a part of Annual Report. Your company will continue to adhere in letter and spirit to the good corporate governance policies.

### Acknowledgements

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

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

For and on behalf of the Board of Directors

25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

## DIRECTORS' REPORT

### ANNEXURE 'A' TO DIRECTORS' REPORT

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

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

The requisite disclosures of particulars in respect of these Schemes during the year 2011-12 are as under.

	2001	2002	2004	2005 (MI)	2005 (WOS)	2008	2008 (ALR)	2008 (D'TOR)	
a. Options granted during the year	0	0	0	0	200,000	0	0	500,000	
b. The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue								
c. Options Vested	54000	61500	30000	33500	NIL	358322	195924	200000	
d. Options exercised	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
e. The total number of shares arising as a result of exercise of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
f. Options lapsed (As per the plan, options lapsed i.e. unexercised options on account of resignation etc., shall become available for future grants under the existing plans)	0	56000	0	12000	0	179878	34250	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	
i. Total number of options in force	68625	120000	110000	28000	200000	359822	311674	700000	
j. Employee wise details of options granted to									
1. Senior Managerial Personal							Nil		
2. Any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year									
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									
4. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20.									
k. The exercise price at which the company has granted stock options is equal to the Market Price as defined in SEBI (ESOS&ESPS) Guidelines, 1999 in vogue, and hence the Intrinsic Value of the stock options is nil.									

## DIRECTORS' REPORT

Therefore, the employee compensation cost based on the Intrinsic Value is also nil. If the company had used the Fair Value of the option using the Black Scholes Method, the employee compensation cost would still be nil. The Basic and Diluted Earnings Per Share would thus not change as a result.

- l. Weighted average exercise price and weighted average-fair value of options granted where the exercise price is equal to the Market Price as on the date of grant:

Weighted average exercise price : Rs.18.94

Weighted average fair value of options : Rs. 5.01

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

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

- a. Risk free interest rate was assumed between 4.6093% and 9.7124% depending on the timing of grant and vesting period of the option, for the options granted during the year.
- b. The expected life of the option is taken as the vesting period of the option.
- c. The expected volatility has been computed using the daily share price movements of 240 trading days prior to the grant date. For annualizing the standard deviation, it is assumed that there are 240 trading days in a year.

Date of Grant	Std Deviation	Date of Grant	Std Deviation	Date of Grant	Std Deviation
21/08/2002	92.67%	18/05/2006	64.05%	30/01/2008	64.70%
31/10/2002	91.48%	30/06/2006	65.85%	24/03/2008	67.64%
29/01/2003	80.30%	04/09/2006	59.50%	30/04/2008	69.88%
27/06/2003	67.24%	27/10/2006	53.03%	29/07/2008	71.30%
19/02/2004	76.37%	06/11/2006	53.64%	22/09/2008	69.10%
26/08/2004	73.93%	18/01/2007	56.30%	23/10/2008	68.65%
18/11/2004	69.61%	29/03/2007	52.26%	30/01/2009	55.97%
31/01/2005	65.11%	25/04/2007	51.82%	04/03/2009	54.76%
30/06/2005	53.39%	28/06/2007	47.56%	02/07/2010	45.24%
23/09/2005	59.77%	31/07/2007	47.22%	14/02/2011	46.83%
24/01/2006	58.53%	26/10/2007	52.93%	25/08/2011	43.89%
10/04/2006	63.62%	26/11/2007	54.10%		

- d. Since the company has been making losses, we have not assumed any dividend payments.
- e. The Market Price of the shares on the grant dates was as follows: Rs.31 on 21 August 2002, Rs.23.95 on 31 October 2002, Rs.26.75 on 29 January 2003, Rs.33.00 on 27 June 2003 being the closing prices on the date of grant; Rs.40.51 on 19 February 2004, being the average of the two weeks high and low price of the share preceding the date of grant of option; and Rs.30.50 on 26 August 2004, Rs.42.85 on 18 November 2004, Rs.44.25 on 31 January 2005, Rs.35.75 on 30 June 2005, Rs.45.60 on 23 September 2005, Rs.41.50 on 24 January 2006, Rs.37.70 on 10 April 2006, Rs.37.40 on 18 May 2006, Rs.24.15 on 30 June 2006, Rs.25.10 on 04 September 2006, Rs.26.00 on 27 October 2006, Rs.24.25 on 06 November 2006, Rs.32.95 on 18 January 2007, Rs.24.80 on 29 March 2007, Rs.24.90 on 25 April 2007, Rs.22.85 on 28 June 2007, Rs.21.25 on 31 July 2007, Rs.23.35 on 26 October 2007, Rs.24.40 on 26 November 2007, Rs.25.95 on 30 January 2008 and Rs.13.45 on 24 March 2008 being the previous days closing price preceding the date of grant of options. Options issued on 23 October 2008, 30 January 2009, 04 March 2009, 02 July 2010, 14 February 2011 and 25 August 2011 were issued at Rs.10.05 per Option.

For and on behalf of the Board of Directors

25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

## DIRECTORS' REPORT

### ANNEXURE 'B'

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

#### 1. Conservation of Energy

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

#### 2. Technology Absorption on Form B

##### Research & Development (R&D)

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

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

##### Future plan of action

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

##### Expenditure on R&D

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

##### Technology absorption, adaptation and innovation

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

#### 3. Foreign Exchange Earnings and Outgo

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

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

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

- (b) Foreign exchange earnings and outgo

(Value in Rs.)

	Year ended March 31, 2012	Year ended March 31, 2011
Foreign Exchange Earnings	177,523,409	247,884,468
Foreign Exchange Outgo	47,878,345	130,542,209

For and on behalf of the Board of Directors

25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

## DIRECTORS' REPORT

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### 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 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 subsidiaries, MosChip Semiconductor Technology, USA (MosChip USA) and MosChip Semiconductor Technology Pte Ltd., Singapore (MosChip Singapore),

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

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

#### Overview

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

As a fabless semiconductor Company, MosChip focuses on product design while manufacturing of products are outsourced. The product design 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 is currently focusing on design and development services division. It has services

agreements with several companies in India and abroad.

#### Industry

The World Semiconductor Trade Statistics (WSTS) latest semi-annual meeting forecasts a less-than-average growth for 2012 worldwide semiconductor revenue, followed by a much better 2013. Forecast for 2012 worldwide revenue is US \$301 billion, a 0.4% growth over 2011. For 2013, the market is expected to grow at a much faster pace of 7.2%.

Looking forward, WSTS forecasts the worldwide semiconductor market will grow at a high rate of 7.2% to US \$322 billion in 2013, followed by 4.4% growth to reach US \$336 billion in 2014.

#### Outlook

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

#### *Healthy organic growth*

MosChip leverages its engineering skills to develop custom products, IP development and design/development services. After the sale of I/O products of the company, it is focusing itself on value added design services and sale of its SOC products.

MosChip leverages this strength in services business. It is successfully making inroads in design services business and foresees a very bright future ahead.

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

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

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

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

#### Risks and concerns

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

#### *Semiconductor products are complex in design and difficult to manufacture without defects*

The design of semiconductor products is very complex and projects could potentially get delayed due to this. 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

## DIRECTORS' REPORT

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and manufacturing process technology. Since defective products can be caused by design or manufacturing difficulties, identifying quality problems can occur only by analyzing and testing semiconductors in a system after they have been manufactured. Failure to achieve defect-free products due to their complexity may result in an increase in the costs and delay in the availability of MosChip Group's products.

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

The Company's future success depends upon the continued services of its executive officers, key hardware and software engineers, and sales, marketing and support personnel, many of whom would be difficult to replace. The loss of one or more of these employees could seriously harm the Company's business. In addition, because of the highly technical nature of its business, the loss of key engineering personnel could delay product introductions and significantly impair the Company's ability to successfully create future products.

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

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

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

A case in point, as 2008 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 97 employees. All the employees are located at Hyderabad, India. Of these 80 are technical employees and the rest are marketing and support staff.

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

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

**COMMENTARY ON THE FINANCIAL STATEMENTS OF MOSCHIP INDIA**

**Balance Sheet**

**1. Share Capital**

The Company has only one class of shares. The Company has not allotted any shares during the year under review. The total paid-up equity share capital of the company is Rs.460,355,170 as on 31 March 2012. There are no calls-in-arrears.

**2. Reserves and Surplus**

Reserves and Surplus primarily consists of Securities Premium Reserves Rs.666,633,920 and accumulative loss of Rs.1,022,912,133.

**Capital Reserve**

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

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

**3. Short Term Borrowings**

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

**Loans and Advances from Related Parties**

The amount of Advance Rs.47,518,625 is received from its wholly owned subsidiary MosChip Semiconductor Technology, USA against future exports.

**4. Other Current Liabilities**

Other Current Liabilities primarily consists of the excess amount received from and repayable to non-resident/foreign investors against the shares allotted to them.

**5. Fixed Assets**

During the year under review, the company has invested an amount of Rs.67.87 lakhs towards capital expenditure. Additions to fixed assets increased by 4.40% during the financial year.

**6. Non-Current Investments**

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

During the year under review there is a diminution in value of Rs.303,647,300 in the carrying cost of investment in Moschip USA which is 100% subsidiary of Moschip India This diminution loss was due to changes in underlying business conditions of Moschip USA. The charge on account of diminution has been determined on the basis of the Moschip USA's Net Worth as on 31 March 2012.

**7. Cash and Bank Balances**

The bank balances in India include both Rupee accounts and Foreign Currency Accounts. Fixed Deposits of Rs.585,301 are given as security for issue of bank guarantees.

**8. Sundry Debtors**

The amount of Sundry Debtors of Rs.74,465,562 consists of Rs.64,086,717 is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA.

**9. Loans and Advances**

**a) Long Term Loans & Advances**

**Deposits**

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

**Advance to MosChip Employees' Trust**

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

**b) Short Term Loans & Advances**

**Other advances**

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

**Prepaid Income Tax**

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

**Service Tax Input Credit**

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

**10. Long Term Provisions**

Long Term Provisions of Rs.5,293,898 includes provision for Leave Encashment amounting to Rs.1,377,651 and Rs.3,916,247 towards Gratuity. No provision has been made for Income Tax as the book profit as well as the Taxable Income as per the Income Tax Act is resulting in a loss.

**11. Guarantees**

The Company has outstanding guarantees for various purposes amounting to Rs.5,500,000

## DIRECTORS' REPORT

(previous year Rs. 8,025,000) for the year ended 31 March 2012.

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

### **Profit and Loss Account**

#### **12. Sales Revenue**

##### ***Revenue from Operations***

The sales revenue for the year under review amounted to Rs.132,453,409 as against Rs.247,884,468 during the previous year. Of this Rs.56,026,526 was on account of export sales of finished goods (semiconductor chips) and Rs.56,119,446 was on account of software development and royalty charges billed to the wholly owned subsidiary. Balance amount of Rs.20,307,437 billed to others.

##### ***Revenue from Discontinuing Operations***

Revenue on discontinuing operation consist of Rs.45,070,000 towards sale of Moschip India's I/O division Intellectual Property Rights.

#### **13. Other Income**

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

#### **14. Expenditure**

The expenditure for the year under review amounted to Rs.145,435,905 as against Rs.247,257,318 during the previous year.

#### **15. Depreciation**

During the year, the company charged depreciation at 100% in respect of assets costing less than Rs.5,000 each amounting to Rs. 8,000.

#### **16. Extraordinary Items**

The extraordinary Item consists of diminution in value of Rs.303,647,300 in the carrying cost of investment in Moschip USA which is 100% subsidiary of Moschip India. This diminution loss was due to changes in underlying business conditions of Moschip USA. The charge on account of diminution has been determined on the basis of the Moschip USA's Net Worth as on 31 March 2012.

#### **17. Loss for the year**

The loss for the year before extraordinary items and tax is Rs.21,350,087 compared to the previous year loss of Rs.7,125,684.

The loss for the year after tax after extraordinary item and Discontinuing Operations is Rs.279,927,387 compared to the previous year loss of Rs.7,125,684.

#### **18. Earnings Per Share**

The Basic and Diluted Earnings per Share computed in accordance with the Accounting Standard 20 issued by the Institute of Chartered Accountants of India is Rs.(0.46) before taking

into consideration extraordinary and discontinuing operations and Rs.(6.08) after taking into consideration extraordinary and discontinuing operations. More details on computation of EPS are given in Note 21.2.5 of Notes on Accounts.

#### **19. Foreign Exchange Difference**

An amount of Rs.7,272,076 has been considered as unrealized gain and an amount of Rs. 1,321,891 as realized loss on foreign exchange fluctuation during the current year on account of foreign exchange rate differences arising due to timing differences between accrual of income/expense and receipt/payment of the same.

#### **20. Related Party Transactions**

The transactions with the related parties other than employees are given in Note 21.2.7 of Notes on Accounts. All the transactions are on commercial basis and are not detrimental to the interests of the Company.

#### **21. Leases**

The Company has operating leases for Office Building. The rental expenses for operating leases for the year ended 31 March 2012 amounted to Rs.5,775,900. The Company has the right to terminate the lease agreement for Hyderabad office building by giving three months written notice.

#### **22. Employees Stock Options**

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

The Company has eight more Employee Stock Option Schemes namely MosChip Stock Option Plan 2001, MosChip Stock Option Plan 2002, MosChip Stock Option Plan 2004, MosChip Stock Option Plan 2005 (MI), MosChip Stock Option Plan 2005 (WOS), MosChip Stock Option Plan 2008, MosChip Stock Option Plan 2008(ALR) and MosChip Stock Option Plan 2008(Director) with 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 equity shares respectively, in accordance with the Employee Stock Option Scheme and Employee Stock Purchase Guidelines 1999 issued by SEBI.

Details such as options granted, exercised and outstanding under each of the plans are given in Note 21.2.4 of Notes on Accounts and Annexure-A to Directors' Report.

## DIRECTORS' REPORT

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### ANNEXURE D

#### CERTIFICATE ON CORPORATE GOVERNANCE

The Members  
MosChip Semiconductor Technology Limited

We have examined the compliance of conditions of Corporate Governance by MosChip Semiconductor Technology Limited for the year ended 31 March 2012 as stipulated in Clause 49 of the Listing Agreement of the said company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the review of the procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

We further state that, such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

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

Hyderabad  
24 August 2012

**L. Dhanamjaya Reddy**

Proprietor  
C.P. No. 3752

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### ANNEXURE E

#### CEO'S DECLARATION

The Members,  
MosChip Semiconductor Technology Limited.

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

25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

## CORPORATE GOVERNANCE REPORT

### REPORT ON CORPORATE GOVERNANCE

#### 1. Company's Philosophy

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

#### 2. Board of Directors

The Company has an Executive Chairman. The Chairman along with Managing Director manages the day-to-day affairs of the Company. The Board of the Company has a combination of Executive and Non-Executive directors. Non-Executive directors comprise **66.67%** of the Board.

a) Composition and category of directors as on 31<sup>st</sup> March 2012

Table - 1

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

b) Attendance of each director at the Board meetings held during the year 2011-12 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	07	06	Yes
Mr. C. Dayakar Reddy	07	07	No
Mr. Alur Ramesh*	05	01	No
Dr. Vijaya Chandru	07	02	No
Mr. G. Prasad	07	07	No
Dr. Madhu Mohan K.	07	01	No
Mr. Vivek Bhargava**	03	03	Yes

\* Resigned as Director on 14 October 2011

\*\* Appointed as Additional Director on 24 August 2011

c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2011-12

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	13	Nil	01
Dr. Vijaya Chandru	01	02	Nil	Nil
Mr. G. Prasad	Nil	01	Nil	Nil
Dr. Madhu Mohan K.	Nil	02	Nil	Nil
Mr. Vivek Bhargava	01	01	Nil	Nil

\* Resigned as Director on 14 October 2011

d) No. of Board Meetings held and dates on which they were held during 2011-12

Table - 4

Quarter	No. of Meetings	Dates on which held
April – June	03	11 May 2011, 23 May 2011, 24 June 2011
July – September	02	12 Aug 2011, 24 Aug 2011
October – December	01	04 Nov 2011
January – March	01	12 Feb 2012
<b>Total</b>	<b>07</b>	

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

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

## CORPORATE GOVERNANCE REPORT

### 3. Audit Committee

The Audit Committee was formed on 19<sup>th</sup> 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 24<sup>th</sup> August 2011.

#### a) Brief description of terms of reference

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

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

#### b) Composition, name of members and Chairperson

The Audit Committee comprises of the following directors:

Mr. G. Prasad	—	Chairman
Dr. Vijaya Chandru	—	Member
Dr. Madhu Mohan K.	—	Member
Mr. Vivek Bhargava	—	Member

#### c) Meetings and attendance during the year 2011-12

Four meetings of the Audit Committee were held during the year 2011-12. Mr. G. Prasad attended all four meetings. Mr. Vivek Bhargava attended two meetings, Dr. Vijaya Chandru and Mr. A. Ramesh attended one meeting each.

### 4. Remuneration Committee

#### a) Brief description of terms of reference

To determine on behalf of Board and Shareholders, the Company's policy on specific remuneration packages for Executive directors and Non-Executive directors, including pension rights and any compensation payment. The Committee was re-constituted on 24<sup>th</sup> August 2011.

#### b) Composition, name of members and Chairperson

The Remuneration Committee comprises of the following directors

Mr. G. Prasad	—	Chairman
Dr. Vijaya Chandru	—	Member
Dr. Madhu Mohan K.	—	Member
Mr. Vivek Bhargava	—	Member

#### c) Attendance during the year 2011-12

No meetings were conducted during the year under review.

Besides, sitting fee for attending Board and Committee meetings, no special compensation to Non-Executive directors are envisaged during the year 2011-12.

#### d. Details of remuneration to all the directors:

Table - 5

Name	Designation	Salary Rs.	Performance Incentives Rs.	Commission Rs.	Total Rs.	Notice period	Severance Fee Rs.	Sitting Fee Rs.	Stock Options
K.Ramachandra Reddy	Chairman	36,00,000	Nil	Nil	36,00,000	NA	NA	Nil	Nil
C.Dayakar Reddy	M.D.	36,00,000	Nil	Nil	36,00,000	NA	NA	Nil	Nil
A. Ramesh	Director	NA	NA	NA	NA	NA	NA	7,000	1,00,000
G. Prasad	Director	NA	NA	NA	NA	NA	NA	67,000	1,00,000
Dr. Vijaya Chandru	Director	NA	NA	NA	NA	NA	NA	13,000	1,00,000
Dr. Madhu Mohan K.	Director	NA	NA	NA	NA	NA	NA	3,000	4,00,000
Mr. Vivek Bhargava	Director	NA	NA	NA	NA	NA	NA	44,000	1,00,000

## CORPORATE GOVERNANCE REPORT

### 5. Shareholders / Investors Grievance Committee

This Committee was re-constituted on 24<sup>th</sup> August 2011.

a) Terms of reference

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

b) Composition, name of members and Chairperson

The Committee comprises of the following Non-Executive directors

Mr. G. Prasad — Chairman

Mr. Vivek Bhargava — Member

Dr. Vijaya Chandru — Member

Dr. Madhumohan K. — Member

c) No. of Shareholders Complaints received during the year 2011-12

During the year 2011-12, 01 No. of complaints / letters were received from the investors and was disposed off during the year. Please see the Table-6 given below.

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

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

e) No. of pending share transfers

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

### Details of Shareholders complaints during the year 2011-12

Table - 6

S.No.	Nature of Complaint/Request	Received	Disposed	Pending
01	Change / Correction of address	Nil	Nil	Nil
02	Loss/Issue of duplicate Share Certificate	01	01	Nil
03	Non-receipt of Share Certificate	Nil	Nil	Nil
04	Non-receipt of Refund order/dividend warrant	Nil	Nil	Nil
05	Others	Nil	Nil	Nil
	<b>TOTAL</b>	<b>01</b>	<b>01</b>	<b>Nil</b>

### 6. General Body Meetings

a) Details of last three AGMs

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

Table - 7

AGM	Venue	Time & Date
Tenth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 <sup>th</sup> September 2009 at 10.30 hrs.
Eleventh	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 <sup>th</sup> September 2010 at 10.30 hrs.
Twelfth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 <sup>th</sup> September 2011 at 10.30 hrs.

## CORPORATE GOVERNANCE REPORT

### 7. Disclosures

- a) During the year 2011-12 the Company has entered into related party transactions worth Rs.191,365,946 (both receivables and payables) with MosChip Semiconductor Technology, USA the Wholly Owned Subsidiary of the Company. All these transactions were at arm's length and do not have potential conflict with the interest of the Company at large.

### 8. Means of Communication

- Quarterly and Half-yearly results will normally be published in Financial Express in English and Prajashakti Regional Language Daily (Telugu).
- Apart from the financial results, all official press releases of the Company and presentation made to the institutional investors and analysts if any, are being made available on the Company's website [www.moschip.com](http://www.moschip.com).
- Management's Discussion and Analysis forms part of the Annual Report.

### 9. General Shareholder Information

- AGM – Date, Time and Venue : 29<sup>th</sup> September 2012, 10.30 am at Registered Office of the Company at Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, Banjara Hills, Hyderabad – 500 034

- Financial Calendar :

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

Un-Audited Financial Results for the FY 2012-13	
First Quarter Results	: 12 <sup>th</sup> August 2012
Second Quarter & Half-yearly Results	: Between 1 <sup>st</sup> & 15 <sup>th</sup> November 2012
Third Quarter Results	: Between 1 <sup>st</sup> & 15 <sup>th</sup> February 2013
Fourth Quarter & Annual Results (Audited in lieu of un-audited results)	: Between 20 <sup>th</sup> & 30 <sup>th</sup> May 2013

- Date of Book Closure : 23<sup>rd</sup> September 2012 to 29<sup>th</sup> September 2012 (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 2011-12 and Performance in comparison to broad- based indices such as BSE Sensex, Crisil Index etc. The information on market price of MosChip stock and its comparison with BSE Sensex is shown in *Table-8*.

## CORPORATE GOVERNANCE REPORT

**MosChip Share price on BSE and in comparison with BSE Sensex**

Table - 8

Month & Year	MosChip		Sensex	
	High	Low	High	Low
Apr 11	6.40	4.56	19,811.14	18,976.19
May 11	5.69	4.02	19,253.87	17,786.13
Jun 11	5.40	4.47	18,873.39	17,314.38
Jul 11	6.79	4.50	19,131.70	18,131.86
Aug 11	6.04	3.85	18,440.07	15,765.53
Sep 11	5.65	4.52	17,211.80	15,801.01
Oct 11	5.25	4.21	17,908.13	15,745.43
Nov 11	5.15	3.45	17,702.26	15,478.69
Dec 11	4.20	2.73	17,003.71	15,135.86
Jan 12	3.92	2.82	18,258.97	15,358.02
Feb 12	4.19	3.26	18,523.78	17,061.55
Mar 12	3.90	2.94	18,040.69	16,920.61

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

- Share Transfer System

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

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

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

- Distribution of Shareholding

The Distribution of shareholding of the Company as on 31 March 2012 is shown in Table-9.

Distribution of Shareholding as on 31 March 2012:

Table - 9

Sl. No.	Category		No. of members		Equity Shares Amount		% of equity	
	From	To	Physical	Electronic	Physical	Electronic	Physical	Electronic
1	1	5000	76	19916	130680	45887320	0.03	9.97
2	5001	10000	02	4090	18000	35866290	0.00	7.79
3	10001	20000	00	2043	000	32917180	0.00	7.15
4	20001	30000	03	698	8,000	18285780	0.02	3.97
5	30001	40000	00	320	000	11750300	0.00	2.55
6	40001	50000	03	362	150000	17525770	0.03	3.81
7	50001	100000	01	440	75900	33393340	0.02	7.25
8	100001	Above	20	392	48935110	215339500	10.63	46.78
	<b>Total</b>		<b>105</b>	<b>28261</b>	<b>49389690</b>	<b>410965480</b>	<b>10.73</b>	<b>89.27</b>
<b>Grand Total</b>			<b>28366</b>		<b>460355170</b>		<b>100.00%</b>	

## CORPORATE GOVERNANCE REPORT

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- Dematerialization of shares and liquidity

As per SEBI guidelines on investors' protection, the Company's shares are to be traded only in dematerialized mode. Accordingly, the Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to establish electronic connectivity and facilitate scrip-less trading. As at the end of 31 March 2012, **89.27%** of the outstanding equity shares of the company are in electronic form.

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

- Plant locations

The Company doesn't have manufacturing facilities. The Company has the Design Centre at Hyderabad, the particulars of which are given in Table -10:

Table - 10

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

- Address for Correspondence and contact persons for investors queries

Investors' correspondence may be addressed to the Compliance Officer at the registered office of the Company at Plot No. 83 & 84, 2nd Floor, Punnaiah Plaza, Road No.2, Banjara Hills, Hyderabad – 500 034, Tel: +91-40-6622 9292 Fax: +91-6622 9393, Email : [investorrelations@moschip.com](mailto:investorrelations@moschip.com)

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

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

Contact Person: Mr. R. Chandra Sekher – Sr. Manager (Registrar in Securities)

Tel: +91-40-4465 5208

Email: [einward.ris@karvy.com](mailto:einward.ris@karvy.com)

For and on behalf of the Board of Directors

25 August 2012

**K. Ramachandra Reddy**  
Chairman & CEO

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

The Board of Directors  
MOSCHIP SEMICONDUCTOR TECHNOLOGY  
LIMITED  
Hyderabad

We have audited the attached Consolidated Balance Sheet of MosChip Semiconductor Technology Limited and its wholly owned subsidiaries MosChip Semiconductor Technology, USA and MosChip Semiconductor Technology Pte. Ltd., Singapore as at 31 March 2012 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 financial statements of the company's wholly owned subsidiary MosChip Semiconductor Technology Limited, USA have been audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of other auditors. For its newly formed subsidiary MosChip Semiconductor Technology Pte Ltd., Singapore, figures have been taken as per unaudited financial statements.

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

On the basis of the information and explanations given to us and on the consideration of the audited financial statements of MosChip Semiconductor Technology Limited and its wholly owned subsidiaries, 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 subsidiaries MosChip Semiconductor Technology, USA and MosChip Semiconductor Technology Pte Ltd., Singapore as at 31 March 2012;
- b. the Consolidated Profit & Loss Account for the year ended 31 March 2012 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 2012.

For **Gokhale & Co.**  
Chartered Accountants

Chandrashekhar Gokhale  
Partner

21 May 2012

Membership No 23839  
Firm Regn. No 000942S

**CONSOLIDATED**

**CONSOLIDATED BALANCE SHEET  
AS AT 31 MARCH 2012**

PARTICULARS	Note No.	As at		As at	
		Rs.	Rs.	Rs.	Rs.
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' funds</b>					
a. Share Capital	1	460,355,170		460,355,170	
b. Reserves and Surplus	2	(360,319,203)		(311,939,915)	
c. Money received against share warrants	3	-		781,250	
			<b>100,035,967</b>		149,196,505
<b>2. Share application money pending allotment</b>			-		-
<b>3. Non-current liabilities</b>					
a. Long-term borrowings	4	-		59,487,500	
b. Deferred Tax liabilities (Net)		-		-	
c. Other Long term liabilities		-		-	
d. Long-term Provisions	5	5,859,921		6,106,361	
			<b>5,859,921</b>		65,593,861
<b>4. Current Liabilities</b>					
a. Short term borrowings	6	27,238,925		109,062,625	
b. Trade payables		5,302,224		90,553,942	
c. Other current liabilities	7	127,225		127,225	
d. Short term provisions	8	5,723,663		3,118,806	
			<b>38,392,037</b>		202,862,598
<b>TOTAL</b>			<b>144,287,925</b>		<b>417,652,964</b>
<b>II ASSETS</b>					
<b>1. Non-current assets</b>					
a. Fixed assets	9				
i. Tangible assets		27,335,541		54,752,558	
ii. Intangible assets		3,352,428		235,817,338	
iii. Capital work-in-progress		-		16,687,720	
iv. Intangible assets under development		-		-	
b. Non-current investments		-		-	
c. Deferred tax assets (net)		-		-	
d. Long-term loans and advances	10	6,481,316		6,554,347	
e. Other non-current assets		-		-	
			<b>37,169,285</b>		313,811,963
<b>2. Current assets</b>					
a. Current investments	11	152,507		133,655	
b. Inventories	12	37,217,852		78,429,213	
c. Trade receivables	13	42,204,900		4,961,626	
d. Cash and Cash equivalents	14	16,877,769		8,049,574	
e. Short-term loans and advances	15	10,665,612		12,266,933	
f. Other current assets		-		-	
			<b>107,118,640</b>		103,841,001
<b>TOTAL</b>			<b>144,287,925</b>		<b>417,652,964</b>
Significant accounting policies and notes to accounts	22				

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,  
Chartered Accountants  
**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839  
Place: Hyderabad  
Date : 21 May 2012

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

**CONSOLIDATED**

**CONSOLIDATED PROFIT AND LOSS STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2012**

PARTICULARS	Note No.	For the year ended 31 March 2012		For the year ended 31 March 2011	
		Rs.	Rs.	Rs.	Rs.
I. Revenue from operations	16	153,946,613		269,825,118	
II. Other Income	17	247,304		1,018,895	
III. <b>Total Revenue (I+II)</b>			154,193,917		270,844,013
IV. Expenses					
Cost of Materials Consumed	18	97,537,185		134,974,345	
Purchases of Stock in Trade		-		-	
Changes in inventories of finished goods, work in progress and Stock-in-trade		-		-	
Employee benefits expense	19	88,019,201		101,514,406	
Finance Costs	20	17,473,969		22,924,451	
Depreciation and amortization expense		19,073,652		48,614,422	
Other expense	21	33,933,809		58,102,588	
<b>Total Expense</b>			<u>256,037,816</u>		<u>366,130,213</u>
V. Profit/(Loss) before exceptional and extraordinary items and tax (III-IV)			(101,843,899)		(95,286,200)
VI. Exceptional Items			(74,263,934)		442,222
VII. Profit/(Loss) before extraordinary items and tax (V-VI)			(27,579,965)		(95,728,422)
VIII. Extraordinary items			303,647,300		65,783
IX. Profit/(Loss) before tax (VII-VIII)			(331,227,265)		(95,794,205)
X. <b>Tax expense:</b>					
1. Current tax		-		-	
2. Deferred tax		-		-	
			-		-
XI. Profit/(Loss) for the period from continuing operations (IX - X)			(331,227,265)		(95,794,205)
XII. Profit/(Loss) for the period from discontinuing operations			205,440,000		-
XIII. Tax expense of discontinuing operations			4,280,727		-
XIV. Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			201,159,273		-
XV. Profit/(Loss) for the period (XI+XIV)			<u>(130,067,992)</u>		<u>(95,794,205)</u>
<b>XVI. Earnings per equity share:</b>					
1. Basic			(2.83)		(2.08)
2. Diluted			(2.83)		(2.08)
Significant accounting policies and notes to accounts	22				

Per and subject to our report of even date

For and on behalf of the Board of Directors

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

**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839  
Place: Hyderabad  
Date : 21 May 2012

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

**CONSOLIDATED**

**NOTES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

NOTES	As At 31 March 2012 Rs.	As At 31 March 2011 Rs.
<b>NOTE - 1</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised Share Capital</b>		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	550,000,000	550,000,000
<b>Issued share capital</b>		
47,750,589 ( Previous Year 47,750,589) equity shares of Rs.10/- each	477,505,890	477,505,890
<b>Subscribed and fully paid share capital</b>		
46,035,517 (Previous Year 46,035,517) equity shares of Rs.10/- each	460,355,170	460,355,170
<b>Shareholders having more than 5% of the shares with the number of shares &amp; Percentage</b>		
<b>Name of the Shareholder</b>	<b>2011-12</b>	<b>2010-11</b>
	<b>No. of Shares</b>	<b>No. of Shares</b>
	<b>%</b>	<b>%</b>
1.K Ramachandra Reddy	3,050,037	3,050,037
	6.63%	6.63%
<b>Total</b>	<b>460,355,170</b>	<b>460,355,170</b>
<b>NOTE - 2</b>		
<b>RESERVES AND SURPLUS:</b>		
Capital Reserves:		
State Govt Subsidy	1,250,000	1,250,000
Foreign Currency Translation Reserve	16,416,266	3,338,774
Capital Reserve	67,829,962	-
	85,496,228	4,588,774
<i>Forfeited Share Warrants:</i>		
Opening Balance	4,650,000	4,650,000
Additions	781,250	-
	5,431,250	4,650,000
<i>Securities Premium Reserves</i>		
Opening Balance	666,633,920	666,633,920
Additions	-	-
	666,633,920	666,633,920
<i>Surplus, showing allocations and appropriations such as dividend, Bonus Shares and transfer to / from reserves</i>		
Opening Balance	(987,812,609)	(892,018,404)
Add: Current Year Surplus	(130,067,992)	(95,794,205)
	(1,117,880,601)	(987,812,609)
<b>Total</b>	<b>(360,319,203)</b>	<b>(311,939,915)</b>

**CONSOLIDATED**

**NOTES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

<b>NOTES</b>	<b>As At 31 March 2012 Rs.</b>	<b>As At 31 March 2011 Rs.</b>
<b>NOTE - 3</b>		
<b>MONEY RECEIVED AGAINST SHARE WARRANTS</b>	-	781,250
<b>Total</b>	<u>-</u>	<u>781,250</u>
<b>NOTE - 4</b>		
<b>LONG TERM BORROWINGS:</b>		
<b>Unsecured Loans:</b>		
Loan from Directors	-	16,000,000
Loan from Others	-	43,487,500
<b>Total</b>	<u>-</u>	<u>59,487,500</u>
<b>NOTE - 5</b>		
<b>LONG TERM PROVISIONS</b>		
Leave Encashment	1,943,674	1,759,779
Gratuity	3,916,247	4,346,582
<b>Total</b>	<u>5,859,921</u>	<u>6,106,361</u>
<b>NOTE - 6</b>		
<b>SHORT TERM BORROWINGS</b>		
Loan from Bank (Packing Credit) (Export Packing Credit facility obtained from UCO Bank is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director) Terms of repayment is 180 days from the date of availment of loan	27,238,925	109,062,625
Loans and Advances - Others		
<b>Total</b>	<u>27,238,925</u>	<u>109,062,625</u>
<b>NOTE - 7</b>		
<b>OTHER CURRENT LIABILITIES</b>		
Application money received for allotment of securities and due for refund	127,225	127,225
<b>Total</b>	<u>127,225</u>	<u>127,225</u>
<b>NOTE - 8</b>		
<b>SHORT TERM PROVISIONS</b>		
Provision for Expenses	1,484,708	3,118,806
Provision for Taxation	4,238,955	-
<b>Total</b>	<u>5,723,663</u>	<u>3,118,806</u>

**NOTE - 9**  
**FIXED ASSETS - CONSOLIDATED**  
(Amount in Rupees)

S. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Balance as at 01.04.11	Additions during the year	Adjustments during the year*	Deletions during the year#	Balance as at 31.03.12	For the Year	Deletions during the year	Adjustments during the year**	Balance as at 31.03.12	Balance as at 31.03.11
	<b>Tangible Assets</b>										
1	Computers	30,455,516	196,465	0	643,727	30,008,254	3,089,458	643,727	0	26,782,174	6,119,073
2	Electrical Installation	2,300,462	103,320	0	273,274	2,130,508	96,819	113,256	0	810,335	1,473,690
3	Plant and Machinery	27,999,383	0	0	4,831,616	23,167,767	269,321	1,716,948	0	21,844,260	4,707,496
4	Furniture and Fittings	8,765,101	72,593	43,961	2,805,255	6,076,400	368,733	1,742,696	39,564	3,200,758	4,229,944
5	Office Equipment	8,074,669	383,262	356,092	3,378,033	5,435,990	376,593	2,317,825	121,645	2,164,724	4,090,358
6	Vehicles	84,257	0	0	0	84,257	3,574	0	0	71,883	15,948
7	Lab Equipment	16,264,297	228,469	0	0	16,492,766	771,413	0	0	4,447,655	12,594,055
8	Leasehold Improvements	3,938,681	3,286,421	0	3,938,681	3,286,421	25,030	3,938,681	0	25,031	0
9	Mask Tools	163,086,012	0	18,630,464	112,145,496	69,570,980	13,097,484	97,952,531	11,133,014	69,570,980	19,792,996
	<b>TOTAL</b>	<b>260,966,378</b>	<b>4,270,530</b>	<b>19,030,517</b>	<b>128,016,082</b>	<b>156,253,343</b>	<b>18,104,424</b>	<b>108,425,664</b>	<b>11,294,222</b>	<b>128,917,802</b>	<b>53,023,560</b>
	<b>Intangible Assets</b>										
1	Software	67,910,634	2,590,499	1,125,377	0	71,626,510	969,228	0	1,123,219	68,274,082	1,728,998
	<b>TOTAL</b>	<b>67,910,634</b>	<b>2,590,499</b>	<b>1,125,377</b>	<b>0</b>	<b>71,626,510</b>	<b>969,228</b>	<b>0</b>	<b>1,123,219</b>	<b>68,274,082</b>	<b>1,728,998</b>
	<b>GRAND TOTAL</b>	<b>328,879,012</b>	<b>6,861,029</b>	<b>20,155,894</b>	<b>128,016,082</b>	<b>227,879,853</b>	<b>19,073,652</b>	<b>108,425,664</b>	<b>12,417,441</b>	<b>197,191,884</b>	<b>54,752,558</b>
	Previous Year	311,602,504	19,941,833	(1,404,984)	1,260,341	328,879,012	48,614,422	(1,847,761)	727,663	274,126,454	54,752,558

Note :

\* Adjustments for the year includes Rs.20,155,894/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

\*\* Adjustments for the year includes Rs.108,425,664/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

**CONSOLIDATED**

**NOTES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

<b>NOTES</b>	<b>As At 31 March 2012 Rs.</b>	<b>As At 31 March 2011 Rs.</b>
<b>NOTE - 10</b>		
<b>LONG TERM LOANS &amp; ADVANCES - (Unsecured, Considered Good)</b>		
<b>Deposits</b>		
<b>Deposit - Government Authorities</b>		
Deposits - Electricity	626,957	586,457
Deposits -Telephone	157,714	159,514
<b>Deposits - Others</b>		
Deposits - Others	660,445	2,563,377
Deposits - Rent	2,241,200	450,000
<b>Other Loans &amp; Advances</b>		
Moschip Employees Trust	2,795,000	2,795,000
<b>Total</b>	<b><u>6,481,316</u></b>	<b><u>6,554,347</u></b>
 <b>NOTE - 11</b>		
<b>CURRENT INVESTMENTS</b>		
Investments		
SVB Securities Liquid Fund	152,507	133,655
<b>Total</b>	<b><u>152,507</u></b>	<b><u>133,655</u></b>
 <b>NOTE - 12</b>		
<b>INVENTORIES</b>		
Finished Goods	37,217,852	78,429,213
<b>Total</b>	<b><u>37,217,852</u></b>	<b><u>78,429,213</u></b>

**CONSOLIDATED**

**NOTES FORMING PART OF  
CONSOLIDATED BALANCE SHEET**

<b>NOTES</b>	<b>As At 31 March 2012 Rs.</b>	<b>As At 31 March 2011 Rs.</b>
<b>NOTE - 13</b>		
<b>TRADE RECEIVABLES</b>		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	-	
Others	42,204,900	4,961,626
<b>Total</b>	<b><u>42,204,900</u></b>	<b><u>4,961,626</u></b>
 <b>NOTE-14</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash on hand	6,131	24,280
Balance with Scheduled Banks		
- In Current accounts	2,727,790	3,900,711
- In fixed deposit accounts	585,301	585,301
(Rs.585,301/- (Previous Year Rs.585,301/-) pledged towards margin on Bank Guarantee)		
Balance with Non-Scheduled Banks in Current Accounts	13,558,547	3,539,282
<b>Total</b>	<b><u>16,877,769</u></b>	<b><u>8,049,574</u></b>
 <b>NOTE - 15</b>		
<b>SHORT TERM LOANS &amp; ADVANCES</b>		
<b>Other Loans &amp; Advances - (Unsecured , Considered Good)</b>		
Prepaid Expenses	4,594,040	7,756,490
Service Tax Input Credit	3,877,307	3,866,016
Interest Accrued but not due	180,558	142,364
Prepaid Income Tax-TDS	1,563,301	105,515
Loans & Advances to Employees	2,503	162,500
Other Advances	447,904	234,048
<b>Total</b>	<b><u>10,665,612</u></b>	<b><u>12,266,933</u></b>

**CONSOLIDATED**

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

<b>NOTES</b>	<b>For the year ended 31 March 2012 Rs.</b>	<b>For the year ended 31 March 2011 Rs.</b>
<b>NOTE - 16</b>		
<b>REVENUE FROM OPERATIONS</b>		
Semiconductor Sales	129,893,807	249,359,122
Software Services	24,052,805	20,465,997
<b>Total</b>	<b>153,946,613</b>	<b>269,825,118</b>
<b>NOTE - 17</b>		
<b>OTHER INCOME</b>		
Interest Earned (Gross)	94,090	73,667
(Tax Deducted at Source Rs.6,155 (previous year Rs.7,684)		
Profit on Sale of Investment	153,215	-
Miscellaneous Income	-	945,227
<b>Total</b>	<b>247,304</b>	<b>1,018,895</b>
<b>NOTE - 18</b>		
<b>COST OF MATERIAL CONSUMED</b>		
Materials, Finished and Processed stocks	96,554,260	132,814,610
Import Clearance Charges	982,925	2,159,735
<b>Total</b>	<b>97,537,185</b>	<b>134,974,345</b>
<b>NOTE - 19</b>		
<b>EMPLOYEE BENEFIT EXPENSES</b>		
Salaries and Other Allowances to Employees	75,177,530	85,962,581
Contribution to PF, ESI & Gratuity	1,705,389	3,455,763
Directors Remuneration	7,200,000	7,830,000
Staff Welfare Expenses	3,936,282	4,266,063
<b>Total</b>	<b>88,019,201</b>	<b>101,514,406</b>

**CONSOLIDATED**

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

<b>NOTES</b>	<b>For the year ended 31 March 2012 Rs.</b>	<b>For the year ended 31 March 2011 Rs.</b>
<b>NOTE - 20</b>		
<b>FINANCE COST</b>		
Interest on Packing Credit	15,457,850	11,407,397
Interest on loan from Directors	709,850	1,713,972
Interest on ICDs	416,258	9,016,622
Loan Processing Charges	-	350,685
Bank Charges	890,011	435,776
<b>Total</b>	<b>17,473,969</b>	<b>22,924,451</b>
<b>NOTE - 21</b>		
<b>OTHER EXPENSES</b>		
Rent	7,857,815	14,952,449
Electricity Charges	2,002,310	2,162,297
Consumables	1,278,744	1,271,796
Research and Development Expenses	1,617,886	1,637,517
Software Charges	3,377,556	3,413,035
Communication Expenses	452,804	529,603
Computer Maintenance	314,763	252,057
Directors Sitting Fee	134,000	63,000
Export freight and insurance charges	549,956	1,900,939
Printing and Stationery	90,586	47,078
Postage, Telegrams and Telephones	946,586	1,104,111
Fees, Rates and Taxes	265,998	739,938
Vehicle Maintenance	60,789	38,015
Repairs and Maintenance	351,050	1,084,167
Travelling and Conveyance	3,802,608	5,346,622
Marketing Expenses	1,071,179	1,847,721
Advertisement Expenses	2,081,653	5,005,164
Payment to Auditors	882,760	797,792
Insurance	4,709,945	4,936,746
Professional charges	1,928,491	2,864,226
Recruitment Expenses	554,481	257,643
General Expenses	5,390,189	5,802,263
Bad Debts Written Off	161,845	121,795
Realised Loss/(Gain) on Forex Fluctuation	1,321,891	474,909
Unrealised Loss/(Gain) on Forex Fluctuation	(7,272,076)	1,451,709
<b>Total</b>	<b>33,933,809</b>	<b>58,102,588</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012**

**22 Significant accounting policies and notes on accounts**

**Company overview**

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") and its subsidiary (hereinafter collectively referred to as "the Group") is a a fabless semiconductor company engaged in the business of development and manufacture 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. The Company also provides software services to its clients across the globe.

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

**22.1 Significant Accounting Policies**

**22.1.1 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, MosChip Semiconductor Technology PTE Ltd, Singapore (Wholly Owned Subsidiary) and MosChip Semiconductor Technology, USA (Wholly Owned Subsidiary) for the year ended 31 March 2012.

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.

**22.1.2 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.

**22.1.3 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.

**22.1.4 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.

**22.1.5 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.

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**22.1.6 Fixed Assets and Capital Work-in-Progress**

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

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

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

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

**22.1.7 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 22.2.9.

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

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

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

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

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

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

**22.1.8 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.

**22.1.9 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.

**22.1.10 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.

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

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

**22.1.11 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.

**22.2 Notes on Accounts**

**22.2.1 Contingent Liabilities:**

(Amount in Rupees)

Particulars	As at 31 March	
	2012	2011
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by bankers	585,301	585,301
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty	5,500,000	8,025,000

**22.2.2 Forfeited Share Warrants**

In FY 2009-10 the company allotted 250,000 convertible warrants at a price of Rs.12.50 each and received 25% as upfront payment of Rs.781,250. Due to non payment of the balance amount within the stipulated time, the aforesaid 250,000 warrants stood lapsed and upfront payment received against these warrants was forfeited and credited to Capital Reserve Account.

**22.2.3 Exceptional Items**

During the year under review, the company has sold some assets which were 100% written off and retired from active use and as no further benefit was expected. The Gross block value and the Accumulated Depreciation of the assets are Rs. 136,820,304 and Rs. 121,615,375 respectively. Similarly during the year under review, the company has identified obsolete stocks of Rs10,865,554.

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

**22.2.4 Extraordinary Items**

The extraordinary items consist of Impairment loss on Goodwill of Rs.303,647,300 pertaining to the investment made by MosChip India in its 100% wholly owned Subsidiary of MosChip USA. This impairment loss was due to changes in underlying business conditions of MosChip USA.

**22.2.5 Discontinuing Operations**

Revenue from Discontinued Operations consist of 1) Rs.45,070,000 revenue towards sale of MosChip India's I/O division IPRs 2) Rs.160,370,000 revenue towards sale of the I/O division IPRs and Assets held by its 100% Subsidiary in USA.

**22.2.6 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:

**CONSOLIDATED****NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

(Amount in Rupees except share numbers)

	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
<b>BASIC EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(106,124,626)	(95,379,363)
Net Profit/(Loss) for the period after exceptional, extraordinary and Discontinuing Operations	(130,067,992)	(95,794,205)
Weighted average number of equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(0.60)	(2.08)
EPS after extraordinary and prior period item	(2.83)	(2.08)
<b>DILUTED EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(106,124,626)	(95,379,363)
Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(130,067,992)	(95,794,205)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and Discontinuing Operations	(106,124,626)	(95,379,363)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and Discontinuing Operations	(130,067,992)	(95,794,205)
Weighted average number of equity shares	46,035,517	46,035,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(0.60)	(2.08)
EPS after extraordinary and prior period item	(2.83)	(2.08)

**22.2.7 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

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**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**a) Business Segment Information:**

Particulars	Year ended 31 March 2012	
	<b>Software Rs.</b>	<b>ASICs Rs.</b>
<b>Revenue</b>		
Sales to external customers	20,307,437	133,639,176
<b>Segment Profit / (loss)</b>	(434,419,086)	332,327,883
Other Income	246,651	653
Profit / (loss) before Tax	(434,172,435)	332,328,536
Tax	0	0
Exceptional Item	2,970,924	(77,234,858)
Profit/(loss) after Tax before Extraordinary and Discontinuing operations	(437,143,359)	409,563,394
Extraordinary Items and Profit / (Loss) on Discontinuing Operations	45,070,000	147,558,027
Net profit/(loss)	(392,073,359)	262,005,367
<b>Other Segment Information</b>		
Depreciation	5,643,319	13,430,333
Non-cash expenses other than depreciation	0	0
<b>Particulars of Segment Assets and Liabilities</b>		
Segment Assets	44,079,504	83,178,145
Investments	0	152,507
Cash and Bank Deposits	3,319,222	13,558,547
Other Assets		0
Total Assets	47,398,726	96,889,199
Segment Liabilities	8,692,767	8,320,266
Secured Loans	27,238,925	0
Unsecured Loans	0	0
Total Liabilities	35,931,692	8,320,266

**b) Geographic Segment Information:**

	Year ended 31 March 2012
<b>Revenue</b>	
Hong Kong	<b>10,338,031</b>
Taiwan	<b>77,817,752</b>
Japan	<b>24,349,302</b>
Europe	<b>12,620,540</b>
Rest of World	<b>4,768,183</b>
<b>Carrying amount of segment fixed assets</b>	
India	<b>100,848,802</b>
North America	<b>127,031,049</b>
<b>Additions to fixed assets</b>	
India	<b>74,202</b>
North America	<b>6,786,827</b>

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

**22.2.8 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 2012. 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.

**22.2.9 Employee Stock Option Plans**

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

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

Stock Options Outstanding under the Employee Stock Option Plan

	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>61,800</b>	156,800
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>14,400</b>	95,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>47,400</b>	61,800

Stock Options Outstanding under the MosChip Stock Option Plan 2001

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>68,625</b>	110,000
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>0</b>	41,375
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>68,625</b>	68,625

Stock Options Outstanding under the MosChip Stock Option Plan 2002

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>176,000</b>	316,000
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>56,000</b>	140,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>120,000</b>	176,000

**CONSOLIDATED**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2004

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	110,000	298,000
Granted during the year	0	0
Forfeited during the year	0	188,000
Exercised during the year	0	0
Outstanding at the end of the year	110,000	110,000

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	50,000	112,000
Granted during the year	0	0
Forfeited during the year	12,000	62,000
Exercised during the year	0	0
Outstanding at the end of the year	38,000	50,000

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	0	400,000
Granted during the year	200,000	0
Forfeited during the year	0	400,000
Exercised during the year	0	0
Outstanding at the end of the year	200,000	0

Stock Options Outstanding under the MosChip Stock Option Plan 2008

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	539,700	868,068
Granted during the year	0	0
Forfeited during the year	179,878	328,368
Exercised during the year	0	0
Outstanding at the end of the year	359,822	539,700

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	345,924	404,799
Granted during the year		150,000
Forfeited during the year	34,250	208,875
Exercised during the year	0	0
Outstanding at the end of the year	311,674	345,924

## CONSOLIDATED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options Outstanding under the MosChip Stock Option Plan 2008 (Director)		
Particulars	Year ended 31 March 2012	Year ended 31 March 2011
Options outstanding at the beginning of the year	300,000	300,000
Granted during the year	500,000	0
Forfeited during the year	100,000	0
Exercised during the year	0	0
Outstanding at the end of the year	700,000	300,000

#### 22.2.10 Gratuity Plan

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

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

(Amounts in Rupees)

	Year ended 31 March 2012
<b><u>Gratuity cost for the period</u></b>	
Current Service Cost	482,991
Interest cost on defined benefit obligation	442,877
Expected Return on Plan Assets	(94,222)
Net Actuarial losses/(gain) recognised in year	(2,997)
<b>Net Gratuity cost</b>	<b>8,28,649</b>
<b><u>Balance Sheet</u></b>	
Reconciliation of present value of the obligation and the fair value of plan assets	
Fair Value of Plan Assets at the end of the year	1,007,060
Present Value of the funded obligation at the end of the year	1,520,523
Asset/(Liability) recognized in the balance sheet	(3,916,247)
<b><u>Change in the present value of defined benefit obligation are as follows:</u></b>	
<b>Present value of obligations at the beginning of year</b>	<b>5,353,642</b>
Current Service Cost	482,991
Interest cost	442,877
Actuarial (gain)/loss	(13,365)
Benefits paid	(829,375)
<b>Present value of obligations as at the end of year</b>	<b>5,436,770</b>
<b><u>Change in the fair value of plan assets are as follows:</u></b>	
Fair Value of Plan Assets at beginning of year	1,007,060
Expected return on plan assets	94,222
Actuarial gain/(loss)	(10,368)
Contributions	1,258,984
Benefits paid	(829,375)
Fair Value of Plan Assets at end of year	1,520,523

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

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

Discount Rate	—	8.65%
Expected rate of return on assets	—	7.50%

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

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market. Above figures have been adopted as per actuarial valuation done by Thanawala Consultancy Services.

The defined benefit obligation of compensated absence (leave encashment) in respect of the employees of the company as at 31 March 2012 is Rs. 1,377,651.

**22.2.11 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 2012 would have been higher by Rs.1,042,990/- and loss for the period would have been higher by Rs.1,042,990/-.

**22.2.12 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

**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

Place: Hyderabad  
Date : 21 May 2012

**CONSOLIDATED**

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2012**

	31 March 2012 Rs.	31 March 2011 Rs.
<b>A. Cash Flow from Operating Activities</b>		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(101,843,899)	(95,776,767)
<b>Adjustments for:</b>		
Depreciation	19,073,652	48,614,422
GDR issue expenses written off	0	0
Interest Income	94,090	(73,667)
Loss on fixed assets sold / discarded	0	110,601
Profit on sale of Investments	(153,215)	0
Provision for Retirement Benefits	(246,440)	1,907,310
Exchange differences on translation of foreign currency cash	7,513	4,753
<b>Operating Profit before changes in working capital</b>	<b>(83,068,299)</b>	<b>(45,213,348)</b>
Increase/(Decrease) in Secured/Unsecured loans	(59,487,500)	(2,871,604)
(Increase)/Decrease in Sundry Debtors	(37,243,274)	34,935,938
(Increase)/Decrease in Inventories	41,211,361	(27,239,778)
(Increase)/Decrease in Loans and Advances	1,636,159	454,666
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	0	303,884
Increase/(Decrease) in Current Liabilities	(164,470,561)	43,161,834
<b>Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items</b>	<b>(301,422,114)</b>	<b>3,531,592</b>
Income-taxes paid	0	7,684
<b>Cash from operations before Exceptional, Extra Ordinary and Prior Period items</b>	<b>(301,422,114)</b>	<b>3,523,908</b>
Exceptional Item	0	397,404
Extra ordinary and prior period item	0	17,438
Income from discontinuing operations	(205,440,000)	0
<b>Net Cash from Operating Activities [A]</b>	<b>(95,982,114)</b>	<b>3,903,874</b>
<b>B. Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets	(6,861,029)	(244,353)
Sale proceeds of Fixed Assets	1,408,820	108,707
Interest received on Fixed Deposits	55,896	107,647
Purchase of Current Investments	(39,800,000)	0
Sale of Current Investments	39,953,215	0
Foreign currency translation adjustment for non-integral operation	109,927,266	(1,139,361)
<b>Net Cash used for Investing Activities [B]</b>	<b>104,684,167</b>	<b>(1,167,359)</b>
<b>C. Cash flow from Financing Activities:</b>		
Proceeds from Issue of Share Capital	0	(83,363)
Securities Premium	0	0
Convertible Warrants	0	0
<b>Net Cash from Financing Activities [C]</b>	<b>0</b>	<b>(83,363)</b>

**CONSOLIDATED****CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2012**

	31 March 2012 Rs.	31 March 2011 Rs.
<b>D. Exchange differences on translation of foreign currency cash</b>	<b>(7,513)</b>	<b>(4,753)</b>
<b>Net Increase/(Decrease) in cash &amp; cash equivalents [A+B+C+D]</b>	<b>8,694,540</b>	<b>2,648,399</b>
Cash and Cash equivalents at the beginning of the year	<u>7,597,928</u>	<u>4,949,529</u>
Cash and Cash equivalents at the end of the year	<u><b>16,292,468</b></u>	<u><b>7,597,928</b></u>
<b>Supplementary Information</b>		
Cash and Cash Equivalents as per Balance Sheet	16,877,769	8,183,229
Less: Fixed Deposits towards Bank Guarantee considered as investments	585,301	585,301
	<u><b>16,292,468</b></u>	<u><b>7,597,928</b></u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,  
Chartered Accountants**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839**K. Ramachandra Reddy**  
Chairman & CEO**C. Dayakar Reddy**  
Managing DirectorPlace: Hyderabad  
Date : 21 May 2012

**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, 2012 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. Further to our comments in the annexure referred to in paragraph 1 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, 2012 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on March 31, 2012 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - i) In the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2012
  - ii) In the case of the Profit & Loss Account, of the Loss of the company for the year ended on March 31, 2012; and
  - iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on March 31, 2012

For **Gokhale & Co.**  
Chartered Accountants

**Chandrashekhar Gokhale**  
Partner

21 May 2012

Membership No 23839  
Firm Regn. No 000942S

## AUDITORS' REPORT

**ANNEXURE**

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

- |   |   |
|---|---|
| <p>(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.</p> <p>(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.</p> <p>(iii) (a) The company has not taken any loans or advances from parties listed in the register maintained under section 301 of The Companies Act.</p> <p>(b) The company had taken unsecured loan from one of its directors in an earlier year. The entire outstanding balance of Rs 1.60 crores has been repaid during the year.</p> <p>(iv) In our opinion, and according to the information and explanations given to us, the company has adequate internal control systems commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services.</p> <p>(v) Transactions that need to be entered into a register in pursuance of Section 301 of the Act have been entered. In our opinion and based on information and explanations given to us transactions of the value of Rs 5 lakhs or more have been made at prices which are reasonable having regard to the nature of transactions. However, no comparative market prices are available because of the nature of products and services.</p> <p>(vi) The company has not accepted deposits from the public covered by the provisions of section 58 A of the Companies Act.</p> | <p>(vii) The company has an internal audit system commensurate with its size and nature of its business.</p> <p>(viii) The company is not required to maintain any cost records under clause (d) of sub-section (1) of Section 209 of the Act.</p> <p>(ix) The company is regular in depositing the Provident Fund and ESI dues with the appropriate authorities. According to the explanations and information given to us there were no undisputed statutory dues including Investor Education and Protection Fund, ESI, Income-tax, Sales-tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty etc outstanding for a period of more than six months from the date they became payable.</p> <p>(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 not incurred cash losses in the financial year under audit. However, the company had incurred cash losses in the immediately preceding financial year.</p> <p>(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.</p> <p>(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.</p> <p>(xiii) The company has not given any guarantee for loans taken by others from bank or financial institutions.</p> <p>(xiv) No part of the funds raised on short-term basis have been used for long-term investments.</p> <p>(xv) During the year the company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act.</p> <p>(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.</p> |
|---|---|

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

For **Gokhale & Co.**  
Chartered Accountants

**Chandrashekhhar Gokhale**  
Partner

Membership No 23839  
Firm Regn. No 000942S

21 May 2012

**MOSCHIP INDIA**

**BALANCE SHEET AS AT 31 MARCH 2012**

PARTICULARS	Note No.	As at		As at	
		Rs.	Rs.	Rs.	Rs.
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' funds</b>					
a. Share Capital	1	460,355,170		460,355,170	
b. Reserves and Surplus	2	(349,596,963)		(70,450,826)	
c. Money received against share warrants	3	-		781,250	
			<b>110,758,207</b>		390,685,595
<b>2. Share application money pending allotment</b>					
<b>3. Non-current liabilities</b>					
a. Long-term borrowings	4	-		26,000,000	
b. Deferred Tax liabilities (Net)		-		-	
c. Other Long term liabilities		-		-	
d. Long-term Provisions	5	5,293,898		5,489,477	
			<b>5,293,898</b>		31,489,477
<b>4. Current Liabilities</b>					
a. Short term borrowings	6	74,757,550		130,624,986	
b. Trade payables		2,438,840		1,249,810	
c. Other current liabilities	7	127,225		127,225	
d. Short term provisions	8	832,804		2,270,456	
			<b>78,156,419</b>		134,272,476
<b>TOTAL</b>			<b>194,208,524</b>		<b>556,447,548</b>
<b>II ASSETS</b>					
<b>1. Non-current assets</b>					
a. Fixed assets	9				
i. Tangible assets		27,138,437		32,326,047	
ii. Intangible assets		3,352,426		1,574,611	
iii. Capital work-in-progress		-		-	
iv. Intangible assets under development		-		-	
b. Non-current investments	10	73,240,156		375,579,087	
c. Deferred tax assets (net)		-		-	
d. Long-term loans and advances	11	5,830,971		4,001,951	
e. Other non-current assets		-		-	
			<b>109,561,990</b>		413,481,695
<b>2. Current assets</b>					
a. Current investments		-		-	
b. Inventories		-		-	
c. Trade receivables	12	74,465,562		116,521,813	
d. Cash and Cash equivalents	13	2,010,892		4,699,606	
e. Short-term loans and advances	14	8,170,080		21,744,434	
f. Other current assets		-		-	
			<b>84,646,534</b>		<b>142,965,853</b>
<b>TOTAL</b>			<b>194,208,524</b>		<b>556,447,548</b>
Significant accounting policies and notes to accounts	21				

Per and subject to our report of even date

For and on behalf of the Board of Directors

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

**Chandrashekhara Gokhale**  
Partner  
Membership No 23839  
Place: Hyderabad  
Date : 21 May 2012

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

**PROFIT AND LOSS STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2012**

PARTICULARS	Note No.	For the year ended 31 March 2012		For the year ended 31 March 2011	
		Rs.	Rs.	Rs.	Rs.
I. Revenue from operations	15	132,453,409		247,884,468	
II. Other Income	16	246,651		548,354	
III. <b>Total Revenue (I + II)</b>			132,700,060		248,432,822
IV. Expenses					
Cost of Materials Consumed	17	43,345,637		121,596,051	
Purchases of Stock in Trade		-		-	
Changes in inventories of finished goods, work in progress and Stock-in-trade		-		-	
Employee benefits expense	18	66,786,722		71,198,304	
Finance Costs	19	15,414,754		18,821,801	
Depreciation and amortization expense		5,643,319		8,301,188	
Other expense	20	19,888,792		35,441,151	
<b>Total Expense</b>			151,079,224		255,358,494
V. Profit/(Loss) before exceptional and extraordinary items and tax (III-IV)			(18,379,163)		(6,925,672)
VI. Exceptional Items		2,970,924		200,012	
VII. Profit/ (Loss) before extraordinary items and tax (V-VI)			(21,350,087)		(7,125,684)
VIII. Extraordinary items		303,647,300		-	
IX. Profit/(Loss) before tax (VII-VIII)			(324,997,387)		(7,125,684)
X. <b>Tax expense:</b>					
1. Current tax		-		-	
2. Deferred tax		-		-	
XI. Profit/(Loss) for the period from continuing operations (IX - X)			(324,997,387)		(7,125,684)
XII. Profit/(Loss) for the period from discontinuing operations			45,070,000		-
XIII. Tax expense of discontinuing operations			-		-
XIV. Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			45,070,000		-
XV. Profit/(Loss) for the period (XI + XIV)			(279,927,387)		(7,125,684)
<b>XVI. Earnings per equity share:</b>					
Equity Share of face value Rs.10/- each					
1. Basic			(6.08)		(1.66)
2. Diluted			(6.08)		(1.66)
Significant accounting policies and notes to accounts	21				

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**  
Chartered Accountants  
**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839  
Place: Hyderabad  
Date : 21 May 2012

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

**NOTES FORMING PART OF  
BALANCE SHEET**

NOTES	As At 31 March 2012 Rs.	As At 31 March 2011 Rs.
<b>NOTE - 1</b>		
<b>SHARE CAPITAL:</b>		
<b>Authorised Share Capital</b>		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	550,000,000	550,000,000
<b>Issued share capital</b>		
47,750,589 ( Previous Year 47,750,589) equity shares of Rs.10/- each	477,505,890	477,505,890
<b>Subscribed and fully paid share capital</b>		
46,035,517 (Previous Year 46,035,517) equity shares of Rs.10/- each	460,355,170	460,355,170
<b>Shareholders having more than 5% of the shares with the number of shares &amp; Percentage</b>		
<b>Name of the Shareholder</b>	<b>2011-12 No. of Shares</b>	<b>2010-11 No. of Shares</b>
	<b>%</b>	<b>%</b>
1.K Ramachandra Reddy	3,050,037 6.63%	3,050,037 6.63%
<b>Total</b>	<b>460,355,170</b>	<b>460,355,170</b>
<b>NOTE - 2</b>		
<b>RESERVES AND SURPLUS:</b>		
Capital Reserves		
State Govt Subsidy	1,250,000	1,250,000
Forfeited Share Warrants:		
Opening Balance	4,650,000	4,650,000
Additions	781,250	-
	5,431,250	4,650,000
Securities Premium Reserves		
Opening Balance	666,633,920	666,633,920
Additions	-	-
	666,633,920	666,633,920
Surplus, showing allocations and appropriations such as dividend, Bonus Shares and transfer to / from reserves		
Opening Balance	(742,984,746)	(735,859,062)
Add: Current Year Surplus	(279,927,387)	(7,125,684)
	(1,022,912,133)	(742,984,746)
<b>Total</b>	<b>(349,596,963)</b>	<b>(70,450,826)</b>
<b>NOTE - 3</b>		
<b>MONEY RECEIVED AGAINST SHARE WARRANTS</b>		
	-	781,250
<b>Total</b>	<b>-</b>	<b>781,250</b>

NOTES	As At 31 March 2012 Rs.	As At 31 March 2011 Rs.
<b>NOTE - 4</b>		
<b>LONG TERM BORROWINGS:</b>		
<b>Unsecured Loans:</b>		
Loan from Directors	-	16,000,000
Loan from Others	-	10,000,000
<b>Total</b>	<b>-</b>	<b>26,000,000</b>
<b>NOTE - 5</b>		
<b>LONG TERM PROVISIONS:</b>		
Leave Encashment	1,377,651	1,142,895
Gratuity	3,916,247	4,346,582
<b>Total</b>	<b>5,293,898</b>	<b>5,489,477</b>
<b>NOTE - 6</b>		
<b>SHORT TERM BORROWINGS:</b>		
Loan from Bank (Packing Credit)	27,238,925	109,062,625
(Export Packing Credit facility obtained from UCO Bank is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director) Terms of repayment is 180 days from the date of availment of loan		
<b>Loans and Advances from Related Parties - Unsecured</b>		
Moschip Semiconductor Technology, USA	47,518,625	21,562,361
Loans and Advances - Others	-	-
<b>Total</b>	<b>74,757,550</b>	<b>130,624,986</b>
<b>NOTE - 7</b>		
<b>OTHER CURRENT LIABILITIES:</b>		
Application money received for allotment of securities and due for refund	127,225	127,225
<b>Total</b>	<b>127,225</b>	<b>127,225</b>
<b>NOTE - 8</b>		
<b>SHORT TERM PROVISIONS:</b>		
Provision for Expenses	832,804	2,270,456
<b>Total</b>	<b>832,804</b>	<b>2,270,456</b>

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

**NOTE - 9**  
**FIXED ASSETS**  
(Amount in Rupees)

S.No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Balance as at 01.04.11	Additions during the year	Deletions during the year	Balance as at 31.03.12	Balance as at 01.04.11	For the Year	Deletions during the year	Balance as at 31.03.12	Balance as at 31.03.12	Balance as at 31.03.11
	<b>Tangible Assets</b>										
1	Computers	30,455,516	196,465	643,727	30,008,254	24,336,443	3,089,458	643,727	26,782,174	3,226,080	6,119,073
2	Electrical Installation	2,300,462	103,320	273,274	2,130,508	826,772	96,819	113,256	810,335	1,320,173	1,473,690
3	Plant and Machinery	27,999,383	0	4,831,616	23,167,767	23,291,887	269,321	1,716,948	21,844,260	1,323,507	4,707,496
4	Furniture and Fittings	8,453,181	72,593	2,805,255	5,720,519	4,254,429	368,733	1,742,696	2,880,466	2,840,053	4,198,752
5	Office Equipment	4,701,513	309,060	266,400	4,744,173	1,484,479	200,287	50,341	1,634,425	3,109,748	3,217,034
6	Vehicles	84,257	0	0	84,257	68,309	3,574	0	71,883	12,374	15,948
7	Lab Equipment	16,264,297	228,469	0	16,492,766	3,670,242	777,413	0	4,447,655	12,045,111	12,594,055
8	Leasehold Improvements	3,938,681	3,286,421	3,938,681	3,286,421	3,938,682	25,030	3,938,681	25,031	3,261,390	0
	<b>TOTAL</b>	<b>94,197,290</b>	<b>4,196,328</b>	<b>12,758,953</b>	<b>85,634,665</b>	<b>61,871,243</b>	<b>4,830,634</b>	<b>8,205,649</b>	<b>58,496,228</b>	<b>27,138,437</b>	<b>32,326,048</b>
	<b>Intangible Assets</b>										
1	Software	59,925,482	2,590,499	0	62,515,981	58,350,871	812,684	0	59,163,555	3,352,426	1,574,611
	<b>TOTAL</b>	<b>59,925,482</b>	<b>2,590,499</b>	<b>0</b>	<b>62,515,981</b>	<b>58,350,871</b>	<b>812,684</b>	<b>0</b>	<b>59,163,555</b>	<b>3,352,426</b>	<b>1,574,611</b>
	<b>GRAND TOTAL</b>	<b>154,122,772</b>	<b>6,786,827</b>	<b>12,758,953</b>	<b>148,150,646</b>	<b>120,222,114</b>	<b>5,643,319</b>	<b>8,205,649</b>	<b>117,659,784</b>	<b>30,490,862</b>	<b>33,900,659</b>
	Previous Year	154,472,629	282,139	631,996	154,122,772	112,309,456	8,301,188	388,531	120,222,114	33,900,659	0

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

<b>NOTES</b>	<b>As At 31 March 2012 Rs.</b>	<b>As At 31 March 2011 Rs.</b>
<b>NOTE - 10</b>		
<b>NON CURRENT INVESTMENTS:</b>		
Investments		
Unquoted		
a) Wholly-owned Subsidiary:		
19,192,404 (Previous Year 19,192,404) shares of MosChip Semiconductor Technology USA (a company incorporated in USA)		
At Cost	375,579,087	375,579,087
Less: Diminution in Value	<u>303,647,300</u>	<u>-</u>
	<u>71,931,787</u>	<u>375,579,087</u>
Unquoted	<u><u>                    </u></u>	<u><u>                    </u></u>
b) Wholly-owned Subsidiary:		
1 Share of MosChip Semiconductor Technology Pte Ltd. (1 Singapore Dollar)	39	-
(a company incorporated in Singapore)		-
Amount pending for Allotment	1,308,330	
<b>Total</b>	<u><u>73,240,156</u></u>	<u><u>375,579,087</u></u>
<b>NOTE - 11</b>		
<b>LONG TERM LOANS &amp; ADVANCES - (Unsecured, Considered Good):</b>		
<b>Deposits</b>		
<b>Deposit - Government Authorities</b>		
Deposits - Electricity	626,957	586,457
Deposits -Telephone	157,714	159,514
<b>Deposits - Others</b>		
Deposits - Others	10,100	10,980
Deposits - Rent	2,241,200	450,000
<b>Other Loans &amp; Advances</b>		
MosChip Employees Trust	2,795,000	2,795,000
<b>Total</b>	<u><u>5,830,971</u></u>	<u><u>4,001,951</u></u>
<b>NOTE - 12</b>		
<b>TRADE RECEIVABLES:</b>		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	64,084,356	9,234,186
Others	<u>10,381,206</u>	<u>107,287,627</u>
<b>Total</b>	<u><u>74,465,562</u></u>	<u><u>116,521,813</u></u>

**SCHEDULES FORMING PART OF  
BALANCE SHEET**

<b>NOTES</b>	<b>As At 31 March 2012 Rs.</b>	<b>As At 31 March 2011 Rs.</b>
<b>NOTE - 13</b>		
<b>CASH AND CASH EQUIVALENTS:</b>		
Cash on hand	6,131	24,280
Balance with Scheduled Banks		
- In Current accounts	1,419,460	3,900,711
- In fixed deposit accounts (Rs.585,301/- (Previous Year Rs.585,301/-) pledged towards margin on Bank Guarantee)	585,301	585,301
Bank of America, USA (Maximum amount outstanding during the period Rs.190,418/- (previous year Rs.318,093/-)	-	189,314
<b>Total</b>	<b>2,010,892</b>	<b>4,699,606</b>
<b>NOTE - 14</b>		
<b>SHORT TERM LOANS &amp; ADVANCES:</b>		
<b>Other Loans &amp; Advances - (Unsecured , Considered Good)</b>		
Prepaid Expenses	2,052,040	4,834,246
Service Tax Input Credit	3,877,307	3,866,016
Interest Accrued but not due	180,558	142,364
Prepaid Income Tax - TDS	1,609,808	105,515
Loans & Advances to Employees	2,503	162,500
Other Advances	447,865	234,048
	8,170,080	9,344,688
<b>Advance to Suppliers</b>	-	12,399,746
<b>Total</b>	<b>8,170,080</b>	<b>21,744,434</b>

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

<b>NOTES</b>	<b>For the year ended 31 March 2012 Rs.</b>	<b>For the year ended 31 March 2011 Rs.</b>
<b>NOTE - 15</b>		
<b>REVENUE FROM OPERATIONS:</b>		
Semiconductor Sales	56,026,526	158,038,486
Software Services	76,426,883	87,618,302
Other Services	-	2,227,680
<b>Total</b>	<b><u>132,453,409</u></b>	<b><u>247,884,468</u></b>
<b>NOTE - 16</b>		
<b>OTHER INCOME:</b>		
Interest Earned (Gross)	93,437	548,354
(Tax Deducted at Source Rs.6,155 (previous year Rs.7,684)		
Profit on Sale of Investment	153,215	-
<b>Total</b>	<b><u>246,651</u></b>	<b><u>548,354</u></b>
<b>NOTE - 17</b>		
<b>COST OF MATERIAL CONSUMED:</b>		
Materials, Finished and Processed stocks	42,976,205	120,225,304
Import Clearance Charges	369,432	1,370,747
<b>Total</b>	<b><u>43,345,637</u></b>	<b><u>121,596,051</u></b>
<b>NOTE - 18</b>		
<b>EMPLOYEE BENEFITS EXPENSES:</b>		
Salaries and Other Allowances to Employees	54,348,355	56,235,346
Contribution to PF, ESI & Gratuity	1,705,389	3,455,763
Directors Remuneration	7,200,000	7,830,000
Staff Welfare Expenses	3,532,978	3,677,195
<b>Total</b>	<b><u>66,786,722</u></b>	<b><u>71,198,304</u></b>

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

<b>NOTES</b>	<b>For the year ended 31 March 2012 Rs.</b>	<b>For the year ended 31 March 2011 Rs.</b>
<b>NOTE - 19</b>		
<b>FINANCE COST:</b>		
Interest on Packing Credit	13,935,275	14,721,369
Interest on loan from Directors	709,850	1,713,972
Interest on ICDs	416,258	1,600,000
Loan Processing Charges	-	350,685
Bank Charges	353,371	435,776
<b>Total</b>	<b>15,414,754</b>	<b>18,821,801</b>
<b>NOTE - 20</b>		
<b>OTHER EXPENSES:</b>		
Rent	5,775,900	10,809,327
Electricity Charges	1,848,862	1,865,266
Consumables	1,278,744	1,271,796
Software Charges	3,377,556	3,413,035
Communication Expenses	452,804	529,603
Computer Maintenance	314,763	252,057
Directors Sitting Fee	134,000	63,000
Export freight and insurance charges	549,956	1,900,939
Printing and Stationery	37,780	41,207
Postage, Telegrams and Telephones	540,985	511,004
Fees, Rates and Taxes	193,229	191,001
Vehicle Maintenance	60,789	38,015
Repairs and Maintenance	351,050	1,084,167
Travelling and Conveyance	2,630,581	3,309,139
Advertisement Expenses	202,004	123,760
Payment to Auditors	240,506	267,500
Insurance	2,483,779	2,337,299
Professional charges	1,602,142	2,587,760
Recruitment Expenses	554,481	257,643
General Expenses	3,209,066	2,661,017
Realised Loss/(Gain) on Forex Fluctuation	1,321,891	474,909
Unrealised Loss/(Gain) on Forex Fluctuation	(7,272,076)	1,451,709
<b>Total</b>	<b>19,888,792</b>	<b>35,441,151</b>

**Notes to the Financial Statements for the year ended 31 March 2012**

**21. Significant accounting policies and notes on accounts**

**Company overview**

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

**21.1 Significant Accounting Policies**

**21.1.1 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.

**21.1.2 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.

**21.1.3 Revenue Recognition**

Revenue from software sales / Services are recognized 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.

**21.1.4 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.

**21.1.5 Depreciation**

Depreciation on Fixed Assets other than Improvement to Leasehold Premises and Computer Software is provided under Straight Line method at the rates specified in Schedule XIV of the Companies Act, 1956.

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

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

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

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.

### 21.1.6 Impairment of Fixed Assets

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

### 21.1.7 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.

### 21.1.8 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.

### 21.1.9 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.

### 21.1.10 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.

### 21.1.11 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.

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

### 21.2 Notes on Accounts

#### 21.2.1 Contingent Liabilities:

(Amount in Rupees)

Particulars	As at 31 March	
	2012	2011
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by bankers	585,301	585,301
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty	5,500,000	8,025,000

#### 21.2.2 Forfeited Share Warrants

In FY 2009-10 the company allotted 250,000 convertible warrants at a price of Rs.12.50 each and received 25% as upfront payment of Rs. 781,250. Due to non payment of the balance amount within the stipulated time, the aforesaid 250,000 warrants stood lapsed and upfront payment received against these warrants was forfeited and credited to Capital Reserve Account.

#### 21.2.3 Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2012. 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.

#### 21.2.4 Employee Stock Option Plans

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

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

**SIGNIFICANT ACCOUNTING POLICIES AND  
NOTES ON ACCOUNTS**
**Stock Options Outstanding under the Employee Stock Option Plan**

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>61,800</b>	156,800
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>14,400</b>	95,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>47,400</b>	61,800

**Stock Options Outstanding under the MosChip Stock Option Plan 2001**

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>68,625</b>	110,000
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>0</b>	41,375
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>68,625</b>	68,625

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>176,000</b>	316,000
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>56,000</b>	140,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>120,000</b>	176,000

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>110,000</b>	298,000
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>0</b>	188,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>110,000</b>	110,000

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>50,000</b>	112,000
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>12,000</b>	62,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>38,000</b>	50,000

**SIGNIFICANT ACCOUNTING POLICIES AND  
NOTES ON ACCOUNTS**
**Stock Options Outstanding under the MosChip Stock Option Plan 2005-WOS**

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>0</b>	400,000
Granted during the year	<b>200,000</b>	0
Forfeited during the year	<b>0</b>	400,000
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>200,000</b>	0

**Stock Options Outstanding under the MosChip Stock Option Plan 2008**

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>539,700</b>	868,068
Granted during the year	<b>0</b>	0
Forfeited during the year	<b>179,878</b>	328,368
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>359,822</b>	<b>539,700</b>

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>345,924</b>	404,799
Granted during the year		150,000
Forfeited during the year	<b>34,250</b>	208,875
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>311,674</b>	345,924

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

<b>Particulars</b>	<b>Year ended 31 March 2012</b>	Year ended 31 March 2011
Options outstanding at the beginning of the year	<b>300,000</b>	300,000
Granted during the year	<b>500,000</b>	0
Forfeited during the year	<b>100,000</b>	0
Exercised during the year	<b>0</b>	0
Outstanding at the end of the year	<b>700,000</b>	300,000

**SIGNIFICANT ACCOUNTING POLICIES AND  
NOTES ON ACCOUNTS**
**21.2.5 Earnings per Share**

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

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

(Amount in Rupees except share data)

	Year ended 31 March 2012	Year ended 31 March 2011
<b>BASIC EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary, prior period item and discontinuing operations	<b>(18,379,163)</b>	(6,978,383)
Net Profit/(Loss) for the period after exceptional, extraordinary, prior period item and discontinuing operations	<b>(279,927,387)</b>	(7,125,684)
Weighted average number of equity shares	<b>46,035,517</b>	46,035,517
EPS before extraordinary and prior period item	<b>(0.46)</b>	(0.15)
EPS after extraordinary and prior period item	<b>(6.08)</b>	(0.15)
<b>DILUTED EARNINGS/(LOSS) PER SHARE</b>		
Net Profit/(Loss) for the period before exceptional, extraordinary, prior period item and discontinuing operations	<b>(18,379,163)</b>	(6,978,383)
Net Profit/(Loss) for the period after exceptional, extraordinary, prior period item and discontinuing operations	<b>(279,927,387)</b>	(7,125,684)
Adjustments	<b>Nil</b>	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary, prior period item and discontinuing operations	<b>(18,379,163)</b>	(6,978,383)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary, prior period item and discontinuing operations	<b>(279,927,387)</b>	(7,125,684)
Weighted average number of equity shares	<b>46,035,517</b>	46,035,517
Diluted Potential weighted average number of equity shares	<b>Nil</b>	Nil
Weighted average number of diluted equity shares	<b>46,035,517</b>	46,035,517
EPS before extraordinary and prior period item	<b>(0.46)</b>	(0.15)
EPS after extraordinary and prior period item	<b>(6.08)</b>	(0.15)

**21.2.6 Directors' Remuneration:**

(Amounts in Rupees)

	Year ended 31 March 2012	Year ended 31 March 2011
1. Salary and allowances	<b>7,200,000</b>	7,830,000
2. No Provision for Commission to Whole Time Directors has been made in the books, as there is no profit in accordance with Section 198 of the Companies Act, 1956.		

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

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

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

(Amounts in Rupees)

Nature of Transaction	Transactions during the year	Balance as on 31 March 2012
<b>Transactions with Subsidiary</b>		
Reimbursement of expenses / Payable	346,796	Nil
Reimbursement of expenses / Receivable	Nil	Nil
Advance for sales/ Payable	74,854,282	<b>47,518,625</b>
Loans/ Receivable	Nil	Nil
Sales / Receivable	116,164,868	<b>64,086,717</b>
<b>Transactions with whole time directors</b>		
Remuneration to Chairman & CEO	3,600,000	Nil
Remuneration to Managing Director	3,600,000	Nil
Loan from Directors/Payables	16,000,000	Nil
Interest Payable on Directors Loan	709,850	Nil

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

(Amounts in Rupees)

Particulars	Year ended 31 March 2012 Rs.	Year ended 31 March 2011 Rs.
<b>A. C I F Value of Imports :</b>		
Capital Goods	<b>138,119</b>	67,458
Material purchase	<b>42,976,205</b>	124,934,965
<b>B. Expenditure in Foreign currency</b>		
Software Charges	<b>3,201,628</b>	3,108,679
Traveling Expenses	<b>841,019</b>	1,728,570
Professional Charges	<b>330,042</b>	85,793
Consumables	<b>178,326</b>	433,742
Other Expenses	<b>213,006</b>	183,202
<b>C. Earnings in Foreign Exchange</b>		
Sales Revenue	<b>177,523,409</b>	247,884,468

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

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

**a) Business Segment Information:**

(Amounts in Rupees)

Particulars	Year ended 31 March 2012 Rs.	Year ended 31 March 2011 Rs.
<b>Revenue</b>		
Sales to external customers	132,453,409	247,884,468
<b>Segment Profit / (loss)</b>	<b>(18,625,815)</b>	(7,526,737)
Other Income	246,651	548,354
Profit / (loss) before Tax	(18,379,163)	(6,978,383)
Fringe Benefit Tax	0	0
Exceptional Item	2,970,924	129,863
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(21,350,087)	(7,108,246)
Extraordinary and Prior Period Item	258,577,300	17,438
Net profit/(loss)	(279,927,387)	(7,125,684)
<b>Other Segment Information</b>		
Depreciation	5,643,319	8,301,188
Non-cash expenses other than depreciation	0	200,012
<b>Particulars of Segment Assets and Liabilities</b>		
Segment Assets	118,957,516	176,026,492
Investments	73,240,117	375,579,087
Cash and Bank Deposits	2,010,892	4,699,606
Other Assets	0	142,364
Total Assets	194,208,525	556,447,549
Segment Liabilities	83,450,317	30,572,104
Total Liabilities	83,450,317	30,572,104

**b) Geographic Segment Information:**

(Amounts in Rupees)

<b>Revenue</b>		
North America	116,164,868	247,884,468
Taiwan	45,070,000	Nil
Others	16,288,541	Nil
<b>Carrying amount of segment fixed assets</b>		
India	127,031,050	133,003,176
North America	21,119,596	21,119,596
<b>Additions to fixed assets</b>		
India	6,786,827	282,139
North America	Nil	Nil

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

(Amounts in Rupees)

	Year ended 31 March 2012 Rs.	Year ended 31 March 2011 Rs.
For Statutory Audit	125,000	125,000
For Tax Audit	50,000	40,000
For Certification	65,506	102,500
<b>Total</b>	<b>240,506</b>	<b>267,500</b>

**21.2.11 Gratuity Plan**

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

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

(Amounts in Rupees)

	Year ended 31 March 2012 Rs.
<b>Gratuity cost for the period</b>	
Current Service Cost	482,991
Interest cost on defined benefit obligation	442,877
Expected Return on Plan Assets	(94,222)
Net Actuarial losses/(gain) recognised in year	(2,997)
<b>Net Gratuity cost</b>	<b>8,28,649</b>
<b>Balance Sheet</b>	
Reconciliation of present value of the obligation and the fair value of plan assets	
Fair Value of Plan Assets at the end of the year	1,007,060
Present Value of the funded obligation at the end of the year	1,520,523
Asset/(Liability) recognized in the balance sheet	(3,916,247)
<b>Change in the present value of defined benefit obligation are as follows:</b>	
<b>Present value of obligations at the beginning of year</b>	<b>5,353,642</b>
Current Service Cost	482,991
Interest cost	442,877
Actuarial (gain)/loss	(13,365)
Benefits paid	(829,375)
<b>Present value of obligations as at the end of year</b>	<b>5,436,770</b>
<b>Change in the fair value of plan assets are as follows:</b>	
Fair Value of Plan Assets at beginning of year	1,007,060
Expected return on plan assets	94,222
Actuarial gain/(loss)	(10,368)
Contributions	1,258,984
Benefits paid	(829,375)
Fair Value of Plan Assets at end of year	1,520,523

**SIGNIFICANT ACCOUNTING POLICIES AND  
NOTES ON ACCOUNTS**

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

Discount Rate - 8.65%

Expected rate of return on assets – 7.50%

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

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

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

The defined benefit obligation of compensated absence (leave encashment) in respect of the employees of the company as at 31<sup>st</sup> March 2012 is Rs.1,377,651.

**21.2.12 Extraordinary Items**

The extraordinary Item consists of diminution in value of Rs. 303,647,300 in the carrying cost of investment in MosChip USA which is 100% subsidiary of MosChip India This diminution loss was due to changes in underlying business conditions of MosChip USA. The charge on account of diminution has been determined on the basis of the MosChip USA's Net Worth as on 31<sup>st</sup> March 2012.

**21.2.13 Discontinuing Operations**

Revenue on discontinuing operation consist of Rs.45,070,000 towards sale of MosChip India's I/O division Intellectual Property Rights.

**21.2.14 Investments**

During the year MosChip Semiconductor Technology Limited has incorporated a 100% wholly owned Subsidiary in Singapore named MosChip Semiconductor Technology PTE Limited with an initial investment of Rs.39 (One Singapore Dollar) and further Invested an amount of Rs. 13,08,330 (SGD 32,500) for which allotment is pending at the end of the financial year 31<sup>st</sup> March 2012.

Company has eroded the value of investment in wholly owned subsidiary MosChip Semiconductor Technology,USA in view of significant accumulated losses incurred by the Subsidiary & in the absence of certainty of recovery of such Losses in visible time, the Company has written off its investment to the extent of Rs.303,647,300.

**21.2.15 Dues to Micro and Small Enterprises (SME):**

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

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

**21.2.16 Regrouping/ Reclassification**

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

Per and subject to our report of even date

For and on behalf of the Board of Directors

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

**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839  
Place: Hyderabad  
Date : 21 May 2012

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

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

1	Name of subsidiary	:	MosChip Semiconductor Technology, USA	MosChip Semiconductor Technology PTE Ltd. Singapore
2	Financial year ended	:	Year ended 31 March 2012	Year ended 31 March 2012
3	Holding Company's Interest	:	100%	100%
4	Shares held by the holding company in the subsidiary's common stock	:	19,192,404 shares	1 share
5	The net aggregate of profits(losses) For the current financial year of the Subsidiary so far as it concerns the Members of the holding company			
	a. dealt with or provided for in the : Accounts of the holding company		Nil	Nil
	b. not dealt with or provided for : in the Accounts of the holding company		US \$ 3,211,124	Nil
6	The net aggregate of profits or losses for the previous financial years of the Subsidiary so far as it concerns the Members of the holding company			
	a. dealt with or provided for in the : Accounts of the holding company		NA	NA
	b. not dealt with or provided for : in the Accounts of the holding company as on 31.03.2012		US \$ (1,629,134)	Nil

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Per and subject to our report of even date

For and on behalf of the Board of Directors

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

**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839

**K. Ramachandra Reddy**  
Chairman & CEO

**C. Dayakar Reddy**  
Managing Director

Place: Hyderabad  
Date : 21 May 2012

**CASH FLOW STATEMENT FOR THE  
YEAR ENDED 31 MARCH 2012**

	31 March 2012 Rs.	31 March 2011 Rs.
<b>A. Cash Flow from Operating Activities</b>		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(18,379,163)	(6,925,672)
Depreciation	5,643,319	8,301,188
GDR issue expenses written off	0	0
Interest Income	93,437	(548,354)
Loss on fixed assets sold / discarded	0	0
Profit on sale of Investments	(153,215)	0
Provision for Retirement Benefits	(195,579)	2,017,590
Exchange differences on translation of foreign currency cash	7,513	4,753
<b>Operating Profit before changes in working capital</b>	<b>(12,983,689)</b>	<b>2,849,505</b>
Increase/(Decrease) in Secured/Unsecured loans	(26,000,000)	(2,609,104)
(Increase)/Decrease in Sundry Debtors	42,056,251	(71,870,598)
(Increase)/Decrease in Investment	(1,308,369)	0
(Increase)/Decrease in Loans and Advances	11,745,334	60,356,748
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	0	322,132
Increase/(Decrease) in Current Liabilities	(56,116,058)	12,489,386
<b>Cash from operations before Tax , Exceptional, Extra Ordinary and Prior Period items</b>	<b>(42,606,531)</b>	<b>1,538,070</b>
Income-taxes paid	0	7,684
<b>Cash from operations before Exceptional, Extra Ordinary and Prior Period items</b>	<b>(42,606,531)</b>	<b>1,530,386</b>
Exceptional Item	0	0
Extra ordinary and prior period item	0	0
Income from discontinuing operations	(45,070,000)	0
<b>Net Cash from Operating Activities [A]</b>	<b>2,463,469</b>	<b>1,530,386</b>
<b>B. Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets	(6,786,827)	(282,139)
Sale proceeds of Fixed Assets	1,395,506	43,453
Interest received on Fixed Deposits	93,437	582,334
Purchase of Current Investments	(39,800,000)	0
Sale of Current Investments	39,953,215	0
<b>Net Cash used for Investing Activities [B]</b>	<b>(5,144,670)</b>	<b>343,648</b>
<b>C. Cash flow from Financing Activities:</b>		
Proceeds from Issue of Share Capital	0	(83,363)
Securities Premium	0	0
Convertible Warrants	0	0
<b>Net Cash from Financing Activities [C]</b>	<b>0</b>	<b>(83,363)</b>

**MOSCHIP INDIA****CASH FLOW STATEMENT FOR THE  
YEAR ENDED 31 MARCH 2012**

	31 March 2012 Rs.	31 March 2011 Rs.
<b>D. Exchange differences on translation of foreign currency cash</b>	<u>(7,513)</u>	<u>(4,753)</u>
<b>Net Increase/(Decrease) in cash &amp; cash equivalents [A+B+C+D]</b>	<b>(2,688,714)</b>	<b>1,785,918</b>
Cash and Cash equivalents at the beginning of the year	4,114,305	2,328,387
Cash and Cash equivalents at the end of the year	<u>1,425,591</u>	<u>4,114,305</u>
<b>Supplementary Information</b>		
Cash and Cash Equivalents as per Balance Sheet	2,010,892	4,699,606
Less: Fixed Deposits towards Bank Guarantee considered as investments	<u>585,301</u>	<u>585,301</u>
	<u>1,425,591</u>	<u>4,114,305</u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,  
Chartered Accountants**Chandrashekhhar Gokhale**  
Partner  
Membership No 23839**K. Ramachandra Reddy**  
Chairman & CEO**C. Dayakar Reddy**  
Managing Director

Place: Hyderabad

## DIRECTORS' REPORT

To,  
The Shareholders of MosChip Semiconductor Technology, USA.

Your Directors present this report for the Financial Year 2011-12.

**Financial Results**

(USD in Millions)

Particulars	2011-12	2010-11
Semiconductor Sales & Service Revenue	<b>1.593</b>	5.489
Operating Profit/(Loss) before Depreciation	<b>(1.825)</b>	(0.804)
Less : Depreciation	<b>0.298</b>	0.884
Operating Profit/(Loss)	<b>(1.527)</b>	(1.688)
Add : Other Income & Income from Discontinued Operations	<b>5.438</b>	0
Net Profit/(Loss) Before Tax	<b>3.295</b>	(1.688)
Tax	<b>0.084</b>	0.001
Net Profit/(Loss) After Tax	<b>3.211</b>	(1.689)

Your Company achieved total revenues of USD 1.593 million and earned revenues from Discontinued Operations USD 5.439 for the financial year ended 31 March 2012.

**Outlook**

MosChip had very matured I/O product line and had been recording about \$5M in revenues annually without much growth. The division was sold to ASIX Electronics Corporation, a listed company in Taiwan, at a consolidated amount of \$7M and the inventory at cost. MosChip's SOC (System On a Chip) line is fairly new and has promise to increase revenues much more than the I/O line but need investment. This money could be spent on the SOC line and focus on this product line to increase the revenues. With the increase in Design Services opportunities world wide, MosChip decided to add another division to branch into Semiconductor Design Services. With The I/O line sold to ASIX, MosChip can concentrate on the SOC products and the Design Services

**Acknowledgements**

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

For and on behalf of the Board of Directors

**K. Ramachandra Reddy**

CEO

22 August 2012

INDEPENDENT AUDITORS' REPORT

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Independent Auditor's Report

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, 2012 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, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Forney Accountancy  
Bryce Forney, CPA (CA License #76310)  
Pleasant Hill, California

May 7, 2012

MOSCHIP USA

BALANCE SHEET

(Amount in US \$)

	As at 31 March 2012
<b>Assets</b>	
<b>Current assets</b>	
Cash	279,691
Accounts receivable	25,090
Discontinued operations receivable	600,000
Inventory	944,318
Prepaid expenses	50,000
Total current assets	<u>1,899,099</u>
Deposits	2,792
Property and equipment	
Furniture & Fixtures	7,000
Equipment	13,608
	<u>20,608</u>
Accumulated depreciation	(16,731)
	<u>3,877</u>
Total assets	<u><u>1,905,768</u></u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	54,972
Related party payable	327,535
Accrued liabilities	25,164
State income tax payable	83,231
	<u>490,902</u>
<b>Stockholders' equity</b>	
Common Stock, no par value, 20,212,813 shares authorized 19,192,404 shares issued and outstanding	1,724,000
Additional paid-in capital	1,320,000
Accumulated deficit	(1,629,134)
Total stockholders' equity	<u>1,414,866</u>
	<u><u>1,905,768</u></u>

MOSCHIP USA

**STATEMENT OF NET INCOME  
AND ACCUMULATED DEFICIT**

(Amount in US \$)

	For the year ended 31 March 2012
<b>Revenue</b>	
Product Sales	1,519,321
Design service revenue	73,960
Cost of goods sold	(889,549)
Shipping and handling	(13,367)
	<u>690,365</u>
<b>Gross profit</b>	
<b>Expenses</b>	
Selling, general, and administrative	744,534
Support	1,107,483
Royalties	34,342
Depreciation	297,748
Interest	33,750
	<u>2,217,857</u>
<b>Total operating expenses</b>	
Operating loss	(1,527,492)
Other income/expense	
Income from discontinued operations	5,438,741
Obsolete materials write down	(229,114)
Loss on disposition of assets	(374,500)
Gain on sale of assets	(12,494)
Interest income	14
Income before income taxes	3,295,155
Current income tax	(84,031)
	<u>3,211,124</u>
<b>Net income</b>	
Accumulated deficit, beginning	(4,840,258)
Accumulated deficit, ending	<u>(1,629,134)</u>

## STATEMENT OF CASH FLOWS

	(Amount in US \$)
	For the year ended 31 March 2012
<b>Cash flows from operating activities</b>	
Net income/(loss)	3,210,825
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	297,748
Loss on asset disposal	
(Increase) decrease in:	
Accounts receivable	339,769
Discontinued operations receivable	(600,000)
Inventory	1,297,474
Prepaid expenses	15,580
Deposit	44,488
Increase (decrease) in:	
Accounts payable	(2,196,107)
Sales tax payable	83,231
Unearned revenue	(318,528)
Distributor interest payable	(22,500)
Accrued liabilities	(7,652)
Sublessee security deposit	(4,224)
<b>Net cash provided by (used by) operating activities</b>	<b>2,140,104</b>
<b>Cash flows from investing activities</b>	
Dispositions (purchases) of property and equipment	540,827
<b>Net cash provided by (used by) investing activities</b>	<b>540,827</b>
<b>Cash flows from financing activities</b>	
Increase (decrease) in:	
Related party payable	
Related party note payable (current)	
Related party note payable (long-term)	(1,739,418)
Distributor note payable	(750,000)
<b>Net cash provided by (used by) financing activities</b>	<b>(2,489,418)</b>
Net increase/(decrease) in cash	191,513
Cash, beginning	88,178
Cash, ending	279,691
<b>Supplemental disclosures of cash flow information</b>	
Interest paid	33,750
Income taxes paid	800

## NOTES TO FINANCIAL STATEMENTS

**Summary of significant accounting policies:**

- Nature of operations – MosChip Semiconductor Technology, USA (the Corporation), a California corporation, is a manufacturer of connectivity chips and embedded microprocessors primarily sold within Hong Kong and Taiwan.
- Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.
- Concentrations of cash – The Corporation at times during operations has cash deposits in excess of \$250,000. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks.
- Accounts receivable – The Corporation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.
- Inventories – Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method and market represents the lower of replacement cost or estimated net realizable value. Inventory consists of finished goods.
- Property and equipment/Depreciation – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over estimated useful lives of two, three, five, and seven years. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.
- Income taxes – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of current and deferred taxes. Deferred income tax assets and liabilities are computed 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.

- Subsequent events – Subsequent events were considered through May 7, 2012 which is the date the financial statements were available to be issued.
- A. Operating lease – The Corporation leased its Santa Clara facilities under an operating lease agreement with an unrelated party for \$4,700 per month. The Corporation subleased a portion of its Santa Clara facilities to an unrelated party for \$1,200 per quarter. The Corporation leased its Hong Kong facilities under an operating lease with an unrelated party for \$2,500 per month.

The Corporation leases a Santa Clara apartment for temporary use by visiting parent company employees for \$1,994 per month. The Corporation leases its Milpitas facilities under an operating lease agreement with an unrelated party for \$2,292 per month. The Corporation subleases a portion of its Milpitas facilities to an unrelated party for \$1,146 per month. Rent expense, net of sublease proceeds, for the year totaled \$60,248.

- B. Related party payable – The Corporation carried an amount payable to MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The payable represents amounts due for products and royalty fees provided by MosChip Semiconductor Technology Limited, India less reimbursable costs paid on behalf of MosChip Semiconductor Technology Limited, India. The amount due does not bear interest and is payable on demand. The balance of the amount payable at year end is \$327,535.
- C. 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.

NOTES TO FINANCIAL STATEMENTS

Transactions are as follows:

Expenses due to related party transactions	\$ 1,125,055
Inventory purchases from related party	\$ 1,260,504
Related party payable	\$ 327,555

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

This calculation was last performed as of March 31, 2009. However, management believes that any change to deferred tax from the results of operations subsequent to that date, will change the valuation allowance by the same amount. Consequently, the deferred tax amounts remain as follows:

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

G. Going concern – These financial statements are presented on the basis that the Corporation is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The accompanying financial statements show that operations have resulted in an accumulated deficit. The Corporation anticipates increase in the revenues as it grows its comprehensive design services line of business. This is expected to increase revenue in the periods subsequent to these financial statements.

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## MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

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

### ATTENDANCE SLIP

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

I hereby record my presence at the **Thirteenth Annual General Meeting** of the Company held at the Regd. Office of the Company at 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, Banjara Hills, Hyderabad - 500 034 on Saturday, the 29 September 2012 at 10:30 hrs.

NAME OF THE SHAREHOLDER (IN BLOCK LETTERS) \_\_\_\_\_

NAME OF THE PROXY (IN BLOCK LETTERS) \_\_\_\_\_

FOLIO NO. \_\_\_\_\_ DP.Id. No. \_\_\_\_\_ Client Id. No. \_\_\_\_\_ No. of Shares held \_\_\_\_\_

SIGNATURE OF SHAREHOLDER \_\_\_\_\_

SIGNATURE OF PROXY (1) \_\_\_\_\_ PROXY (2) \_\_\_\_\_

*Note: Please complete the attendance slip and hand it over at the entrance of the meeting hall. Joint Shareholders desiring to attend the meeting may obtain additional Attendance Slips on request provided the Company receives such request **before 22 September 2012**. No duplicate Attendance Slip will be issued at the Meeting Hall. You are requested to bring your copy of the Annual Report to the Meeting. **Kindly note that gifts will not be distributed at Annual General Meeting.***

## MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

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

### PROXY FORM

FOLIO NO. \_\_\_\_\_ DP.Id No. \_\_\_\_\_ Client Id. No. \_\_\_\_\_ No. of Shares Held \_\_\_\_\_

I/We \_\_\_\_\_ residing at \_\_\_\_\_

being a member/member of MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED hereby appoint

\_\_\_\_\_ resident of \_\_\_\_\_ (signature of proxy) \_\_\_\_\_

failing him/her \_\_\_\_\_ resident of \_\_\_\_\_ (signature of proxy) \_\_\_\_\_

as my/our Proxy to attend and vote for me / us on my / our behalf at the **Thirteenth Annual General Meeting** of the Company to be held at the Regd. Office of the Company at 83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, Banjara Hills, Hyderabad - 500 034 on Saturday, the 29 September 2012 at 10:30 hrs.

Dated \_\_\_\_\_ September, 2012

Notes:

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

Affix  
Revenue  
Stamp  
of Re.1 and  
sign across

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