



2001-2002

3rd ANNUAL REPORT

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MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

New Regd. Office:H.No: 8-2-685/1/1, ROAD: 12, BANJARA HILLS, HYDERABAD - 500034.

ATTENDANCE SLIP

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

I hereby record my presence at THIRD ANNUAL GENERAL MEETING of the company held at the New Regd. Office of the Company at H.No: 8-2-685/1/1, Road:12, Banjara Hills, Hyderabad - 500 034. on Monday 30th September 2002 at 10.30 hours.

NAME OF THE SHAREHOLDER (in block letters) -----

NAME OF THE PROXY (in block letters) -----

FOLIO No. ----- DP ID No. ----- Client ID No. -----

SIGNATURE OF SHAREHOLDER / PROXY -----

NOTE: Please complete this attendance slip and hand it over at the entrance of the meeting hall. Joint Shareholders desiring to attend the meeting shall be provided that additional Attendance Slips on request provided the Company receives such request before 23rd September 2002. 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 THERE WILL NOT BE ANY GIFTS.



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

New Regd. Office:H.No: 8-2-685/1/1, ROAD: 12, BANJARA HILLS, HYDERABAD - 500034.

PROXY FORM

Regd. Folio No. -----

DP ID No. -----

Client ID No. -----

No. of Shares held -----

I / We ----- residing at -----

being a member / members of MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

hereby appoint ----- of ----- or

failing him / her ----- of -----

as my / our Proxy to attend and vote for me / us on my / our behalf at the Third Annual General Meeting of the Company to be held on Monday, the 30th September 2002 at 10.30 hours at the New Regd. Office of the Company at H.No: 8-2-685/1/1, Road:12, Banjara Hills, Hyderabad - 500 034 and adjournment thereof.

Signed on ----- day of ----- 2002.

Affix
Revenue
Stamp
of Rs.1/- and
sign across it

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 hours before the time fixed for holding the aforesaid meeting.
- The Proxy need not be a member of the Company.



BOARD OF DIRECTORS

Sri K. Ramachandra Reddy	-	CEO / Chairman
Sri C. Dayakar Reddy	-	Managing Director
Sri A. Ramesh	-	Nominee Director
Sri V. Ramesh	-	Director
Sri Gary Kennedy	-	Director
Prof. Vijay Chandru	-	Director
Dr. S. Sivakumar	-	Director
Sri Art Khachaturian	-	Director

BANKERS	:	Indus Ind Bank Limited Corporation Bank Limited HDFC Bank Limited
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AUDITORS	:	M/s Gokhale & Co Chartered Accountants 3-6-322, Office No. 306, Mahavir House Basheerbagh, Hyderabad - 500 029
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COMPANY SECRETARY	:	Dasu Trivikram
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REGISTERED OFFICE	:	H. No: 8-2-685/1/1 Road No.12, Banjara Hills, Hyderabad - 500 034. Tel : 040-3379440 Fax : 040-3379439
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Noida Design Center
Noida Export Processing Zone (NEPZ)
SDF # G 9B, Noida - 201305 UP, India.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Third Annual General Meeting of MosChip Semiconductor Technology Limited will be held on Monday, the 30th day of September, 2002, at 1030 hrs at the Registered Office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad - 500 034, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2002 and the Profit and Loss Account for the year ended on that date and the report of Directors' and Auditor's thereon.
2. To appoint a Director in place of Dr. S.Sivakumar, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. V.Ramesh, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors or any of its Committee to fix their remuneration.

By order of the Board of Directors

Hyderabad
August 21, 2002

Dasu Trivikram
Company Secretary

NOTES:

- 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 himself 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.
- The Register of Members and Share Transfer Books of the Company will remain closed from September 24, 2002 to September 30, 2002 (both days inclusive).
- To avoid inconvenience to members and 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/Proxies are requested to affix their signature on it and hand it over at the entrance.
- Members, who hold shares in de-materialised form, are requested to bring their Client ID and DP ID Nos. for easier identification of attendance at the meeting.
- 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.
- Members are requested to notify immediately any change in their address to the Company or its Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed on to their respective Depository Participants without any delay.
- In all correspondence with the Company, members are requested to quote their folio numbers and in case their shares are held in the dematerialized form, they must quote their Client ID Number and their DP ID Number.
- Members are requested to carry their copies of Annual Report as these will not be supplied at the meeting.
- Trading in the equity shares of the Company is compulsorily in dematerialized form for all investors. The ISIN (International Securities Identification Number) allotted to the Company's equity shares is INE935B01017. Those members who have not yet dematerialized their shareholdings are requested to do so by opening a depository account with a Depository Participant (DP).
- KINDLY NOTE THAT THERE WILL NOT BE ANY GIFTS.



ADDITIONAL INFORMATION ON DIRECTORS RECOMMENDED FOR APPOINTMENT / SEEKING RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING

Dr. S. Sivakumar

Dr. S. Sivakumar holds a Bachelor degree in Engineering from Anna University, an M.B.A. in Finance and Marketing from Bharathidasan Institute of Management and a Ph.D. in Economics and Finance from the University of Nebraska-Lincoln. Dr. Sivakumar is associated with Schwendimann Partners, USA as Chief Global Economist. He also serves as Head Research Analyst for Asia. He researches all investment aspects of companies and countries in the portfolio, develops analytical models, and develops and maintains macroeconomic research to supplement the Funds on-the-ground, bottom-up approach. He travels several times a year to key countries to conduct research, particularly with IT companies.

Dr. Sivakumar has written a series of papers on a variety of topics such as the practical applications of currency swaps, dynamics of the yen-dollar exchange rate, and financial market contagion.

Mr. V. Ramesh

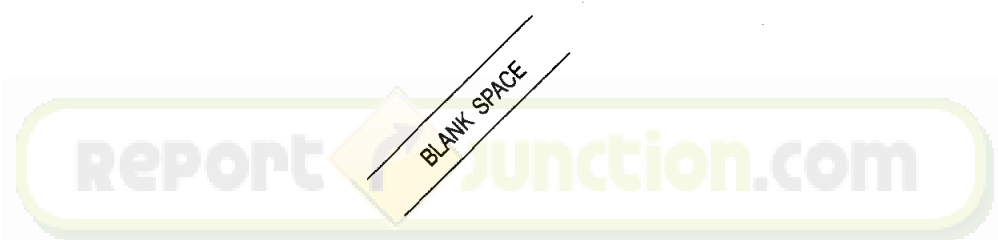
Mr. V.Ramesh is an engineering graduate from IIT Madras and also obtained his M.S. from University of Wisconsin, USA, and his MBA from the University of Toronto, Canada. He has worked for more than 10 years in some of the largest technical organizations in North America, viz., General Electric Company (USA), The Southern Company (USA), Ebasco Services Inc. (Canada) and Ontario Hydro (Canada).

After his return to India, he promoted, and is the Managing Director of Nile Limited(Hyderabad).

By order of the Board of Directors

Hyderabad
August 21, 2002

Dasu Trivikram
Company Secretary





DIRECTORS' REPORT

To the members,

Your Directors have pleasure in presenting the Third Annual Report together with the Audited Accounts (including consolidated accounts) of the company for the year ended 31st March 2002.

Financial Results

(Rs. In Lakhs)

Particulars	2001-02			2000-01 MosChip
	MosChip INDIA	MosChip USA (for 9 months)	Consolidated	
Total income from operations	33.96	741.15	775.11	196.16
Operating Profit before Interest, Depreciation & Tax (PBITD)	-342.27	55.26	-287.01	38.40
Less: Depreciation	113.79	8.57	122.36	28.30
Interest	0.29	0.04	0.33	0.00
Operating profit before tax	-456.35	46.65	-409.70	10.11
Add: Other income	17.93	2.67	20.60	23.99
Profit before tax (PBT)	-438.42	49.32	-389.10	34.10
Less: Provision for Income Tax	0.00	0.78	0.78	2.00
Profit after tax (PAT)	-438.42	48.54	-389.88	32.10
Earnings Per Share (EPS)				
Basic	-2.63	0.30	-2.34	0.68
Diluted	-2.62	NA	-2.33	0.68

Operations

The consolidated turnover of the Company was Rs. 7.75 crores, which includes Rs. 7.41 crores from the subsidiary for a nine-month period.

MosChip USA

Your company had acquired NetMos Technology, Inc in July 2001 and it was subsequently renamed as MosChip Semiconductor Technology, USA. The company's revenue has grown from US \$ 1.54 million for the 12-month period ended June 2001 to US \$ 1.60 million in the 9-month period ended March 2002. The company had made a profit of US \$ 0.10 million during this period as against a loss of US \$ 0.40 million for the year ended June 2001.

The acquisition of MosChip, USA has enabled the Company to benefit from the foundry relationships. The subsidiary will also handle marketing and customer support for all the products developed by your Company. Since the existing customer base of MosChip, USA will also be the target

customers for your Company's products, the customer acceptance and design-in phase is expected to be shortened considerably.

MosChip India

As you are aware, the company is transitioning from chip design to product development. This has resulted in a drop in the operating revenues of your company from Rs. 1.96 crores to Rs. 0.34 crores in the current year. Five products should have been released in the last quarter of the year under review. However, due to certain external dependencies, the launch of these products was delayed, affecting our performance to a certain extent.

Dividend

Your company has not declared any dividend during the period under review.

Increase in Share Capital

During the year under review, your company has made the following allotments:



8,325,770 equity shares to the members of NetMos Technology Inc. USA as a consideration for its acquisition on stock swap basis in the ratio of 16 shares of MosChip for 31 shares of NetMos.

In view of these, the total outstanding paid-up equity share capital of the company has increased from 10,500,000 shares during the previous year to 18,825,770 shares in the year under review.

Marketing and Distribution

With several products to be launched in the next few quarters, marketing and distribution will be the key factor to Company's success. The Company has further expanded the distribution network to Austria, Israel and Japan and had appointed a senior sales manager to look after the US markets. The Company is also planning to engage a full time marketing person in Taiwan, which is the largest market for the products of your Company.

Your company now has adequate presence in all the major markets for its semiconductor products. The distributors introduce the products of your company to their customers base, and generally buy and stock these products for reselling to end-customers in smaller volumes.

Recent developments

● *Preferential issue of equity shares*

The Company has made two preferential issues to raise additional funds for meeting its capital expenditure and working capital requirements. The total amount raised through the issue of 4,396,000 equity shares and 1,250,000 warrants is Rs.139,428,000/-. The paid-up share capital of the Company comprises 23,221,770 equity shares of Rs. 10 each at par.

● *Strategic investors*

ESS Technology Inc., USA and Flextronics Semiconductor Inc., USA have picked up stake in the Company. These relationships will help the company in several ways - international recognition, better foundry relationships, investor confidence, employee confidence and the possibility of a business relationship in the long run.

● *Launch of new products*

The Company has recently announced sampling of three USB 1.1 products (MCS 7710, MCS 7720 and MCS 7717) and will have to wait for customer approvals and pre-production orders. Two more products in the USB 1.1 space (MCS 7705 and MCS 7715) are being tested. The first silicon of 1394 (MCS 1392), PCI Bridge (MCS 9250), Audio Codec (MCS 1341) and USB-to-Ethernet (MCS 7830) are expected in the 3rd quarter of this financial year.

Employee Stock Option Plan

During the year under report your company has drawn up two schemes as mentioned below, for granting stock options to the employees of the company 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

Disclosures pursuant to para 12 of the above referred SEBI guidelines are set out in the Annexure - A, to this report.

Fixed Deposits

Your company has not accepted any fixed deposits in terms of Section 58A of the Companies Act, 1956 from the public. Thus, nothing is outstanding as principal or interest, as on the date of balance sheet.

Directors

During the period under review, the following were inducted into the Board as per the Companies Act, 1956.

As New Directors Under Section 257 of the Companies Act, 1956

Name of the incumbent	Date of Induction
Mr. Art Khachaturian	21-09-01
Dr. S. Siva Kumar	21-09-01
Prof. Vijay Chandru	21-09-01
Mr. V. Ramesh	21-09-01



The offices of the above directors are liable to retire by rotation.

As Nominee Director

Mr. Alur Ramesh, Director was nominated by APIDC Venture Capital Limited as its nominee director on the Board of the company w.e.f. 20-08-01.

Resignations

Ms. C. S. Priya Reddy has tendered her resignation for the post of Alternate Director on personal grounds w.e.f. 31-01-02. The Board has accepted her resignation and has placed on record its appreciation for the cooperation extended by her during her tenure as Alternate Director of the company.

Pursuant to the provisions of Article 133 of the Articles of Association of the company, Dr. S. Sivakumar and Mr. V.Ramesh directors retire by rotation in the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Brief particulars of these directors are provided as an annexure to Notice calling Annual General Meeting.

Auditors

The Auditors of the company M/sGokhale & Co., Chartered Accountants situated at 3-6-322, Office No.306, Mahavir House, Basheerbagh, Hyderabad - 500 029, who retire at the ensuing Annual General Meeting of the company, are eligible for reappointment as Statutory Auditors of the company till the concluding of next Annual General Meeting. The company has received their willingness for re-appointment as auditors of the company and a Certificate under Section 224 (1B) of the Companies Act, 1956.

Qualification on the accounts and Boards clarification

Pursuant to the provisions of Sub-Section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 26th June 2002 on the accounts of the company and Board's clarification on the same are furnished below:

Qualification in Auditors Report

The company has made an investment of Rs.30,92,19,018/-

in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (Formerly NetMos Technology Inc. USA). The investment is being carried at cost. The difference between the investment amount of Rs.30,92,19,098/- and the networth amount of Rs.1,96,89,678/- of MosChip Semiconductor Technology, USA, at book value, as on 31st March 2002 has not been charged to the Profit and Loss account.

Board's clarification

The Board is of the opinion that the difference between the investment amount and the networth amount of MosChip Semiconductor Technology, USA, at book value, as on 31st March 2002 is not a reflection in the diminution of the value of the investment. The fair market value of MosChip USA, which is based on expected future cash flows over several years and other tangible assets (intellectual property developed and owned by it, the international distribution network, customer base, foundry relationships, etc.), is much higher than its networth at book value. The book value does not capture the real intrinsic worth of an investment. The decline in fair market value of investment in MosChip USA, if any, is temporary in nature and hence no provision has been made in the books of accounts.

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

The particulars as prescribed pursuant to Section 217 (1) (e) of 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 in the Annexure - B to this report.

Particulars of Employees

Pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, amended from time to time, the report is NIL.

Management Discussion & Analysis

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



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

The Board of Directors of MosChip accepts responsibility for the integrity and objectivity of the financial statements prepared by the Company.

The financial statements of the Company for the year ended 31st March, 2002 are drawn in accordance with the accounting standards laid down by the Institute of Chartered Accountants of India and the requirements of the Companies Act, 1956, as applicable to the Company on the historical cost convention, as a going concern and on the accrual basis. There are no material departures from the prescribed accounting standards in the adoption of accounting standards. The accounting policies framed by the Company for preparing the financial statements are applied consistently.

The judgments and estimates pertaining to preparation of the financial statements are made in a reasonable and prudent manner, so as to give the true and fair view of the state of affairs and profit of the Company at the end of the financial year. To ensure this, proper and sufficient care has been taken to maintain adequate accounting records in tune with the requirements of Companies Act, 1956, for safeguarding the assets and for preventing and detecting fraud and other irregularities.

The Financial Statements of the Company for the period ending 31st March 2002 have been audited by M/s Gokhale & Co., Chartered Accountants, the statutory auditors of the Company.

The audit committee of MosChip shall meet periodically with statutory auditors to review and discuss the auditing, internal control and financial reporting issues besides their performance in discharging their responsibilities and duties in furtherance to above. The statutory auditors shall have full and free access to the members of the audit committee to discuss any matter touching upon the financial matters of substance to maintain the transparency.

Corporate Governance

Pursuant to the provisions of Clause 49 of the Listing Agreement, a Report on the Corporate Governance is featuring as a part of Annual Report. Your company will strive to adhere in letter and spirit to the good corporate governance policies.

Acknowledgements

Your directors thank the company's bankers, investors, vendors, and clients 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 and NEPZ - NOIDA, 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.

Hyderabad
Dated the 21st August 2002

For and on behalf of the Board of Directors

C.Dayakar Reddy
Managing Director

Alur Ramesh
Director