

4th ANNUAL REPORT 2002-2003

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MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

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BOARD OF DIRECTORS

Mr. K. Ramachandra Reddy
CEO / Chairman

Mr. C. Dayakar Reddy
Managing Director

Mr. A. Ramesh

Mr. V. Ramesh

Mr. Gary Kennedy

Prof. Vijay Chandru

Dr. S. Sivakumar

Mr. Art Khachaturian

Mr. G. Prasad
Alternate Director
(to Dr. S. Siva Kumar)

COMPANY SECRETARY
Dasu Trivikram

BANKERS

Indus Ind Bank Limited
Corporation Bank Limited
HDFC Bank Limited

AUDITORS

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

REGISTERED OFFICE

H. No: 8-2-685/1/1
Road: 12, Banjara Hills,
Hyderabad - 500034.
Tel : 040-2337-9440
Fax: 040-2337-9439

Noida Design Center

Noida Special Economic Zone (NSEZ)
SDF # G 9B, NSEZ, Noida - 201305 UP

MosChip Semiconductor Technology USA

3335 Kifer Road, Santa Clara,
CA 95051 USA

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Fourth Annual General Meeting of MosChip Semiconductor Technology Limited will be held on Tuesday, the 30th day of September, 2003, 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 Report of Directors, Profit and Loss Account for the financial year ended March 31, 2003 and the Balance Sheet as that date and the report of Auditors thereon.
2. To appoint a Director in place of Mr. A. Ramesh, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Prof. Vijay Chandru, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. Art Khachaturian, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint M/s Gokhale & Co., Chartered Accountants, Hyderabad as Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

6. *To consider and, if thought fit, to pass with or without modifications as an ordinary resolution, the following:*

"RESOLVED THAT Dr. Mendu Rammohan Rao, 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".

7. *To consider and, if thought fit, to pass with or without modifications as an ordinary resolution, the following:*

"RESOLVED THAT Mr. G. Prasad, 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".

By order of the Board of Directors

Hyderabad
August 21, 2003

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 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.
- The Register of Members and Share Transfer Books of the Company will remain closed from September 23, 2003 to September 30, 2003 (both days inclusive).
- 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.
- 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 AS PER THE DIRECTIONS OF REGULATORY AUTHORITIES.**

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

ITEM - 6

Dr. Mendu Rammohan Rao was co-opted as an Additional Director of the company with effect from 5th May 2003, pursuant to Section 260 of the Companies Act, 1956. Dr. Mendu Rammohan Rao holds office of director upto 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 Dr. Mendu Rammohan Rao 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 Dr. Mendu Rammohan Rao is interested in this resolution.

ITEM - 7

Mr. Gajjala Prasad was co-opted as an Additional Director of the company with effect from 20th June 2003, pursuant to Section 260 of the Companies Act, 1956. Mr. Gajjala Prasad holds office of director upto 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. Gajjala Prasad 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. Gajjala Prasad is interested in this resolution.

By order of the Board of Directors

Hyderabad
August 21, 2003

Dasu Trivikram
Company Secretary

DIRECTORS PROFILE

BRIEF PROFILE OF DIRECTORS RECOMMENDED FOR APPOINTMENT / SEEKING RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING

Mr. A. Ramesh

Mr. Alur Ramesh, has B. Tech in Chemical Engineering from Regional Engineering College, Warangal and Master in Business Administration from Indian Institute of Management, Bangalore with specialisation in Marketing and Finance.

He has over 25 years of experience in various fields. He is currently the Vice President of APIDC-Venture Capital Limited.

He is nominated by APIDC-VCL on the Boards of (a) Gland Pharma Limited (b) Suyog Chemicals (P) Ltd. (c) Nucon Zander India (P) Ltd (d) Triad Fleet Control Systems (P) Ltd. (e) Taruni Technovision (P) Ltd

Prof. Vijay Chandru

Prof. Vijay Chandru (PhD, MIT, USA 1982) is a professor of Computer Science at the Indian Institute of Science, Bangalore. He received his B.E. in Electrical Engineering at BITS, Pilani and an MS from the University of California, Los Angeles. His research interests are in computational mathematics and algorithms. Professor Chandru has taught at Purdue University for ten years and has worked at IBM's T.J.Watson Research Center as a visiting scientist. He is also an honorary professor of the National Institute of Advanced Studies and the Jawaharlal Nehru Center for Advanced Scientific Research in India. He is a fellow of the Indian Academy of Sciences. He is a member of the team of seven engineers who have developed the Simputer (www.simputer.org), a low cost hand-held multi-lingual computer designed in Bangalore

He is a member of the Board on (a) Strand Genomics Pvt.Ltd (b) Picopeta Simputers Pvt. Ltd. (c) Strings Labs Pvt. Ltd. (d) Meta String Pvt. Ltd.

Mr. Art Khachaturian

Mr. Art Khachaturian is an Electrical Engineering graduate from University of California, Irvine, USA (1979). He had started his career with American Microsystems Inc. (AMI)

as Telecom Applications Engineer in 1980. Worked on design and cost reduction of Integrated Circuits. Thereafter, he joined EXAR Corporation in 1985 as Senior Telecom Marketing / Application Engineer and in the year 1988 he joined Silicon Logic, San Jose CA and thereafter associated with Mr. K. Ramachandra Reddy in his ventures.

He is on the Board of MosChip Semiconductor Technology, USA, a wholly owned subsidiary of MosChip Semiconductor Technology Limited.

Dr. Mendu Rammohan Rao

Dr. M. Rammohan Rao is a Professor in the area of Quantitative Methods and Information Systems, Indian Institute of Management Bangalore (IIMB). He was the Director of IIMB during the period March 1997 to May 2002.

Dr. Rao holds a Ph.D. and M.S. in Industrial Administration from Carnegie Mellon University, Master of Engineering (Industrial) from Cornell University, and Bachelor of Engineering (Mechanical) from University of Madras. Prior to getting his Ph.D., he worked as an Associate Research Engineer at U.S. Steel Applied Research Lab in Pittsburgh, USA. Dr. Rao was a Research Fellow at the Centre for Operations Research and Econometrics at Leuven, Belgium and also at the International Institute of Management, Berlin. He has taught at the University of Rochester, University of Tennessee, and was a Tenured Professor at New York University.

Dr. Rao has published over 85 articles in various professional journals and has been a consultant to several companies. His teaching and research interests are in the area of Optimization and Financial Derivatives. Dr. Rao is currently the President of the Operations Research Society of India. He is a member of the Insurance Regulatory and Development Authority Advisory Committee and the CAG Audit Advisory Committee.

Dr. Rao is the recipient of the Fulkerson Prize awarded to him in August 2000. The prize is sponsored by the Mathematical Programming Society and the American

Mathematical Society. The Indian Institute of Materials Management has conferred on him the Chief Executive of the Year 2000-2001 Award for his outstanding achievements and significant contribution to the Materials Management Profession. He has been awarded the 2002 Institute of Marketing & Management Award for Excellence as Top Management Educator.

He is a member of the Insurance Regulatory and Development Authority Advisory Committee and the CAG Audit Advisory Committee. He is also a member Advisory Board of Picopeta Simputers Private Limited.

He is a member of the Board in Bharat Electronics, Krishna Fabrications Private Limited. He is also Chairman of Audit Committee of Bharat Electronics.

Mr. Gajjala Prasad

Mr. Gajjala Prasad is a Chartered Accountant by profession. He is a partner of Nataraja Iyer and Co., Chartered Accountants based at Hyderabad.

Mr. Prasad has got over 25 years of professional experience in audit and taxation matters of medium and large Corporates.

APIDC has nominated Mr. Prasad as a director on the Board of Coromandel Biotech Industries (India) Limited and he is also on the Board of Venture East Trustee Co. (private) Ltd.

By order of the Board of Directors

Hyderabad
August 21, 2003

Dasu Trivikram
Company Secretary

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DIRECTORS' REPORT

To the members,

Your Directors have pleasure in presenting the Fourth Annual Report together with the Audited Accounts (including consolidated accounts) of the company for the year ended 31st March 2003.

Financial Results

(Rs. In Lakhs)

Particulars	As at 31-03-2003			As at 31-03-2002		
	MosChip India	MosChip USA	Consolidated	MosChip India	MosChip USA (for 9months)	Consolidated
Total income from operations	—	951.98	951.98	33.96	741.15	775.11
Operating Profit before Interest, Depreciation & Tax (PBITD)	-638.89	-139.59	-778.48	-342.27	55.26	-287.01
Less: Depreciation	139.33	5.07	144.40	113.79	8.57	122.36
Less: Interest	—	2.92	—	0.29	0.04	0.33
Operating profit before tax	-778.22	-147.58	-922.88	-456.35	46.65	-409.70
Add: Other income	50.69	3.36	51.13	17.93	2.67	20.60
Profit before tax (PBT)	-727.53	-144.22	-871.75	-438.42	49.32	-389.10
Less: Provision for Income Tax	—	—	—	0.00	0.78	0.78
Profit after tax (PAT)	-727.53	-144.22	-871.75	-438.42	48.54	-389.88
Earnings Per Share (EPS)						
Basic	-3.28	-0.89	-3.94	-2.63	0.30	-2.34
Diluted	-3.15	-0.89	-3.78	-2.62	NA	-2.33

Operations

The consolidated turnover of the Company was Rs. 9.52 crores. The performance is not comparable with that of the previous year, as only nine months revenue of the subsidiary had been included in the previous year.

MosChip India

As you are aware, your Company has now evolved as a product company. The new products that had been launched in the middle of FY 2002-03 had some compatibility issues. These had to be rectified and the products were again released for customer sampling in the first quarter of FY 2003-04. As a result, the Company

did not earn any revenues during the year under review. The total income was Rs. 0.51 Crores, while the net loss amounted to Rs. 7.28 Crores.

MosChip USA, a Wholly owned subsidiary

MosChip Semiconductor Technology, USA, the wholly owned subsidiary has earned revenues of Rs. 9.52 crores during the twelve-month period ended March 31, 2003 as against revenues of Rs. 7.41 crores during the 9 months ended March 31, 2002. The net loss was Rs. 1.44 crores during the 12-month period as against a profit of Rs 0.48 crores during the previous 9-month period. The loss is mainly due to the increase in product engineering charges for the new products.

The accounting year of the subsidiary company is being aligned with that of your company with a view to facilitate consolidation of accounts from the year 2003-04.

Dividend

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

Increase in Share Capital

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

- a) Preferential Allotment of 31,60,000 equity shares of Rs.10/- each at a premium of Rs.20/- per share.
- b) Preferential Allotment of 12,36,000 equity shares of Rs.10/- each at a premium of Rs.23/- per share.

In view of these, the total outstanding paid-up equity share capital of the company has increased from 1,88,25,770 shares during the previous year to 2,32,21,770 shares in the year under review.

During the year under review, your company has also issued on preferential basis in total 12,50,000 warrants convertible into equity shares, as per the particulars that are shown below:

- a) 9,50,000 warrants convertible into equity shares at a price of Rs.30/- per warrant with 10% of the price payable on application.
- b) 3,00,000 warrants convertible into equity shares at a price of Rs.33/- per warrant with 10% of the price payable on application.

Marketing and distribution

Your company has adequate presence in all the major markets for its semiconductor products, which will help in increasing revenues from the new products.

The initial focus is on the existing customer base of MosChip Semiconductor Technology, USA, the wholly owned subsidiary of your company.

Recent developments

- Amalgamation of Veracity Technologies Inc. USA

Your company has made an application on 26th March, 2003, to the Hon'ble High Court of Andhra Pradesh pursuant to the provisions of Companies Act, 1956 for the Amalgamation of Veracity Technologies Inc. USA, a California based ASIC design company, which is developing semiconductor solutions for the Internet Security space. As per the directions of the Hon'ble High Court, an Extra-ordinary General Meeting was called on 28th April 2003, where the members approved the Scheme of Amalgamation.

Subsequently a petition was filed on 29th April, 2003 with the Hon'ble High Court of Andhra Pradesh for its approval of the Scheme of Amalgamation as envisaged under the Companies Act, 1956. The petition has been allowed and thereby the Hon'ble High Court of Andhra Pradesh has pronounced the orders sanctioning the scheme. The written orders are awaited on the matter.

The scheme envisages *inter alia*, the issue of 61,77,778 equity shares of Rs.10/- each of the company at a price of Rs.31/- per share to the members of Veracity Technologies Inc. USA as a consideration.

Your company has got the approval of Foreign Investment Promotion Board for the issue of 61,77,778 equity shares to the members of Veracity Technologies Inc. USA and is in the process of applying to the Reserve Bank of India for its consent.

Once the amalgamation is approved it will have retrospective effect from the Appointed Date i.e., 1st January 2003. The accounting treatment in the books of account and disclosures in financial statements of the Company for the amalgamation will be given as per the *Accounting Standard - 14, Accounting For Amalgamations* issued by the Institute of Chartered Accountants of India.

- Launch of new products

You will be happy to note that your Company has overcome the engineering issues. Two of the eight products that were launched during this financial year worked first time, which is an emphatic demonstration of MosChip's capabilities as a chip company. The engineering team has been further strengthened with the addition of senior engineers. The eight products (MCS 7705, MCS 7710, MCS 7715, MCS 7717, MCS 7720, MCS 7830, MCS 7860 and MCS 9250) are under various stages of customer evaluation.

Employee Stock Option Plan

During the year under review, your company has two schemes in operation as mentioned below, for granting stock options to the employees 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

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

The price at which the stock options have been granted to the employees till date under the two schemes, are higher than the Market Price as defined in the revised guidelines (revised on 30th June 2003). Hence there will be no impact on the profit and loss account of the company.

Fixed Deposits

During the year under review, your Company has not accepted any fixed deposits in terms of Section 58A of the Companies Act, 1956 from the public.

Directors

During the year under review, Mr G. Prasad was appointed as Alternate Director on 28th October, 2002.

During the year under review, Mr. V. Ramesh has tendered his resignation for the post of a Director on personal

grounds effective from 31st March, 2003. The Board has accepted his resignation and has placed on record its appreciation for the valuable services rendered by him during his tenure as a Director of the company.

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

Additional Information

Prof. Mendu Rammohan Rao, was appointed as Additional Director of the company effective from 5th May 2003 to hold office upto the date of Fourth Annual General Meeting.

Mr. G. Prasad, has tendered his resignation for the post of Alternate Director w.e.f. 20th June 2003 and the same was accepted by the Board. He was appointed as Additional Director of the company w.e.f. 20th June 2003 to hold office upto the date of Fourth Annual General Meeting.

The offices of Prof. Mendu Rammohan Rao and Mr. G. Prasad as Additional Directors of the company expire at the ensuing Annual General Meeting. The company has received notices from the members alongwith Rs.500/- as deposit, proposing their candidature, in accordance with the provisions of Section 257 of Companies Act, 1956.

Pursuant to the provisions of clause 49 of the Listing Agreement entered with HSE and BSE, brief particulars of these proposed directors are provided as an annexure to Notice convening Annual General Meeting.

Auditors

The Auditors of the company M/sGokhale & 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