

5th

ANNUAL REPORT
2003 - 2004



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
Director

Prof. Vijay Chandru
Director

Mr. G. Prasad
Director

Dr. M. Rammohan Rao
Director

Mr. K.E.C. Raja Kumar
Additional Director

COMPANY SECRETARY
Dasu Trivikram

BANKERS

IndusInd 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

REGISTRAR AND SHARE TRANSFER AGENTS

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

Branch

3335 Kifer Road, Santa Clara, CA 95051 USA

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Fifth Annual General Meeting** of MosChip Semiconductor Technology Limited, will be held on **Thursday the 30th day of September 2004 at 1030 hrs at the Registered Office of the Company Situated at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad-500 034** to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Report of Directors, Profit and Loss Account for the financial year ended March 31, 2004 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 Dr. M. Rammohan Rao who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint M/s Gokhale & Co., Chartered Accountants, Hyderabad as Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED THAT Mr. K.E.C. Raja Kumar who was appointed as additional director during the year and who holds office till the conclusion of 5th Annual General Meeting as per the provisions of Section 260 of the Companies Act, 1956, 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 Director 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 subject to the applicable provisions of Securities and Exchange Board of India

(Delisting of Securities) Guidelines, 2003 and of the Companies Act, 1956 (including modifications or amendments thereto or re-enactments thereof for the time being in force) and subject to such approvals as may be necessary and subject to such terms, conditions, stipulations and modifications prescribed or imposed by such approvals by the relevant authorities as may be agreed to by the Board of Directors of the Company (hereinafter referred to as 'the Board', which term shall be deemed to include any committee thereof) consent of the Company be and is hereby accorded to the Board to delist the equity shares of the Company from The Hyderabad Stock Exchange Limited, Hyderabad."

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

"RESOLVED THAT pursuant to the provisions of Section 94(1)(a) of the Companies Act, 1956 consent of the Company be and is hereby granted for increasing the Authorised Share Capital of the Company from the present Rs. 35 Crores to Rs. 40 Crores by creation of 50,00,000 equity shares of Rs.10/- each raking *pari passu* with the existing equity shares of the Company in all respects."

"RESOLVED FURTHER THAT pursuant to the provisions of Section 16 of the Companies Act, 1956, the existing Clause V (a) of the Memorandum of Association of the Company be amended to read as mentioned below:

"The Authorised Share Capital of the Company is Rs. 40,00,00,000 (Rupees Forty Crores Only) divided into 4,00,00,000 (Four Crores Only) Equity shares of Rs.10/- (Rupees Ten Only) each with a power to the Company to increase or reduce the capital and to issue any part of its capital with or without any preferential, deferred, guaranteed, qualified or special rights, conditions and with power to vary, modify, amalgamate or abrogate any such rights, privileges of conditions in accordance with the provisions of the Companies Act, 1956 and any other relevant regulations and rules governing the subject."

"RESOLVED FURTHER THAT Mr. C. Dayakar Reddy, Managing Director and Mr. Dasu Trivikram, Company Secretary of the Company, be and are

hereby authorised severally to do all such acts, deeds and things that are required to give effect to the above resolutions."

8. *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 31 of the Companies Act, 1956, Article No.4 of the Articles of Association of the Company be and are hereby amended to read as follows:

"The Authorised Capital of the Company is Rs. 40,00,00,000 (Rupees Forty Crores Only) divided into 4,00,00,000 (Four Crores Only) Equity shares of Rs.10/- (Rupees Ten only) each and the same may be increased or reduced as per the requirements of the business and in accordance with the provisions of the law."

9. *To consider and, if thought fit, to pass with or without modifications the following resolution as a Special resolution:*

"RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the Company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include a Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the Company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time to the

present and future employees of the Company selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Employees" (which expression shall, unless repugnant to the context, mean and include the permanent Employees of the Company including those on deputation at the instance of the Company excluding the employees belonging to promoter group) such number of options as the Board may decide which could give rise to the issue of equity shares of nominal face value not exceeding Rs. 1,00,00,000/- (Rupees One Crore only) divided into 10,00,000 (Ten Lakhs only) equity shares (including the equity shares issued pursuant to the Resolution at Item No.10 of the Notice) of the face value of Rs.10/- each on such terms and conditions described below:

The offer shall be in accordance with the terms and conditions as regards price, payment, application, allotment, entitlement to dividend and other rights, transferability and all other matters as stipulated by the SEBI Guidelines in force at the time of said actions and in accordance with any other guidelines, rules, regulations and laws to the extent applicable and in force and subject also to the Memorandum and Articles of Association of the Company provided that:

- The vesting period shall commence after twelve months from the date of grant of the option. The share options could be granted in tranches and could vest in tranches as per the discretion of the Board / Compensation Committee of the Board.
- The maximum period within which the options to be vested shall be four years from the date of grant.
- The equity shares would be issued to the eligible employees at the market price as defined in the SEBI (ESOS & ESPS) Guidelines, 1999 in force and as amended from time to time or as decided by the Board / Compensation Committee of the Board.
- The employees shall exercise their options within 5 years from the date of vesting or

such other period fixed by the Board / Compensation Committee of the Board.

The employees can exercise the options by submitting an application in the prescribed format after which the shares would be allotted. Options not exercised within the specified period will lapse.

- The Board / Compensation Committee of the Board will evolve the criteria for the eligibility of an employee for granting options under the Plan, which *inter alia*, includes length of service, grade, performance, merit, future potential contribution, leadership qualities, qualification and conduct of the employee.
- No employee shall, during any fiscal year of the company, be granted options exceeding 0.99 % of the issued equity share capital of the Company existing at the time of grant of option. The overall options to be granted in this Plan shall be limited to 10 lakhs. All lapsed options i.e., unexercised options due to resignations etc., are eligible for fresh grants
- The Company shall conform to the accounting policies stipulated by the SEBI guidelines or any other appropriate authority in force and as are applicable to the account of options granted under this Plan.
- Valuation of options under the Plan are as per Intrinsic Value Method.
- In case the Company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Directors Report.
- the equity shares issued upon exercise of the Options shall rank *pari passu* in all respects with the existing equity shares.
- Options not exercised within the specified period will lapse. All options that are lapsed will be added back to the pool and are eligible for future grants to the employees.
- the consideration for the shares to be issued upon exercise of an Option, as determined by the Board / Compensation Committee of the Board at the time of granting the Options, may consist of cash, cheque or consideration received by the Company under a cashless exercise program implemented by the Company or any combination of the foregoing methods of payment.
- subject to the approval of the stock exchanges, the relevant equity shares on exercise of the Options shall be listed on the stock exchanges wherever the Company's shares are listed.
- the Board / Compensation Committee of the Board shall have the power to make reasonable adjustments to the number of options to be exercised and the exercise price in case of rights issues, bonus issues, stock splits and other corporate actions.
- the Board / Compensation Committee of the Board shall have absolute discretion from time to time to modify or substitute any such terms or, if it thinks fit, not to undertake or proceed with the implementation of this Resolution in whole or in part.

"RESOLVED FURTHER THAT in this resolution the expression "Employee" or "Eligible Employee" shall include the Non-promoter Director(s), and accordingly the provisions of this resolution shall apply to them as they apply to other eligible employees".

"RESOLVED FURTHER THAT a document titled "MOSCHIP STOCK OPTION PLAN - 2004" tabled at the meeting and initialed by the Chairman for identification be and is hereby approved".

"RESOLVED FURTHER THAT without prejudice to the generality of the above, but subject to the terms as approved by the members, the Board /

Compensation Committee or any Committee of the Board, be and is hereby authorised to implement the MOSCHIP STOCK OPTION PLAN - 2004 ("Plan"), (with or without modifications and variations) in such manner as the Board / Compensation Committee / any Committee of the Board may determine".

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any Committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto".

"RESOLVED FURTHER THAT the said equity shares may be allotted in accordance with the Plan framed in that behalf, directly to such employees or through a Trust, which may be set up in any permissible manner or to the Trust to be held on behalf of such employees and that the Plan may also envisage for providing any financial assistance to the employees or the Trust to enable the employees / Trust to acquire, purchase or subscribe to the said equity shares of the company".

"RESOLVED FURTHER THAT the Board / Compensation Committee or any Committee of the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Plan and to the Shares (including to amend or modify any of the terms thereof) issued herein without being required to seek any further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by authority of this resolution".

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

"RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option

Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force) and subject to the provisions contained in the Articles of Association of the Company and subject to such other consents, permissions, sanctions and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include a Compensation Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the Company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time to the present and future employees of the subsidiary company selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Employees" (which expression shall, unless repugnant to the context, mean and include the permanent Employees of the subsidiary company including those on deputation at the instance of the subsidiary company excluding the employees belonging to promoter group) such number of options as the Board may decide which could give rise to the issue of equity shares of nominal face value not exceeding Rs. 1,00,00,000/- (Rupees One Crore only) divided into 10,00,000 (Ten Lakhs only) equity shares (including the equity shares issued pursuant to the Resolution at Item No 9 of the Notice) of the face value of Rs.10/- each on such terms and conditions described below:

The offer shall be in accordance with the terms and conditions as regards price, payment, application, allotment, entitlement to dividend and other rights, transferability and all other matters as stipulated by the SEBI Guidelines in force and in accordance with

any other guidelines, rules, regulations and laws in force and to the extent applicable and subject also to the Memorandum and Articles of Association of the Company provided that:

- The vesting period shall commence after twelve months from the date of grant of the option. The share options could be granted in tranches and could vest in tranches as per the discretion of the Board / Compensation Committee of the Board.
- The maximum period within which the options to be vested shall be four years from the date of grant.
- The equity shares would be issued to the eligible employees at the market price as defined in the SEBI (ESOS & ESPS) Guidelines, 1999 in force and as amended from time to time or as decided by the Board / Compensation Committee of the Board.
- The employees shall exercise their options within 5 years from the date of vesting or such other period fixed by the Board / Compensation Committee of the Board.

The employees can exercise the options by submitting an application in the prescribed format after which the shares would be allotted. Options not exercised within the specified period will lapse.

- The Board / Compensation Committee of the Board will evolve the criteria for the eligibility of an employee for granting options under the Plan, which *inter alia*, includes length of service, grade, performance, merit, future potential contribution, leadership qualities, qualification and conduct of the employee.
- No employee shall, during any fiscal year of the company, be granted options exceeding 0.99 % of the issued equity share capital of the Company existing at the time of grant of option. The overall options to be granted in this Plan shall be limited to 10 lakhs. All

lapsed options i.e., unexercised options due to resignations etc., are eligible for fresh grants

- The Company shall conform to the accounting policies stipulated by the SEBI guidelines or any other appropriate authority in force and as are applicable to the account of options granted under this Plan.
- Valuation of options under the Plan are as per Intrinsic Value Method.
- In case the Company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Directors Report.
- the equity shares issued upon exercise of the Options shall rank *pari passu* in all respects with the existing equity shares.
- Options not exercised within the specified period will lapse. All options that are lapsed will be added back to the pool and are eligible for future grants to the employees.
- the consideration for the shares to be issued upon exercise of an Option, as determined by the Board / Compensation Committee of the Board at the time of granting the Options, may consist of cash, cheque or consideration received by the Company under a cashless exercise program implemented by the Company or any combination of the foregoing methods of payment.
- subject to the approval of the stock exchanges, the relevant equity shares on exercise of the Options shall be listed on the stock exchanges wherever the Company's shares are listed.

- the Board / Compensation Committee of the Board shall have the power to make reasonable adjustments to the number of options to be exercised and the exercise price in case of rights issues, bonus issues, stock splits and other corporate actions.
- the Board / Compensation Committee of the Board shall have absolute discretion from time to time to modify or substitute any such terms or, if it thinks fit, not to undertake or proceed with the implementation of this Resolution in whole or in part.

"RESOLVED FURTHER THAT in this resolution the expression "Employee" or "Eligible Employee" shall include the Non-promoter Director(s), and accordingly the provisions of this resolution shall apply to them as they apply to other eligible employees".

"RESOLVED FURTHER THAT a document titled "MOSCHIP STOCK OPTION PLAN - 2004" tabled at the meeting and initialed by the Chairman for identification be and is hereby approved".

"RESOLVED FURTHER THAT without prejudice to the generality of the above, but subject to the terms as approved by the members, the Board / Compensation Committee or any committee of the Board, be and is hereby authorised to implement the MOSCHIP STOCK OPTION PLAN - 2004 ("Plan"), (with or without modifications and variations) in such manner as the Board / Compensation Committee / any Committee of the Board may determine".

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee or any committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto".

"RESOLVED FURTHER THAT the said equity shares may be allotted in accordance with the Plan framed

in that behalf, directly to such employees or through a Trust, which may be set up in any permissible manner or to the Trust to be held on behalf of such employees and that the Plan may also envisage for providing any financial assistance to the employees or the Trust to enable the employees / Trust to acquire, purchase or subscribe to the said equity shares of the company".

"RESOLVED FURTHER THAT the Board / Compensation Committee or any Committee of the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Plan and to the Shares (including to amend or modify any of the terms thereof) issued herein without being required to seek any further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by authority of this resolution".

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

"RESOLVED THAT in conformity with the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956; Listing Agreements entered with the Stock Exchanges; Guidelines issued by RBI under FEMA 1999 and by SEBI on Preferential Issue of shares and its other regulations/guidelines, if any, and subject to the consent of all other concerned authorities, if and to the extent required and subject to such conditions and modifications as may be prescribed or imposed while according such consents, which may be considered appropriate by the Board of Directors of the Company and/or a duly authorised Committee thereof (hereinafter called as "the Board") in its absolute discretion, consent of the Company be and is hereby conveyed to the Board to create, offer, issue, allot and deliver in one or more tranches to MOS Group LLC., USA, 200,000 number of warrants where each warrant is convertible into one Equity share of the face value of Rs.10/- each, at a price of Rs.35/- per share, (including premium of Rs.25/-) resulting in the aggregate after conversion, exercise of rights attached to those instruments, not

exceeding 200,000 equity shares of the Company, on the following terms and conditions:-

- Conversion of option can be exercised in one or more tranches at any time within a period of 18 months from the date of issue of such warrants;
- An amount equal to 10 percent of the share price shall be payable on the date of issue of the warrants, with the balance amount being payable at the time of conversion;
- The amount paid on issue of warrants shall be forfeited if the warrants are not exercised within a period of 18 months from the date of issue of warrants;
- This preferential allotment is subject to the dematerialisation of entire pre preferential allotment shareholding of the proposed allottee;
- The entire pre-preferential shareholding of the proposed allottee, if any, is subject to a lock-in from the relevant date i.e. August 31, 2004 upto a period of Six (6) months from the date of preferential allotment.
- Warrants allotted on preferential basis are locked-in for a period of one year from the date of allotment.
- The lock-in on share acquired by exercise of warrants, shall be reduced to the extent of the warrants have already been locked-in.
- The proposed preferential allotment is void if the proposed allottee has sold its shares in the Company during the six months period prior to the relevant date i.e. August 31, 2004.
- Other terms and conditions as may be prescribed by the Board at its absolute discretion consider fit.

"RESOLVED FURTHER THAT the Relevant Date in relation to the shares resulting upon exercise of warrants for the purpose of determining the issue price under the SEBI Guidelines for Preferential Issues shall be August 31, 2004."

"RESOLVED FURTHER THAT the equity shares so allotted upon conversion of warrants shall rank *pari passu* with the existing equity shares of the Company."

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

By Order of the Board of Directors

Hyderabad
August 26, 2004

Dasu Trivikram
Company Secretary