

7th ANNUAL REPORT 2005 - 2006

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MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

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BOARD OF DIRECTORS

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

COMMITTEES OF THE BOARD**Audit**

Mr. G. Prasad	-	Chairman
Mr. A. Ramesh	-	Member
Dr. M. Rammohan Rao	-	Member
Prof. Vijaya Chandru	-	Member

Remuneration

Mr. G. Prasad	-	Chairman
Mr. A. Ramesh	-	Member
Dr. M. Rammohan Rao	-	Member
Prof. Vijaya Chandru	-	Member

Shareholders / Investor Grievance

Mr. A. Ramesh	-	Chairman
Mr. G. Prasad	-	Member
Dr. M. Rammohan Rao	-	Member
Prof. Vijaya Chandru	-	Member

Raj Kumar Singh
Company Secretary

REGISTERED OFFICE

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

BANKERS

IndusInd Bank Limited
Corporation Bank
HDFC Bank Limited
ICICI Bank Limited

BRANCH

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

AUDITORS

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

REGISTRAR AND SHARE TRANSFER AGENTS

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Seventh Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on **Saturday, the 30 September 2006 at 10.30 hrs** at the Registered Office of the Company situated at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad-500 034 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Report of Directors, Profit and Loss Account for the financial year ended 31 March 2006 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 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, 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 Agreement entered with the Stock Exchange; 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 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 (i) Mr. Achal Ghai (ii) Dr. Madhu Mohan Katikieni (iii) Mr. K. Ramachandra Reddy (iv) Mr. C. Dayakar Reddy, and (v) Mrs. Sandhya Reddy, 1,650,000 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. 31/- per share, (including premium of Rs. 21/-) resulting in the aggregate after conversion, exercise of rights attached to those instruments, not exceeding 1,650,000 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. 31 August 2006 up to a period of six (6) months from the date of preferential allotment.
- The proposed preferential allotment is void if the proposed allottee has sold its shares in the company during the six months period prior to the relevant date i.e. 31 August 2006.
- Other terms and conditions as may be prescribed by the Board at its absolute discretion consider fit.

RESOLVED FURTHER THAT the Relevant Date in relation to the issue of equity shares and shares resulting upon exercise of warrants for the purpose of determining the issue price under the SEBI Guidelines for Preferential Issues shall be 31 August, 2006.

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

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

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

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 302, 309, 310, 311 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to Central Government approval and other sanctions and approvals as may be necessary, approval of the Company be and is hereby accorded for 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 2006, on a revised terms and conditions as mentioned below:

Terms of remuneration

Salary and Perquisites : Rs.350,000/- (Rupees Three Lakhs fifty thousand only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the time scale of Rs. 350,000 - 50,000 - 450,000.

Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Remuneration Committee/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.

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

Notwithstanding anything contained herein, wherein any financial year during the currency of the tenure of the appointee, the Company has no profit or its profits are inadequate, the Company will pay to Mr. K. Ramachandra Reddy, 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 subject to Central Government approval and other sanctions and approvals as may be necessary, approval of the Company be and is hereby accorded for 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 2006, on a revised terms and conditions as mentioned below:

Terms of remuneration

Salary and Perquisites : Rs.350,000/- (Rupees Three Lakhs fifty thousand only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the time scale of Rs. 350,000 - 50,000 - 450,000.

Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Remuneration Committee/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.

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

Notwithstanding anything contained herein, wherein any financial year during the currency of the tenure of

the appointee, the Company has no profit or its profits are inadequate, the Company will pay to Mr. C. Dayakar Reddy, 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
31 August 2006

Raj Kumar Singh
Company Secretary

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of him and such proxy need not be a member of the company. Proxies in order to be effective must be received by the company not less than 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the company will remain closed from 23-09-2006 to 30-09-2006 (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.
10. Explanatory Statement Under Section 173(2) of the Companies Act, 1956 in relation to item Nos 5, 6 & 7 above is annexed hereto.

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

Item No.5: Issue of Warrants on Private Placement Basis.

To build and strengthen business relationships and to provide adequate incentives to the Chairman & CEO and Managing Director and to a key employee of MosChip Semiconductor Technology, USA, your company is proposing to issue 1,650,000 numbers of warrants to (i) Mr. Achal Ghai (ii) Dr. Madhu Mohan Katikieni (iii) Mr. K. Ramachandra Reddy (iv) Mr. C. Dayakar Reddy, and (v) Mrs. Sandhya Reddy, on preferential allotment basis.

Mr. K. Ramachandra Reddy, Chairman & CEO and Mr. C. Dayakar Reddy, Managing Director are interested or concerned with the above resolution to the extent of their warrants.

Disclosure pursuant to Clause 13.1A of the SEBI Disclosure and Investor Protection Guidelines for Preferential Issues.

Objects of the issue through preferential offer.

The object of the proposed issue of warrants to proposed allottees is to build and strengthen business relationships and to provide adequate incentives to the Chairman & CEO and Managing Director and to a key employee of MosChip Semiconductor Technology, USA.

Intention of promoters/directors/key management persons to subscribe to the offer

Mr. K. Ramachandra Reddy, Chairman & CEO and Mr. C. Dayakar Reddy, Managing Director are intended to subscribe 500,000 warrants each to the offer.

Shareholding pattern before and after the issue

	Before the offer		After the offer	
	No. of shares	%	No. of shares	%
A. Shareholding of Promoter & Promoter Group				
1. Indian				
- Individuals/Hindu Undivided Family	19600	0.05	19600	0.04
- PAC	330000	0.76	330000	0.73
Sub - Total (A) (1)	349600	0.81	349600	0.78
2. Foreign				
- Individuals (NRI's/Foreign Individuals)	4868235	11.22	5868235	13.03
- PAC	5614257	12.94	5764257	12.80
Sub - Total (A) (2)	10482492	24.16	11632492	25.83
Total Shareholding of Promoter & Promoter Group(A)=(A)(1) + (A) (2)	10832092	24.97	11982092	26.61
B. Public Share Holdings				
1. Institutions				
- Financial Institutions/Banks	4650	0.01	4650	0.01
- FIs	679146	1.57	679146	1.51
Sub- Total (B) (1)	683796	1.58	683796	1.52
2. Non-Institutions				
- Bodies Corporate	5949482	13.71	5949482	13.21
- Individuals				
- Individuals-Shareholders holding nominal share capital up to Rs. 1 Lakh	17132280	39.49	17132280	38.04
Shareholders holding nominal share capital in excess of Rs. 1 Lakh	3375444	7.78	3375444	7.50
- Non-Resident's /OCB	5410423	12.47	5910423	13.12
Sub- Total (B) (2)	31867629	73.46	32367629	71.87
(B). Total Public Shareholding (B)=(B)(1) + (B) (2)	32551425	75.03	33051425	73.39
GRAND TOTAL (A+B)	43383517	100.00	45033517	100.00

Proposed time within which the allotment shall be completed.

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

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

Sl No	Name of the allottee	Existing Holding	No. of warrants allotted	Percentage of post issue capital
01	Mr. Achal Ghai	-	300,000	0.67
02	Dr. Madhu Mohan Katikieni	-	200,000	0.44
03	Mr. K. Ramachandra Reddy	3,040,537	500,000	1.11
04	Mr. C. Dayakar Reddy	577,420	500,000	1.11
05	Mrs. Sandhya Reddy	-	150,000	0.34

Mr. K. Ramachandra Reddy and Mr. C. Dayakar Reddy falls under the category of promoter.

Mrs. Sandhya Reddy is an employee of MosChip Semiconductor Technology, USA, a Wholly Owned ~~Subsidiary~~ of the Company. She falls under the category of Persons Acting in Concert.

Mr. K. Ramachandra Reddy, Chairman & CEO and Mr. C. Dayakar Reddy, Managing Director ~~are~~ interested or concerned with the above resolution to the extent of their warrants.

Item No.6: Re-appointment of Mr. K. Ramachandra Reddy as Chairman & CEO

Mr. K. Ramachandra Reddy was initially appointed as the Chairman & CEO with effect from 24 July 2000 for a period of 5 years and was reappointed w.e.f. 24 July 2005 as Chairman & CEO on revised remuneration. As a part of the initiative to create enduring leadership for the company, the Board of Directors of the company on 31 August 2006 has resolved to re-appoint Mr. K. Ramachandra Reddy as Chairman & CEO for a period of 3 years commencing from 01 September 2006 on revised terms and conditions.

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

1. Period of appointment: 3 years beginning 01 September 2006 and ending on 31 August 2009.
2. Details of remuneration: As provided in resolution will be paid for a period of 3 years with effect from 01 September 2006.

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 2003-04		For the year 2004-05		For the year 2005-06	
	MosChip India	Consoli- dated	MosChip India	Consoli- dated	MosChip India	Consoli- dated
Total Income from operations	26.60	1263.86	232.90	1790.56	498.98	2286.93
Operating Profit before Interest, Depreciation & Tax (PBIT)	-1054.12	-913.02	-752.42	-419.53	-558.55	-434.78
Less: Depreciation	149.05	226.62	240.05	363.61	278.73	372.39
Interest	13.17	13.17	9.03	9.03	-	-
Operating profit before tax	-1216.34	-1152.81	-1001.50	-792.17	-837.28	-807.17
Add: Other Income	17.22	23.71	31.27	29.50	184.26	172.84
Profit before tax (PBT)	-1199.12	-1129.10	-970.24	-762.67	-653.02	-634.33
Less: Provision for Income Tax	-	-	-	-	3.14	3.14
Profit after tax (PAT)	-1199.12	-1129.10	-970.24	-762.67	-656.16	-637.47
Earnings per share (EPS)						
Basic	-4.72	-4.44	-2.95	-2.32	-1.54	-1.50
Diluted	-4.72	-4.44	-2.95	-2.32	-1.54	-1.50

d. Export performance and net foreign exchange collaborations:

- Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2006) : Rs. 952.30 lakhs
- Deficit in Export Obligation as on 31 March 2006 : Rs. 1994.00 lakhs.
- Net Foreign Exchange Earnings of the Company (From the date of incorporation to 31 March 2006) : Rs. (466.55) lakhs
- Deficit in Net Foreign Exchange Earnings as on 31 March 2006 : Rs. 15 lakhs

e. Foreign Investments or collaborators, if any: 38.15% 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 57, 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. 250,000/- 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. 350,000/- (Rupees Three Lakhs fifty thousand only) per month by way of Salary, Dearness Allowance and any other allowances and perquisites in the time scale of Rs. 350,000 - 50,000 - 450,000.

Commission:

Where the Company has sufficient profits, such percentage of Commission on the net profits of the company be paid in addition to salary and perquisites as may be determined by the Remuneration Committee/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.

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

The remuneration package of Rs. 350,000/- in the time scale of Rs. 350,000 - 50,000 - 450,000 is very reasonable vis-a-vis 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 8.16% of equity shares in the Company.

3. Other Information:

a. Reasons of loss or inadequate profits

As a fabless semiconductor company, MosChip Semiconductor Technology Limited (MosChip India) designs products and develops ASIC software and outsources the manufacturing to ASIC Service Providers. The ASIC software is licensed to its wholly owned subsidiary MosChip Semiconductor Technology, USA (MosChip USA), which subcontracts the manufactured chip through its distribution network worldwide.

MosChip USA collects the entire revenue from sale of the products, MosChip USA pays a Licence fee to MosChip India for the license of the software, which fee is linked to the gross margins on the products designed and developed by MosChip India.

The Products that were launched by the Company during its initial years of commercial operations had some compatibility issues. These had to be rectified and were again released for customer sampling subsequently.

The Compatibility problems and the inordinate delays completion of new product designs have been mainly because of the lack of experience of Indian engineers on development of Asics, resulting in ASIC designs that did not address these issues adequately.

The sales of the products designed by the company were not large enough for the Company to become profitable.

b. Steps taken or proposed to be taken for improvement

This gap has now been plugged by hiring few senior engineers in India who have had several years of experience in development of ASICs in the Silicon Valley, USA. This has resulted in remarkable improvement.

The company has taken up custom development of products and also development of IP for overseas customers. That has helped the Company to increase its revenues and reduce losses. The Company also plan to take up ASIC design services as a business activity, while continuing to develop and launch new products with higher market potential.

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

The Company is expected to achieve consolidated sales of Rs. 40 crores and become profitable at the consolidated level for the financial year 2006-07.

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