

8th

Annual Report
2006 - 2007

Report 7/10/07

MOSCHIP



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

C O N T E N T S

	Page Nos.
Board of Directors	2
AGM Notice	3 - 4
Directors' Report	5 - 20
Corporate Governance Report	21 - 27

Consolidated Financial Statements

Auditors' Report	28
Balance Sheet	29
Profit & Loss Account	30
Schedules	31 - 41
Cash Flow Statements	42 - 43

Financial Statements of the Company (MosChip India)

Auditors' Report	44 - 45
Balance Sheet	46
Profit & Loss Account	47
Schedules	48 - 63
Cash Flow Statement	64 - 65
Balance Sheet Abstract	66
Statement Pursuant to Section 212 of Companies Act, 1956	67

Financial Statements of the Subsidiary (MosChip USA)

Directors' Report	68
Auditors' Report	69
Balance Sheet	70
Statement of Net Income and Accumulated Deficit	71
Statement of Cash Flows	72
Notes to Financial Statements	73 - 74

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
Mr. 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 - 500 034
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
Panjagutta, 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 **Eighth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on **Saturday, the 29 September 2007** 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 2007 and the Balance Sheet as on 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. Vijaya Chandru, 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.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 22-09-2007 to 29-09-2007 (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.

By Order of the Board of Directors

Hyderabad
24 August 2007

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.

**BRIEF PROFILE OF DIRECTORS SEEKING
RE-ELECTION AT THE ENSUING ANNUAL GENERAL
MEETING****A. Ramesh - Director**

Mr. Alur Ramesh has B.Tech. in Chemical Engineering from REC, Warangal and Master in Business Administration from Indian Institute of Management, Bangalore with specialisation in Marketing and Finance. He has over 27 years of experience in various fields. He is currently the Senior Vice President of APIDC-Venture Capital Limited.

Prof. Vijaya Chandru - Director

Dr. Vijaya Chandru has been a Professor of Computer Science at the Indian Institute of Science since 1992 and also serves as an honorary professor of the National Institute of Advanced Studies in Bangalore. He was elected a fellow of the Indian Academy of Sciences in 1996. He taught at Purdue University from 1982 to 1992 and the University of

Pennsylvania in 1999-2000. He has also worked at IBM's Watson Research Centre as a visiting academic during 1990-1994.

His undergraduate education in India was in Electrical Engineering (BITS, Pilani) and at the graduate level in the US in applied mathematics, an MS in Systems Science (UCLA), and a PhD in Operations Research.

In October 2000, Prof. Vijaya Chandru and three colleagues from the Indian Institute of Science founded Strand Lifesciences, India's first bioinformatics company. He currently serves as Chairman & Chief Executive Officer of the Company.

By Order of the Board of Directors

Hyderabad
24 August 2007

Raj Kumar Singh
Company Secretary

Report  Junction.com

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Eighth Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31 March 2007.

Financial Results

(Rs. In Lakhs)

	Year ended 31 March 2007		Year ended 31 March 2006	
	Standalone	Consolidated	Standalone	Consolidated
Total Income	625.56	2773.92	683.24	2459.78
Operating Profit before Depreciation & Tax	-479.25	-84.47	-374.11	-251.24
Less: Depreciation	149.91	270.74	278.73	372.39
Profit before Tax	-629.16	-355.21	-652.84	-623.63
Less: provision for FBT	3.29	3.29	3.14	3.14
Profit after Tax before extraordinary and prior period item	-632.45	-358.50	-655.98	-626.77
Less: Extraordinary and prior period item	-39.34	-39.34	0.18	10.70
Profit after tax after extraordinary and prior period item	-593.11	-319.16	-656.16	-637.47
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	-1.46	-0.83	-1.54	-1.47
Diluted	-1.46	-0.83	-1.54	-1.47
After extraordinary and prior period item				
Basic	-1.37	-0.74	-1.54	-1.50
Diluted	-1.37	-0.74	-1.54	-1.50

Operations

The consolidated income of the Company went up from Rs.24.60 crores to Rs. 27.74 crores and the consolidated loss reduced from Rs. 6.37 crores to Rs.3.19 crores.

MosChip India

The total income of the Company has decreased from Rs.6.83 crores in 2005-06 to Rs.6.26 crores in 2006-07. The decrease is on account of reduction of other income.

MosChip USA, a wholly owned subsidiary

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded nearly 27 percent growth in revenue from Rs. 20.43 crores in 2005-06 to Rs.26.04 crores during the year ended 31 March 2007. The Company has made a profit of Rs. 2.74 crores during the year ended 31 March 2007 as against Rs.0.18 crores during the previous financial year.

Dividend

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

Increase in Share Capital

Increase in Share Capital during the financial year 2006-07:

Particulars	No. of Shares	Price Per Share
On exercise of Employee Stock Options	1,500	26.75
On exercise of Employee Stock Options	6,000	30.50
On exercise of Employee Stock Options	6,000	31.00
Total	13,500	

In view of the above allotments, the total outstanding paid-up equity share capital of the Company has increased from 43,370,017 equity shares from the previous year 2005-06 to 43,383,517 equity shares as on 31 March 2007.

Marketing and distribution

The manufacturing and sale of products developed by the Company is handled by MosChip USA, which has appointed distributors in all the major markets for its semiconductor products. MosChip USA has a branch office in Hong Kong. Since the new products, particularly MCS 8140, have good potential in USA and Europe, there will be an increased focus on these regions to enhance sales volumes.

Employee Stock Option Plan

During the year under report the Company has five 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.

- Moschip Stock Option Plan – 2001
- MosChip Stock Option Plan – 2002
- MosChip Stock Option Plan – 2004
- MosChip Stock Option Plan – 2005 (MI)
- MosChip Stock Option Plan – 2005 (WOS)

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

The prices, at which the stock options have been granted to the employees till date under the five schemes, are equal to the Market Price as defined in the SEBI guidelines in vogue.

Fixed Deposits

The Company has not accepted any fixed deposits in terms of Section 58A of the Companies Act, 1956 from the public.

Directors

Pursuant to the provisions of Article 133 of the Articles of Association of the Company, Mr. A. Ramesh and Prof. Vijaya Chandru, 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 BSE, brief particulars of these directors are provided as an annexure to Notice convening Annual General Meeting.

Auditors

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

Qualification on the accounts and Board's clarification

Pursuant to the provisions of Sub-Section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 28 June 2007 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.37,55,79,087/- 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.37,55,79,087/- and the net worth amount of Rs.12,78,07,589/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2007 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 net worth amount of MosChip

Semiconductor Technology, USA, at book value, as on 31 March 2007 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 intangible assets (intellectual property developed and owned by it, the international distribution network, customer base, foundry relationships, etc.), is much higher than its net worth 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 the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988, as amended from time to time, are set out as Annexure - B to this report.

Particulars of Employees

The particulars of employees that are required to be disclosed in this report 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 is set out as Annexure - C to this report.

Management Discussion & Analysis

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

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

The Board of Directors of MosChip states that:

- a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- b) they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2006-07 and of the profit or loss of the company for that period;

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

Corporate Governance

Pursuant to the provisions of Clause 49 of the Listing Agreement and Section 292A of the Companies Act 1956, a Report on the Corporate Governance, which, *inter alia*, includes the composition and constitution of audit committee, is featuring as a part of Annual Report. Your Company will continue to adhere in letter and spirit to the good corporate governance policies. Pursuant to the provisions of Clause 49 (vii)(1) of the Listing Agreement, a certificate from a practicing Company Secretary on the compliance of the Clause is set out in Annexure-E to this report.

CEO's Declaration

Pursuant to the provision of Clause 49 (I) (D) (ii) of the Listing Agreement, a declaration by the Chairman and CEO of the Company declaring that all the members of the Board and the Senior Management Personnel of the Company have affirmed compliance with the Code of Conduct of the Company, is set out as an Annexure-F to this report.

Acknowledgements

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

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

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO

ANNEXURE 'A'

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

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

The requisite disclosures of particulars in respect of these Schemes during the year 2006-07 are as under.

	Plan 2001	Plan 2002	Plan 2004	Plan 2005 (MI)	Plan 2005 (WOS)
(a) Options granted during the year	Nil	101,000	338,000	462,000	500,000
(b) The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue.				
(c) Options Vested	70,375	125,879	102,500	Nil	Nil
(d) Options exercised	6,000	7,500	Nil	Nil	Nil
(e) The total number of shares arising as a result of exercise of options:	6,000	7,500	Nil	Nil	Nil
(f) Options lapsed (As per the plan, options lapsed i.e. unexercised options on account of resignation etc., shall become available for future grants under the existing plans)	49,750	196,450	261,000	50,000	Nil
(g) Variation of terms of options	Nil	Nil	Nil	Nil	Nil
(h) Money realized by exercise of options	186,000	223,125	Nil	Nil	Nil
(i) Total number of options in force	109,875	296,629	802,400	412,000	500,000
(j) Employee wise details of options granted to					
(1) Senior Managerial Personal	Nil	Nil	Nil	Nil	Nil
(2) Any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year					
1) Prem Talreja (an employee of Wholly Owned Subsidiary)		Nil	100,000	Nil	100,000
2) Ken Wong (an employee of Wholly Owned Subsidiary)		Nil	100,000	Nil	75,000
3) Vikram Punj (an employee of Wholly Owned Subsidiary)		75,000	Nil	Nil	325,000
(3) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;			Nil	Nil	Nil
(k) Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20.		Rs.-1.37			

- (l) The exercise price at which the Company has granted stock options is equal to the Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue, and hence the Intrinsic Value of the stock options is nil. Therefore, the employee compensation cost based on the Intrinsic Value is also nil. If the Company had used the Fair Value of the option using the Black Scholes Method, the employee compensation cost for the year ended 31 March 2007 would have been Rs. 254,404, which would have increased the loss from Rs. 59,311,049 to Rs. 59,565,453. The Basic and Diluted Earnings Per Share would be Rs. -1.38 instead of Rs. -1.37, which have been reported in the Balance Sheet.
- (m) Weighted average exercise price and weighted average fair value of options granted where the exercise price is equal to the Market Price as on the date of grant:
Weighted average exercise price: Rs. 33.53
Weighted average fair value of options: Rs. 10.48
The Company does not have any options where the market price was higher/lower than the exercise price.
- (n) The fair value of the options have been computed using the Black Scholes method, where the following assumptions were made:
- Risk free interest rate was assumed between 6.4032% and 8.2247%, depending on the timing of grant and vesting period of the option, for the options granted during the year.
 - The expected life of the option is taken as the vesting period of the option.
 - The expected volatility has been computed using the daily share price movements of 240 trading days prior to the grant date. For annualizing the standard deviation, it is assumed that there are 240 trading days in a year. The standard deviation, a measure of volatility, worked out to 92.67% (on 21 August 2002), 91.48% (on 31 October 2002), 80.30% (on 29 January 2003), 67.24% (on 27 June 2003), 76.37% (on 19 February 2004), 73.93% (on 26 August 2004), 69.61% (on 18 November 2004), 65.11% (on 31 January 2005), 53.39% (on 30 June 2005), 59.77% (on 23 September 2005), 58.53% (on 24 January 2006), 63.62% (on 10 April 2006), 64.05% (on 18 May 2006), 65.85% (on 30 June 2006), 59.50% (on 04 September 2006), 53.03% (on 27 October 2006), 53.64% (on 06 November 2006), 56.30% (on 18 January 2007) and 52.26% (on 29 March 2007).
 - Since the Company has been making losses, we have not assumed any dividend payments.
 - The Market Price of the shares on the grant dates was as follows: Rs. 31 on 21 August 2002, Rs. 23.95 on 31 October 2002, Rs. 26.75 on 29 January 2003, Rs.33.00 on 27 June 2003 being the closing prices on the date of grant; Rs.40.51 on 19 February 2004, being the average of the two weeks high and low price of the share preceding the date of grant of option; and Rs.30.50 on 26 August 2004, Rs.42.85 on 18 November 2004, Rs.44.25 on 31 January 2005, Rs.35.75 on 30 June 2005, Rs.45.60 on 23 September 2005, Rs.41.50 on 24 January 2006, Rs.37.70 on 10 April 2006, Rs.37.40 on 18 May 2006, Rs.24.15 on 30 June 2006, Rs.25.10 on 04 September 2006, Rs.26.00 on 27 October 2006, Rs.24.25 on 06 November 2006, Rs.32.95 on 18 January 2007 and Rs.24.80 on 29 March 2007 being the previous days closing price preceding the date of grant of options.

For and on behalf of the Board of Directors

Hyderabad
24 August 2007

K. Ramachandra Reddy
Chairman & CEO