

12TH
ANNUAL REPORT



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
Dr. Vijaya Chandru	-	Director
Mr. G. Prasad	-	Director
Dr. Madhu Mohan Venkat Katikineni	-	Additional Director (appointed on 14 February 2011)
Mr. Vivek Bhargava	-	Additional Director (appointed on 24 August 2011)

COMMITTEES OF THE BOARD

Audit

Mr. G. Prasad	-	Chairman
Mr. A. Ramesh	-	Member
Dr. Vijaya Chandru	-	Member

Remuneration

Mr. G. Prasad	-	Chairman
Mr. A. Ramesh	-	Member
Dr. Vijaya Chandru	-	Member

Shareholders / Investor Grievance

Mr. A. Ramesh	-	Chairman
Mr. G. Prasad	-	Member
Dr. 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 : 040-6622-9292
Fax : 040-6622-9393

BANKERS

IndusInd Bank Limited
HDFC Bank Limited
UCO 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 : 040-2335-6975 / 040-2335-6507
Fax : 040-2335-4042

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NOTICE

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Twelfth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on Friday, the 30th September 2011 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 2011 and the Balance Sheet as on that date and the report of Auditors thereon.
2. To appoint a Director in place of Dr. Vijaya Chandru, who retires by rotation and being eligible offers himself for re-appointment.
3. 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

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

"RESOLVED THAT Dr. Madhu Mohan Venkat Katikineni, 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."

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

"RESOLVED THAT Mr. Vivek Bhargava, 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
24 August 2011

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 24-09-2011 to 30-09-2011 (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.

NOTICE

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

ITEM -4

Dr. Madhu Mohan Venkat Katikineni was co-opted as an Additional Director of the company with effect from 14th February 2011, pursuant to Section 260 of the Companies Act, 1956. Dr. Madhu Mohan Venkat Katikineni holds office of director up to 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. Madhu Mohan Katikineni 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. Madhu Mohan Venkat Katikineni is interested in this resolution.

ITEM - 5

Mr. Vivek Bhargava was co-opted as an Additional Director of the company with effect from 24th August 2011, pursuant to Section 260 of the Companies Act, 1956. Mr. Vivek Bhargava holds office of director up to 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. Vivek Bhargava 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. Vivek Bhargava is interested in this resolution.

By Order of the Board of Directors

Hyderabad
24 August 2011

Raj Kumar Singh
Company Secretary

BRIEF PROFILE OF DIRECTORS SEEKING ELECTION AND RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING

Dr. Vijaya Chandru

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 as 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.

Dr. Madhu Mohan Venkat Katikineni

Dr. Madhu Mohan Venkat Katikineni graduated from Osmania Medical College, Hyderabad. He moved to USA in 1975 and completed his post graduate studies from National Institute of Health and started private practice in Washington DC in 1980 and continues till date. He founded Large Medical Group in USA and currently working as President & CEO. He also founded National Bank in USA in 1988 and served as its Chairmen till 2005. The Bank was merged with Washington First Bank with assets worth 500 Million USD. In 2010, he was appointed as Chairman of Evolvence Life Science Fund, a private equity fund launched for investments in healthcare sector. He serves on the Board of Amrit Jal Ventures Limited and First Opinions Online Solutions Private Limited.

Mr. Vivek Bhargava

Vivek Bhargava, a Management Graduate from IIM Calcutta has over twenty years of experience in corporate finance, investment banking and capital markets. He started his career with the Nagarjuna Group in 1987 and then joined the Eenadu Margadarsi Group to head its financial services and investment banking business in 1993. Thereafter he joined MosChip Semiconductor, a company listed on the BSE as a CFO. He has also helped many other companies with their business plans and fund raising. He is currently the founder and Executive Chairman of WealthBridge Capital Advisors Private Limited, which is in the equity research business.

By Order of the Board of Directors

Hyderabad
24 August 2011

Raj Kumar Singh
Company Secretary

DIRECTORS' REPORT

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Twelfth Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31st March 2011.

Financial Results

(Rs. In Lakhs)

	Year ended 31 March 2011		Year ended 31 March 2010	
	Standalone	Consolidated	Standalone	Consolidated
Total Income	2484.33	2708.44	1707.00	2570.44
Operating Profit before Depreciation & Tax	13.23	(467.65)	(615.73)	(783.44)
Less: Depreciation	83.01	486.14	115.39	496.85
Profit before Tax	(69.78)	(953.79)	(731.12)	(1280.29)
Less: provision for FBT	0	0	0	0
Profit after Tax before extraordinary and prior period item	(69.78)	(953.79)	(731.12)	(1280.29)
Less: Extraordinary and prior period item	1.47	4.15	2.01	40.86
Profit after tax after extraordinary and prior period item	(71.26)	(957.94)	(733.13)	(1321.15)
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	(0.15)	(2.08)	(1.66)	(2.98)
Diluted	(0.15)	(2.08)	(1.66)	(2.98)
After extraordinary and prior period item				
Basic	(0.15)	(2.08)	(1.66)	(2.99)
Diluted	(0.15)	(2.08)	(1.66)	(2.99)

Operations

The consolidated income of the Company grew by 5.3% from Rs.25.70 Crores to Rs.27.08 Crores. The consolidated loss reduced from Rs.13.21 Crores to Rs.9.58 Crores.

MosChip India

MosChip had very matured I/O product line and had been recording about \$5M in revenues annually without much growth. MosChip's SOC (System On a Chip) line is fairly new and has promise to increase revenues much more than the I/O line but need investment. ASIX Electronics Corporation, a listed company in Taiwan is in similar business. They showed interest in acquiring MosChip's I/O product line. The division was sold to them at a consolidated amount of \$7M and the inventory at cost.

The funds are being used for repayment of the loans and other liabilities, and also to meet the working capital needs of both the business segments. With the increase in Design Services opportunities worldwide, MosChip intends to pursue this opportunity with vigor to achieve financial stability, while continuing to develop its SOC product line through partnerships and tie ups for custom products.

MosChip USA, a wholly owned subsidiary

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded revenue of USD 5.49 million.

Dividend

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

DIRECTORS' REPORT

Increase in Share Capital

The Company has only one class of shares. The Company has not allotted any shares during the year under review. The total paid-up equity share capital of the company is Rs. 460,355,170 as on 31 March 2011.

Marketing and distribution

The sale of products developed by the Company is handled by MosChip USA, through its worldwide marketing and distribution networks. The distribution network has enabled a strong presence in China and North America. With the focus in marketing and selling of our growing SOC line, Company is looking to do few Joint Ventures with large Corporations worldwide to decrease capital outlay but increase revenues by supplying the custom silicon to these corporations utilizing the wealth of technical expertise that the Company has accrued over the 11 years. The major activity is in the consumer and SOHO markets.

MosChip's sales and marketing team focuses on end customers in the US & Asia Pacific regions as these areas are the most sophisticated to adopt new technologies quickly. The Company continues to work with distributors, third party sales and marketing organizations and also with potential end customers to define the appropriate requirements for the products under development. These requirements will include technical specifications, timing of product availability and price points. The sales and marketing channels are initially customer and engineering centric in order to facilitate the development of the system-level components with the greatest market demand.

Employee Stock Option Plan

During the year under report the company has eight schemes in operation as mentioned below, for granting stock options to the employees and directors 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
- (c) MosChip Stock Option Plan – 2004
- (d) MosChip Stock Option Plan – 2005(MI)
- (e) MosChip Stock Option Plan – 2005(WOS)
- (f) MosChip Stock Option Plan – 2008
- (g) MosChip Stock Option Plan – 2008(ALR)
- (h) MosChip Stock Option Plan – 2008(Director)

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

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, Dr. Vijaya Chandru, Director retires by rotation in the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Dr. Madhu Mohan Katikineni and Mr. Vivek Bhargava were appointed as Additional Directors of the Company effective from 14 February 2011 and 24 August 2011 respectively to hold office up to the date of Twelfth Annual General Meeting.

The offices of Dr. Madhu Mohan Katikineni and Mr. Vivek Bhargava as Additional Directors of the Company expire at the ensuing Annual General Meeting. The Company has received notices from the members along with Rs. 500/- as deposit, proposing their candidature, in accordance with the provisions of Section 257 of the Companies Act, 1956.

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 Boards clarification

Pursuant to the provisions of Sub-Section (3) of Section 217 of Companies Act, 1956, qualification of auditors in their report dated 14 May 2010 on the accounts of the company and Board's clarification on the same are furnished below:

Qualification in Auditors Report

In the Balance Sheet, an amount of Rs 375,579,087 is being reflected as investment made by the

DIRECTORS' REPORT

company in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The subsidiary company has a negative net worth as per the audited financial statements as at March 31, 2011. No provision has been made by the company for the erosion in value of this investment.

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 2011 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 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.

However, in view of the divestment of the I/O business, which primarily comprised of products developed by MosChip USA, the potential for future cash flows from MosChip USA is considerably reduced and therefore the Board has decided to write off the difference between the investment amount and the net worth of MosChip USA during the current financial year.

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

There are no employees in the Company who needs to be reported in terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975.

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 – C** 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 2010-11 and of the loss of the company for that year;
- 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.

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

K. Ramachandra Reddy
Chairman & CEO

24 August 2011

DIRECTORS' REPORT

ANNEXURE 'A' TO DIRECTORS' REPORT

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 eight 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) ", MosChip Stock Option Plan – 2008, MosChip Stock Option Plan – 2008(ALR) and MosChip Stock Option Plan – 2008(Director)for issue and grant of stock options to its directors, 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 2010-11 are as under.

	2001	2002	2004	2005 (MI)	2005 (WOS)	2008	2008 (ALR)	2008 (D'TOR)
a. Options granted during the year	0	0	0	0	0	100,000	150,000	0
b. The Pricing formula	Market Price as defined in SEBI (ESOS & ESPS) Guidelines, 1999 in vogue							
c. Options Vested	54000	89500	30000	33500	NIL	436700	195924	300000
d. Options exercised	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
e. The total number of shares arising as a result of exercise of options	Nil	Nil	Nil	Nil	Nil	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)	41375	140000	188000	62000	400000	328368	208875	0
g. Variation of terms of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
h. Money realized by exercise of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
i. Total number of options in force	68625	176000	110000	50000	NIL	539700	345924	300000
j. Employee wise details of options granted to								
1. Senior Managerial Personal	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								
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								
4. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20.								
k. 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.								