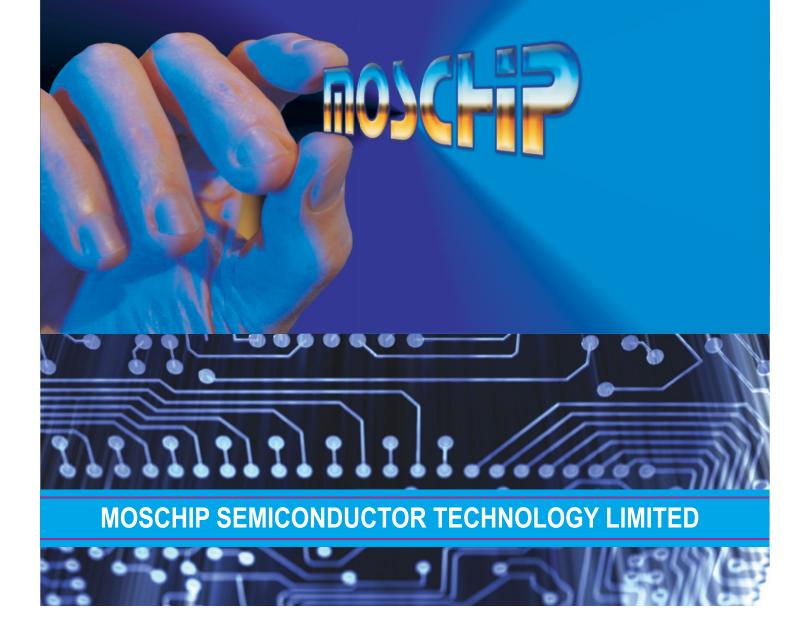
## 14 TH ANNUAL REPORT 2012-13



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#### BOARD OF DIRECTORS

Mr. K. Ramachandra Reddy	-	Chairman & CEO
Mr. C. Dayakar Reddy	-	Managing Director
Dr. Vijay Chandru	-	Director
Mr. G. Prasad	-	Director
Mr. Vivek Bhargava	-	Director

#### COMMITTEES OF THE BOARD

#### Audit

-	Chairman	Mr. (
-	Member	Dr. \
-	Member	Mr. ۱
	- - -	

#### Remuneration

Mr. G. Prasad	-
Dr. Vijay Chandru	-
Mr. Vivek Bhargava	-

Chairman Member

- Member

#### Shareholders / Investor Grievance

Mr. G. Prasad	-	Chairman
Mr. Vivek Bhargava	-	Member
Dr. Vijay Chandru	-	Member

#### Mr. Damoder Bethamalla

Company Secretary

#### REGISTERED OFFICE

Plot No. 83 & 84, 2nd Floor Punnaiah Plaza, Road No. 2 Banjara Hills, Hyderabad - 500 034. A.P. India. Tel: 040-6622-9292 Fax: 040-6622-9393

BANKERS UCO Bank Limited

#### AUDITORS

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

#### **REGISTRAR AND SHARE TRANSFER AGENTS**

Karvy Computershare Pvt. Ltd. Plot No. 17-24, Vithal Rao Nagar Madhapur, Hyderabad - 500 081, A.P., India Tel : 040-4465 5209 Email: einward.ris@karvy.com

#### NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Fourteenth Annual General Meeting** of MosChip Semiconductor Technology Limited will be held on Monday, the 30th September 2013 at 10.30 hrs at the Registered Office of the Company Situated at Plot No.83 & 84, 2nd Floor, Punnaiah Plaza, Road No. 2, 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 2013 and the Balance Sheet as on that date and the report of Auditors thereon.
- To appoint a Director in place of Dr. Vijay Chandru, who retires by rotation and being eligible offers himself for re-appointment.
- 3. To appoint a Director in place of Mr. Vivek Bhargava, who retires by rotation and being eligible offers himself for re-appointment.
- 4. To appoint M/s Gokhale & Co., Chartered Accountants (ICAI Reg. No. 000942S), 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.

By Order of the Board of Directors

Hyderabad K. Ramachandra Reddy 26 August 2013 Chairman & CEO

#### NOTES:

 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of him and such proxy need not be a member of the company. Proxies in order to be effective must be received by the company not less than 48 hours before the commencement of the meeting.

- The Register of Members and Share Transfer Books of the company will remain closed from 24-09-2013 to 30-09-2013 (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.
- 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 Agent and in case their shares are held in dematerialized form, this information should be passed onto their respective Depository Participants without any delay.
- In all correspondence with the company, members are requested to quote their folio numbers and in case their shares are held in dematerialized form they must quote their Client ID Number and their DP ID Number.
- Members are requested to carry their copies of Annual Report as these will not be supplied at the meeting.
- Trading in the equity shares of the company is 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.

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

#### Dr. Vijay Chandru

Vijay Chandru is an alumnus of BITS Pilani where he trained in Electrical Engineering and went on to get a Doctorate from MIT. Vijay is an academic and an entrepreneur. His academic career in mathematical and computational sciences has spanned over thirty years as a research scientist and Professor at Purdue University, IBM's TJ Watson Center, Indian Institute of Science, UPenn, Stanford and at MIT. He is a fellow of the national academies of science and engineering in India. As an entrepreneur, Dr. Chandru was a founder of PicoPeta Simputers, the company that commercialized the handheld Amida Simputer which has evolved into the GeoAmida product in the market today. He has also co-founded the leading computational biology company Strand Life Sciences for which he has been recognized as a Technology Pioneer by the World Economic Forum in 2006. He currently serves as Chairman & CEO of Strand Life Sciences. He serves on the "High Panel on Science and Technology for Development" to advise UNESCO, the Global Advisory Board of the MIT Enterprise Forum (Technology Review Magazine), and the Governing Board of the Indo-US Science and Technology Forum.

#### Mr. Vivek Bhargava

Mr. Vivek Bhargava, a management Graduate from IIM Kolkata has over 22 years of experience in corporate finance, investment banking and capital markets. He started his career with 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 as 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, a company in equity research business.

By Order of the Board of Directors

Hyderabad 26 August 2013 K. Ramachandra Reddy Chairman & CEO

#### DIRECTORS' REPORT

#### **DIRECTORS' REPORT**

#### To the Members,

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the Audited Accounts (including consolidated accounts) of the Company for the year ended 31st March 2013.

#### **Financial Results**

(Rs. In Lakhs)

	Year ended 3	1 March 2013	Year ended	31 March 2012
	Standalone	Consolidated	Standalone	Consolidated
Total Income	1227.45	983.90	1777.70	3596.34
Operating Profit before Depreciation & Tax	72.72	(744.24)	293.63	1969.34
Less: Depreciation	56.20	56.94	56.43	190.74
Profit before Tax	(128.92)	(814.91)	237.20	1778.60
Less: provision for Tax	0	0	0	42.81
Profit after Tax before extraordinary and				
prior period item	(128.92)	(814.91)	237.20	1735.79
Less: Extraordinary and prior period item	623.62	623.62	3036.47	3036.47
Profit after tax after extraordinary and				
prior period item	(752.54)	(1438.53)	(2799.27	(1300.68)
Earnings per Share (EPS)				
Before extraordinary and prior period item				
Basic	(0.28)	(1.77)	(0.46)	(0.60)
Diluted	(0.28)	(1.77)	(0.46)	(0.60)
After extraordinary and prior period item				
Basic	(1.63)	(3.12)	(6.08)	(2.83)
Diluted	(1.63)	(3.12)	(6.08)	(2.83)

#### Operations

The consolidated income of the Company was Rs.9.84 Crores and the consolidated loss was Rs. 14.39 Crores.

#### MosChip India

After selling I/O division MosChip has SOC (System On a Chip) line which is fairly new and has promise to increase revenues and needs some investment. This money could be spent on the SOC line and focus on this product line to increase the revenues. With the increase in Design Services opportunities worldwide, MosChip decided to add another division to branch into Semiconductor Design Services.

#### **Subsidiaries**

#### MosChip Semiconductor Technology, USA

MosChip Semiconductor Technology, USA (MosChip USA) the wholly owned subsidiary has recorded revenue of USD 623,293.

### MosChip Semiconductor Technology Pte. Ltd., Singapore

MosChip Semiconductor Technology Pte. Ltd., Singapore (MosChip, Singapore) the wholly owned subsidiary has recorded revenue of SGD 87,550.

#### Dividend

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

#### 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 2013.

#### Marketing and distribution

The company has transformed into value added services and has made steady inroads into very large Tier-1 customers including domestic customers. The Company has bagged a very complex custom System on a Chip (SOC) from a domestic customer despite stiff competition from the leading service providers. This chip is to be fabricated using the state of the art 40nm Low Power CMOS technology. The Company is continuing to look for some critical joint ventures and pursuing these vigorously.

#### **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.

#### **DIRECTORS' REPORT**

- (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 <u>*Annexure – A*</u>, 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. Vijay Chandru and Mr. Vivek Bhargava retires by rotation in the ensuing Annual General Meeting and being eligible, offers themselves for re-appointment.

Mr. G. Venkatesh resigned from the Board on 15 March 2013. The Board expresses its appreciation of the valuable contribution made by Mr. G. Venkatesh during the tenure of his directorship.

Dr. Madhu Mohan Katikineni resigned from the Board on 14 August 2013. The Board expresses its appreciation of the valuable contribution made by Dr. Madhu Mohan Katikineni during the tenure of his directorship.

#### Auditors

The Auditors of the company M/s Gokhale & Co., Chartered Accountants (ICAI Reg. No. 000942S), 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.

# 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 <u>Annexure</u> <u>– B</u> to this report.

#### Particulars of Employees

There are no employees 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 <u>Annexure – C</u> 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 2012-13 and of the 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.

#### 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

26 August 2013

#### 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 – 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 2012-13 are as under:

		2001	2002	2004	<b>2005</b> (MI)	<b>2005</b> (WOS)	2008	<b>2008</b> (ALR)	<b>2008</b> (D'TOR)
	Options granted during the year	0	0	0	0	350,000	900,000	0	C
b. <sup>.</sup>	The Pricing formula M	larket Pr	ice as def	fined in SE	BI (ESOS	S & ESPS	) Guidelin	es, 1999 in v	vogue
c. (	Options Vested	93,000	99,000	110,000	31,000	50,000	329,529	142,674	700,000
d. (	Options exercised	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Ni
	The total number of shares arising as a result of exercise of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Ni
	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 plan	9,000 ns)	21,000	0	7,000	200,000	480,293	169,000	C
g. '	Variation of terms of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Ni
	Money realized by exercise of options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Ni
	Total number of options in force	93,000	99,000	110,000	31,000	350,000	779,529	142,674	700,000
j. I	Employee wise details of opt	ions gran	ited to						
	1. Senior Managerial Person	nal						Nil	
:	2. Any other employee who amounting to 5% or more					on		Nil	
:	<ol> <li>Identified employees who equal to or exceeding 1% warrants and conversion</li> </ol>	of the issu	ied capital	(excluding	outstandi	,		Nil	
4	<ol> <li>Diluted Earnings Per Sha exercise of option calo Standard 20.</li> </ol>					ng		Nil	

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. 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 would still be nil. The Basic and Diluted Earnings Per Share would thus not change as a result.

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 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.12.45

Weighted average fair value of options : Rs. 3.63

The company does not have any options where the market price was higher/lower than the exercise price.

- m. The fair value of the options have been computed using the Black Scholes method, where the following assumptions were made:
  - a Risk free interest rate was assumed between 7.6398% and 8.4403% depending on the timing of grant and vesting period of the option, for the options granted during the year.
  - b. The expected life of the option is taken as the vesting period of the option.
  - c. 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.

Date of Grant	Std Deviation	Date of Grant	Std Deviation	Date of Grant	Std Deviation
21/08/2002	92.67%	10/04/2006	63.62%	26/10/2007	52.93%
31/10/2002	91.48%	18/05/2006	64.05%	26/11/2007	54.10%
29/01/2003	80.30%	30/06/2006	65.85%	30/01/2008	64.70%
27/06/2003	67.24%	04/09/2006	59.50%	24/03/2008	67.64%
19/02/2004	76.37%	27/10/2006	53.03%	30/04/2008	69.88%
26/08/2004	73.93%	06/11/2006	53.64%	29/07/2008	71.30%
18/11/2004	69.61%	18/01/2007	56.30%	22/09/2008	69.10%
31/01/2005	65.11%	29/03/2007	52.26%	23/10/2008	68.65%
30/06/2005	53.39%	25/04/2007	51.82%	30/01/2009	55.97%
23/09/2005	59.77%	28/06/2007	47.56%	04/03/2009	54.76%
24/01/2006	58.53%	31/07/2007	47.22%	02/07/2010	45.24%
14/02/2011	46.83%	25/08/2011	43.89%	25/06/2012	43.28%
20/03/2013	42.80%				

- d. Since the company has been making losses, we have not assumed any dividend payments.
- e. The Market Price of the shares on the grant dates was as follows: Rs. 31 on 21 August 2002, Rs. 23.95 on 31October 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, Rs.24.80 on 29 March 2007, Rs.24.90 on 25 April 2007, Rs.22.85 on 28 June 2007, Rs.21.25 on 31 July 2007, Rs.23.35 on 26 October 2007, Rs.24.40 on 26 November 2007, Rs.25.95 on 30 January 2008 and Rs.13.45 on 24 March 2008 being the previous days closing price preceding the date of grant of options. Options issued on 23 October 2008, 30 January 2009, 04 March 2009, 02 July 2010, 14 February 2011, 25 August 2011, 25 June 2012 and 20 March 2013were issued at Rs. 10.05 per Option.

For and on behalf of the Board of Directors

26 August 2013

K. Ramachandra Reddy Chairman & CEO

#### ANNEXURE 'B'

Particulars pursuant to Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988:

1. Conservation of Energy

The Company's operations require low energy consumption. Adequate measures are taken to conserve energy, wherever possible.

2. Technology Absorption on Form B

Research & Development (R&D)

Specific areas in which R&D work has been done by the Company

The Company has been focusing on growing the services business and has made inroads into some customers in India and USA. Consequently, the Company has not spent much effort on any new R&D work during the year under review.

Future plan of action

The Company has built up a vast repertoire of expertise and domain knowledge. We are planning to leverage this in partnering with large companies for joint development activities and grow the services business as an another revenue vertical.

#### Expenditure on R&D

The expenditure on R&D is not separately classified, as there is no separate R&D division.

Technology absorption, adaptation and innovation

The requisite information under the head is not applicable to company as there were no imports of any technology.

#### 3. Foreign Exchange Earnings and Outgo

 (a) Activities relating to exports; initiative taken to increase exports; development of new export markets for products and services; and export plans;

The Company's products are meant primarily for the international markets. Our products are being designed in by various customers and are generating revenues for the Company. We expect revenues from licensing of software for these products to increase significantly during the current year.

The Company has also commenced development of custom products where the customer shares a portion of the development costs. The Company has signed contracts for development and licensing of Intellectual Property. Apart from these, the Company is also planning to tap opportunities in offshore ASIC Development and Software Services for semiconductor companies. The revenues from these initiatives are expected to gain momentum in the coming years.

(b) Foreign exchange earnings and outgo

(Value in Rs.)

	Year ended March 31, 2013	Year ended March 31, 2012
Foreign Exchange Earnings	57,390,560	177,523,409
Foreign Exchange Outgo	5,790,958	47,878,345

For and on behalf of the Board of Directors

26 August 2013

K. Ramachandra Reddy Chairman & CEO