

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.									

DIRECTORS' REPORT

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.

- l. 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.18.76

Weighted average fair value of options: Rs. 5.29

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 4.7238% and 9.6123% 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%

- 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 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, 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 and 14 February 2011 were issued at Rs.10.05 per Option.

For and on behalf of the Board of Directors

K. Ramachandra Reddy
Chairman & CEO

24 August 2011

DIRECTORS' REPORT

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. 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, 2011	Year ended March 31, 2010
Foreign Exchange Earnings	247,884,468	170,399,422
Foreign Exchange Outgo	130,542,209	102,703,371

For and on behalf of the Board of Directors

K. Ramachandra Reddy
Chairman & CEO

24 August 2011

ANNEXURE 'C'

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MosChip Semiconductor Technology Limited (MosChip India) is a fabless semiconductor company with its headquarters in Hyderabad, India. The Company specializes in development, marketing & sale of Application Specific Integrated Circuits (ASIC's) & SOC (System On a Chip) for PC Peripheral, Data Communication & Consumer Electronic segments. In this report, "MosChip Group", "Group", "we", "us" and "our" each refers to MosChip India and also its wholly owned subsidiary MosChip Semiconductor Technology, USA (MosChip USA), which was formerly known as NetMos Technology Incorporated, USA.

The financial statements have been prepared in compliance with the requirements of the Companies Act 1956 and the Generally Accepted Accounting Principles in India. The management of MosChip accepts responsibility for the integrity and objectivity of these financial statements, as well as, for various estimates and judgments used therein.

In addition to the historical information, this report contains certain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under the sub-heading "Risks and Concerns." Forward looking statements can be identified by the use of forward-looking words, such as "may," "could," "expect," "believe," "plan," "anticipate," "continue," "likely," or other similar words.

Overview

MosChip is the first publicly traded fabless semiconductor Company from India with specific focus on cutting edge products. MosChip leverages its engineering skills to develop custom products, IP development and design/development services.

As a fabless semiconductor Company, MosChip focuses on product design while manufacturing of products are outsourced. The product design and ASIC software development is generally done by MosChip, but is also jointly developed with MosChip USA at certain times. The software is licensed to/ used by MosChip USA, which subcontracts the manufacturing to ASIC Service Providers. The resulting chips are imported by MosChip and sold to MosChip USA. MosChip USA then sells these chips to end customers around the world, through its worldwide distribution networks.

MosChip has launched design and development

services division. It has signed services agreements with several companies in India and abroad..

MosChip has carved out its IO product line and sold to ASIX in August 2011. This sale has brought in substantial capital to make the company financially stable.

Industry

The World Semiconductor Trade Statistics (WSTS) forecasts the semiconductor market to grow by 7.6 percent to \$338.4 billion in 2012, following an estimated 5.4 percent increase to \$314.4 billion in 2011. In 2010, the industry recovery - driven by enterprise and consumer spending resulted in 31.8 percent growth, totaling \$298.3 billion.

The new forecast presents a moderate growth for the year 2011, reflecting an increase of \$16.1 billion over the 2010 actual. The industry is now expected to top \$356.6 billion in 2013, with a 3-year compound annual growth rate of 6.13% from 2010 to 2013.

Outlook

The following sections highlight management's assessment of product and revenue potential

Healthy organic growth

MosChip leverages its engineering skills to develop custom products, IP development and design/development services. After the sale of I/O products of the company, it is focusing itself on SOC products, which have a very promising future and the design services business. The Company is also looking for opportunities and tie-ups for custom products leveraging its SOC products and IPs.

Identification of new opportunities for inorganic growth

MosChip is looking to grow inorganically through acquisition of companies in the design services business.

Outsourcing opportunities in the engineering design area may offer key revenue potential

The market for outsourcing of design and engineering services to other providers has taken off with a couple customers and will continue to grow.

Risks and concerns

The following important factors could affect our future results of operations.

Semiconductor products are difficult to manufacture without defects

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to produce semiconductors free of defects. The ability to manufacture products of acceptable quality depends both on product design and manufacturing process technology. Since defective

DIRECTORS' REPORT

products can be caused by design or manufacturing difficulties, identifying quality problems can occur only by analyzing and testing semiconductors in a system after they have been manufactured. Failure to achieve defect-free products due to their complexity may result in an increase in the costs and delay in the availability of MosChip Group's products.

Future success depends upon the continued services of key personnel, many of whom would be difficult to replace

The Company's future success depends upon the continued services of its executive officers, key hardware and software engineers, and sales, marketing and support personnel, many of whom would be difficult to replace. The loss of one or more of these employees could seriously harm the Company's business. In addition, because of the highly technical nature of its business, the loss of key engineering personnel could delay product introductions and significantly impair the Company's ability to successfully create future products.

Others may bring infringement actions against MosChip Group that could be time-consuming and expensive to defend.

The Group may become subject to claims involving patents and other property rights. Intellectual property claims would subject the Group to significant liability claims for damages and invalidate its proprietary rights. In addition, intellectual property claims may be brought against customers that incorporate its products in the design of their own products. These claims, regardless of their success or merit and regardless of whether the Group is named as a defendant in a lawsuit, would likely be time consuming and expensive to resolve and would divert the time and attention of the Management and technical personnel.

The cyclical nature of the semiconductor industry may lead to significant variances in the demand for MosChip Group's products and could harm its operations.

A case in point, as 2008 saw one of the strongest reductions in economic conditions in over 80 years. During this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia, Europe and North America. The cyclical nature of the semiconductor industry has led to significant variances in product demand and production capacity. It has also accelerated the reduction of average selling prices per unit. The Group may experience periodic fluctuations in its future financial results because of changes in industry-wide conditions.

The Company's operating and consolidated results may be adversely affected by variations of the Indian rupee against foreign currencies and the US dollar

The Company generates its revenues from international operations. The Company also consolidates its results with a wholly owned subsidiary in USA. Any adverse fluctuations in the currencies in which the Company's exports are invoiced or any adverse fluctuation against the US dollar would affect the Company's results of operations and the consolidated financial position.

Internal control systems

The Company has formulated effective internal control systems and implemented the same strictly to ensure that the assets and interests of the Company are safeguarded and to determine the accuracy and reliability of accounting data.

The Company has an internal audit system and its functions are to ensure that systems are designed and implemented with adequate internal controls. The Company's control methodology is commensurate with the size of operations, the transactions that are executed, and the assets that must be safeguarded and deployed in accordance with the Company's policies.

An Audit Committee, headed by a non-executive independent Director, periodically reviews the audit information/observation and all significant issues are brought to the attention of the committee.

Human Resources

The Company currently employs a total of 80 employees. All the employees are located at Hyderabad, India. Of these 60 are technical employees and the rest are marketing and support staff.

MosChip firmly believes that the key to its success is in its ability to hire and retain employees with appropriate qualifications and competencies. The Company's human resource management works towards this goal and strives to provide the right work atmosphere, opportunities for learning and personal development to all employees, and appraisal and reward mechanisms to encourage excellence in performance.

The Company regularly ensures that the compensation packages are in line with industry levels and grants stock options to retain talent.

DIRECTORS' REPORT

COMMENTARY ON THE FINANCIAL STATEMENTS OF MOSCHIP INDIA

Balance Sheet

1. 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

There are no calls-in-arrears.

2. Share Application Money

Share application money primarily consists of the excess amount received from and repayable to non-resident/foreign investors against the shares allotted to them and an upfront consideration of Rs. 781,250 against issue of 250,000 convertible warrants at a price of Rs.12.50 each.

3. Reserves and Surplus

Capital Reserve

The capital reserve of Rs. 1,250,000 is on account of investment subsidy received from Government of Andhra Pradesh.

Convertible Warrants

Due to non payment of balance amount within the stipulated time the upfront amount received Rs. 4,650,000 was forfeited and credited to Capital Reserve Account.

4. Secured Loans

The Company has availed Export Packing Credit facility from UCO Bank and the facility is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director of the company.

5. Unsecured Loans

The Company has obtained unsecured loan from director of an amount of Rs. 1.60 Crore at the rate of 12% interest payable. Similarly the company has also obtained interest bearing Inter Corporate Deposit of Rs. 1 Crore at the rate of 10% interest.

6. Fixed Assets

During the year under review, the company has

invested an amount of Rs.2.82 lakhs towards capital expenditure. Additions to fixed assets increased by 0.2% during the financial year.

7. Investments

The long-term investments of the Company include 19,192,404 shares of MosChip Semiconductor Technology USA (a company incorporated in USA). Of these, 16,131,180 shares were acquired in consideration of 8,325,770 equity shares of Rs.10 each of the Company at a premium of Rs.27.14 per share. The balance 3,061,224 shares were acquired through cash investment of Rs. 66,359,989/-. The Company owns the entire equity capital of MosChip Semiconductor Technology USA.

8. Interest Accrued on Deposits

Interest accrued on deposits represents the interest accrued but not due on fixed deposits and Bank guarantees with banks.

9. Cash and Bank Balances

The bank balances in India include both Rupee accounts and Foreign Currency Accounts. Fixed Deposits of Rs. 585,301/- are given as security for issue of bank guarantees.

10. Sundry Debtors

The amount of Sundry Debtors of Rs. 116,521,813/- consists of Rs. 113,624,700 is due from its wholly owned subsidiary MosChip Semiconductor Technology, USA.

11. Loans and Advances

Deposits

Deposits represent deposits towards electricity, telephone, rent, etc.

Advance to MosChip Employees' Trust

Advance to MosChip Employees' Trust of Rs. 2,795,000 is the balance amount of interest free loan given to the Trust as a part of the ESOP scheme of the Company.

Advance to Suppliers

Advance to suppliers of Rs. 12,399,746 is the amount paid to suppliers towards import of finished goods for the purpose of re-exporting the same.

DIRECTORS' REPORT

Other advances

Other advances recoverable in cash, kind or value to be received are primarily towards prepayments for value to be received.

Prepaid Income Tax

Prepaid Income Tax represents the refund due from Income Tax Department for the taxes deducted at source by others from the amounts payable to the Company.

12. Current Liabilities

Sundry Creditors

Sundry Creditors (Others) of Rs.3,520,266 represents all current liabilities.

Advance from Customers

The entire amount of Advance from Customers of Rs. 21,562,361/- is received from its wholly owned subsidiary MosChip Semiconductor Technology, USA against future exports.

13. Provisions

Provision of Rs.5,489,477 includes provision for Leave Encashment amounting to Rs. 1,142,895 and Rs.4,346,582 towards Gratuity.

No provision has been made for Income Tax as the book profit as well as the Taxable Income as per the Income Tax Act is resulting in a loss.

14. Guarantees

The Company has outstanding guarantees for various purposes amounting to Rs. 8,025,000 (previous year Rs. 8,025,000) for the year ended 31 March 2011.

These guarantees are in the nature of performance guarantees relating to export obligations.

Profit and Loss Account

15. Sales Revenue

The sales revenue for the year under review amounted to Rs. 247,884,468 as against Rs. 170,399,422 during the previous year. Of this Rs. 158,038,486 was on account of export sales of finished goods (semiconductor chips) and the remaining amount was on account of software development and royalty charges billed to the wholly owned subsidiary and others.

16. Non Operating Income

Non-operating income consists of interest on deposits with banks & others and profit on sale of current investments.

17. Expenditure

The expenditure for the year under review amounted to Rs.247,110,017 as against Rs.232,273,139 during the previous year.

18. Depreciation

During the year, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each amounting to Rs. 53,381.

19. Loss for the year

The loss for the year after tax but before extraordinary and prior period item is Rs.7,108,246 compared to the previous year loss of Rs.73,289,367.

The loss for the year after tax after extraordinary and prior period item is Rs. 7,125,684 compared to the previous year loss of Rs. 73,313,106.

20. Earnings Per Share

The Basic and Diluted Earnings per Share computed in accordance with the Accounting Standard 20 issued by the Institute of Chartered Accountants of India is Rs. -0.15 before taking into consideration extraordinary and prior period item and Rs. -0.15 after taking into consideration extraordinary and prior period item. More details on computation of EPS are given in Note 14.2.6 of Notes on Accounts.

21. Foreign Exchange Difference

An amount of Rs. 1,451,709 has been considered as unrealized loss and an amount of Rs. 474,909 as realized loss on foreign exchange fluctuation during the current year on account of foreign exchange rate differences arising due to timing differences between accrual of income/expense and receipt/payment of the same.

22. Related Party Transactions

The transactions with the related parties other than employees are given in Note 14.2.8 of Notes on Accounts.

All the transactions are on commercial basis and are not detrimental to the interests of the Company.

DIRECTORS' REPORT

23. Leases

The Company has operating leases for Office Buildings. The rental expenses for operating leases for the year ended 31 March 2011 amounted to Rs. 10,809,327. The Company has the right to terminate the lease agreement for Hyderabad office building by giving three months written notice.

24. Employees Stock Options

The company has set up a Trust called "Moschip Employee Trust" to manage Stock Option plans introduced by the company to its employees. Towards this the company has funded the trust with Rs. 6,005,000 by way of an interest free loan. Since the establishment of trust is prior to the IPO, the Guidelines of SEBI on ESOPs and ESPS are not applicable to this scheme.

The Company has eight more Employee Stock Option Schemes namely 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) with 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 equity shares respectively, in accordance with the Employee Stock Option Scheme and Employee Stock Purchase Guidelines 1999 issued by SEBI.

Details such as options granted, exercised and outstanding under each of the plans are given in Note 14.2.5 of Notes on Accounts and Annexure–A to Directors' Report.

DIRECTORS' REPORT

ANNEXURE D

CERTIFICATE ON CORPORATE GOVERNANCE

The Members

MosChip Semiconductor Technology Limited

1. We have examined the registers, records, books of and the implementation of Corporate Governance procedures by MosChip Semiconductor Technology Limited for the year ended 31st March, 2011, with the relevant records and documents maintained by the company, furnished to us for our examination and the report on corporate governance as approved by the Board of Directors.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

We further state that, such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.
3. We state that in respect of investor grievances received during the year ended on 31st March, 2011, no investor grievances are pending against the company for a period exceeding one month as per the records maintained by the company and presented to the shareholders/ investors grievance committee.
4. In our opinion and to the best of our information and according to the explanations given to us, the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement(s) with the Bombay Stock Exchange Limited have been complied with in all material respects by the company.

For **LD Reddy & Co.**,
Company Secretaries

Hyderabad
19 August 2011

L. Dhanamjaya Reddy

Proprietor
C.P. No. 3752

ANNEXURE E

CEO'S DECLARATION

The Members,

MosChip Semiconductor Technology Limited.

I, K. Ramachandra Reddy, Chairman & CEO of the Company do hereby declare that pursuant to the provisions of Clause 49(l) (D) (ii) of the Listing Agreement, all the members of the Board and the Senior Management Personnel have furnished their affirmation of compliance with the Code of Conduct of the Company.

24 August 2011

K. Ramachandra Reddy
Chairman & CEO

CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy

MosChip is committed to pursue the principles of good corporate governance in order to be a good corporate citizen of India and also to keep abreast the shareholders of the company with day-to-day affairs of the Company in the best possible manner.

2. Board of Directors

The Company has an Executive Chairman. The Chairman along with Managing Director manages the day-to-day affairs of the Company. The Board of the Company has a combination of Executive and Non-Executive directors. Non-Executive directors comprise **66.67%** of the Board.

a) Composition and category of directors as on 31st March 2011

Table - 1

Category	No. of Directors
Executive Directors (Promoter Directors)	02
Non-Executive Independent Directors	04
Total	06

b) Attendance of each director at the Board meetings held during the year 2010-11 and at the last Annual General Meeting

Table - 2

Name of the Director	Meetings held during the tenure	Meetings attended	Last AGM
Mr. K. Ramachandra Reddy	05	04	Yes
Mr. C. Dayakar Reddy	05	04	Yes
Mr. Alur Ramesh	05	01	No
Dr. Vijaya Chandru	05	03	No
Mr. G. Prasad	05	05	No
Dr. Madhu Mohan Venkat Katikineni*	01	01	NA

* Appointed as Additional Director on 14 February 2011.

c) No. of other Boards/Board Committees in which the Directors are either Member or Chairman during the year 2010-11

Table - 3

Name of the Director	Board		Committee	
	Chairman	Member	Chairman	Member
Mr. K. Ramachandra Reddy	Nil	Nil	Nil	Nil
Mr. C. Dayakar Reddy	Nil	01	Nil	Nil
Mr. Alur Ramesh	Nil	09	Nil	01
Dr. Vijaya Chandru	01	02	Nil	Nil
Mr. G. Prasad	Nil	01	Nil	Nil
Dr. Madhu Mohan Venkat Katikineni*	Nil	02	Nil	Nil

* Appointed as Additional Director on 14 February 2011.

d) No. of Board Meetings held and dates on which they were held during 2010-11

Table - 4

Quarter	No. of Meetings	Dates on which held
April – June	02	30 April 2010, 14 May 2010
July – September	01	11 August 2010
October – December	01	25 October 2010
January – March	01	14 February 2011
Total	05	

None of the directors on the Board are members in more than Ten Committees and they do not act as Chairman of more than Five Committees across all companies in which they are directors.

None of the Non-Executive directors have any pecuniary relationship or transactions with the Company.

CORPORATE GOVERNANCE REPORT

3. Audit Committee

The Audit Committee was formed on 19th January 2001 with qualified and independent members of the Board of Directors of the Company. The Company Secretary acts as Secretary of the Committee. This Committee was re-constituted on 30th June 2003 and on 26th August 2004.

a) Brief description of terms of reference

The terms of reference of the Audit Committee is in conformity with the provisions of paragraphs C & D in Sub-clause II of Clause 49 of the Listing Agreements entered with Bombay Stock Exchange Limited, Mumbai, which inter alia, includes the following:

- Overseeing the Company's financial reporting process and ensuring correct, adequate and credible disclosure of financial information.
- Recommending appointment and removal of external auditors and fixing of their fees.
- Reviewing with management the annual financial statements with special emphasis on accounting policies and practices, compliances with accounting standards and other legal requirements concerning financial statements.
- Reviewing the adequacy of the Audit and compliance functioning including their policies, procedures, techniques and other regulatory requirements.
- Reviewing the adequacy of internal control systems and significant audit findings.

b) Composition, name of members and Chairperson

The Audit Committee comprises of the following directors:

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

c) Meetings and attendance during the year 2010-11

Four meetings of the Audit Committee were held during the year 2010-11. Mr. G. Prasad attended all four meetings. Dr. Vijaya Chandru attended three meetings and Mr. A. Ramesh attended one meeting.

4. Remuneration Committee

a) Brief description of terms of reference

To determine on behalf of Board and Shareholders, the Company's policy on specific remuneration packages for Executive directors and Non-Executive directors, including pension rights and any compensation payment. The Committee was re-constituted on 30th June 2003 and 26th August 2004.

b) Composition, name of members and Chairperson

The Remuneration Committee comprises of the following directors

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

c) Attendance during the year 2010-11

No meetings were conducted during the year under review.

Besides, sitting fee for attending Board and Committee meetings, no special compensation to Non-Executive directors are envisaged during the year 2010-11.

d. Details of remuneration to all the directors:

Table - 5

Sl. No.	Name	Designation	Salary in Rs.	Performance Incentives Rs.	Commission in Rs.	Total in Rs.	Notice period	Severance Fee in Rs.	Sitting Fee in Rs.	Stock Options
01	K.Ramachandra Reddy	Chairman	39,15,000	Nil	Nil	39,15,000	NA	NA	Nil	Nil
02	C.Dayakar Reddy	M.D.	39,15,000	Nil	Nil	39,15,000	NA	NA	Nil	Nil
03	A. Ramesh	Director	NA	NA	NA	NA	NA	NA	8,000	1,00,000
04	G. Prasad	Director	NA	NA	NA	NA	NA	NA	32,000	1,00,000
05	Dr. Vijaya Chandru	Director	NA	NA	NA	NA	NA	NA	23,000	1,00,000
06	Dr. Madhu Mohan Venkat Katikineni	Director	NA	NA	NA	NA	NA	NA	Nil	Nil

CORPORATE GOVERNANCE REPORT

5. Shareholders / Investors Grievance Committee

This Committee was re-constituted on 30th June 2003 and on 26th August 2004.

a) Terms of reference

The Committee shall specifically look into the redressing of shareholder and investor complaints like transfer of shares, non-receipt of balance-sheet, non-receipt of declared dividend etc.

b) Composition, name of members and Chairperson

The Committee comprises of the following Non-Executive directors

Mr. A. Ramesh --- Chairman

Mr. G. Prasad --- Member

Dr. Vijaya Chandru --- Member

c) Name and Designation of Compliance Officer

Mr. Raj Kumar Singh --- Company Secretary

d) No. of Shareholders Complaints received during the year 2010-11

During the year 2010-11, no complaints / letters were received from the investors. Please see the Table-6 given below.

e) No. of complaints not solved to the satisfaction of shareholders

There were no complaints that were not solved to the satisfaction of shareholders.

f) No. of pending share transfers

All shares which were received for transfer during the year were transferred and no transfer was pending.

Details of Shareholders complaints during the year 2010-11

Table - 6

S.No.	Nature of Complaint/Request	Received	Disposed	Pending
01	Change / Correction of address	Nil	Nil	Nil
02	Loss/Issue of duplicate Share Certificate	Nil	Nil	Nil
03	Non-receipt of Share Certificate	Nil	Nil	Nil
04	Non-receipt of Refund order/dividend warrant	Nil	Nil	Nil
05	Others	Nil	Nil	Nil
	TOTAL	Nil	Nil	Nil

6. General Body Meetings

a) Details of last three AGMs

The information about the last three general body meetings is given in table-7 as shown below:

Table - 7

AGM	Venue	Time & Date
Ninth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	29 th August 2008 at 10.30 hrs
Tenth	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 th September 2009 at 10.30 hrs.
Eleventh	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034	30 th September 2010 at 10.30 hrs.

CORPORATE GOVERNANCE REPORT

7. Disclosures

- a) During the year 2010-11 the Company has entered into related party transactions worth Rs.359,694,629/- (both receivables and payables) with MosChip Semiconductor Technology, USA the Wholly Owned Subsidiary of the Company. All these transactions were at arm's length and do not have potential conflict with the interest of the Company at large.

8. Means of Communication

- Quarterly and Half-yearly results will normally be published in Financial Express in English and Prajashakti Regional Language Daily (Telugu).
- Apart from the financial results, all official press releases of the Company and presentation made to the institutional investors and analysts if any, are being made available on the Company's website www.moschip.com.
- Management's Discussion and Analysis forms part of the Annual Report.

9. General Shareholder Information

- AGM – Date, Time and Venue : 30th September 2011, 10.30 am at Registered Office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034

- Financial Calendar :

The following is the tentative financial calendar of the Company, which is subject to change:

Un-Audited Financial Results for the FY 2011-12	
First Quarter Results	: 12 th August 2011
Second Quarter & Half-yearly Results	: Between 20 th & 31 st October 2011
Third Quarter Results	: Between 20 th & 31 st January 2012
Fourth Quarter & Annual Results (Audited in lieu of un-audited results)	: Between 20 th & 30 th May 2012

- Date of Book Closure : 24th September 2011 to 30th September 2011 (both days inclusive)
- Dividend Payment Date : Not Applicable
- Listing on Stock Exchanges : Bombay Stock Exchange Limited
P J Towers, Dalal Street, Fort
Mumbai – 400 001.
- Stock Code
Bombay Stock Exchange Limited : 532407 / MOSCHIP SEMI
- Market Price data : High / Low during each month in the Financial Year 2010-11 and Performance in comparison to broad- based indices such as BSE Sensex, Crisil Index etc. The information on market price of MosChip stock and its comparison with BSE Sensex is shown in *Table-8*.

CORPORATE GOVERNANCE REPORT

MosChip Share price on BSE and in comparison with BSE Sensex

Table - 8

Month & Year	MosChip		Sensex	
	High	Low	High	Low
Apr 10	10.00	8.20	18047.86	17276.80
May 10	8.69	6.80	17536.86	16944.63
Jun 10	8.85	6.70	17919.62	16318.39
Jul 10	9.12	7.51	18237.56	17395.58
Aug 10	9.30	7.50	18475.27	17819.99
Sep 10	9.00	7.42	20267.98	18027.12
Oct 10	7.90	6.10	20854.55	19768.96
Nov 10	8.99	5.80	21108.64	18954.82
Dec 10	6.97	5.50	20552.03	19074.57
Jan 11	7.00	5.00	20664.80	18038.48
Feb 11	5.80	4.45	18690.97	17295.62
Mar 11	5.80	4.30	19575.16	17792.17

- Registrar and Transfer Agents : Sathguru Management Consultants Private Limited.
Plot No.15, Hindi Nagar, Behind Saibaba Temple,
Punjagutta, Hyderabad – 500 034.
Tel: +91-40-2335-0586 / 2335-6507 / 2335-6975
Fax: +91-40-4004-0554
Email: sta@sathguru.com
Web: www.sathguru.com

- Share Transfer System

The applications for transfers, transmission etc., are received by the Company at Registered Office address at Hyderabad or at Sathguru Management Consultants Private Limited, Registrar and Transfer Agents, Hyderabad. As the Company's shares are currently traded in dematerialized form the transfers are processed and approved in the electronic form by NSDL / CDSL through their depository participants. Shares sent for physical transfer are generally registered and returned within a week from the date of receipt; provided the documents are clear in all respects. The authorised persons for share transfers will meet at regular interval to clear the transfer cases as early as possible.

Sathguru Management Consultants Private Limited is the Common Share Transfer Agent for both Physical and Demat mode.

- Distribution of Shareholding

The Distribution of shareholding of the Company as on 31st March 2011 is shown in Table-9.
Distribution of Shareholding as on 31st March 2011:

Table - 9

Sl. No.	Category		No. of members		Equity Shares Amount		% of equity	
	From	To	Physical	Electronic	Physical	Electronic	Physical	Electronic
1	1	5000	77	20820	132680	48011930	0.03	10.43
2	5001	10000	02	4257	18000	37369810	0.00	8.12
3	10001	20000	00	2080	000	33469530	0.00	7.27
4	20001	30000	05	706	130000	18508080	0.03	4.02
5	30001	40000	00	318	000	11625150	0.00	2.53
6	40001	50000	03	372	150000	18068270	0.03	3.92
7	50001	100000	01	441	75900	33271880	0.02	7.23
8	100001	Above	20	372	48935110	210588830	10.63	45.74
Total			108	29366	49441690	410913480	10.74	89.26
Grand Total			29474		460355170		100.00%	

CORPORATE GOVERNANCE REPORT

- Dematerialization of shares and liquidity

As per SEBI guidelines on investors' protection, the Company's shares are to be traded only in dematerialized mode. Accordingly, the Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to establish electronic connectivity and facilitate scrip-less trading. As at the end of 31st March 2011, **89.26%** of the outstanding equity shares of the company are in electronic form.

The Company's shares are being traded in the Bombay Stock Exchange Limited (BSE) under ISIN-INE935B01017

- Plant locations

The Company doesn't have manufacturing facilities. However, the Company has the Design Centre at Hyderabad and a Branch office at USA, the particulars of which are given in Table -11:

Table - 10

Design House / Branch Office	Location
Hyderabad	8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034, AP, India
USA	3335, Kifer Road, Santa Clara, California 95051, USA

- Address for Correspondence and contact persons for investors queries

Investors' correspondence may be addressed to the Company Secretary and Compliance Officer at the registered office of the Company at 8-2-685/1/1, Road No.12, Banjara Hills, Hyderabad – 500 034, Tel: +91-40-6622 9292 Fax: +91-6622 9393, Email : investorrelations@moschip.com

Besides, investors are also requested to make any correspondence with the Share Transfer Agents, whose particulars are furnished as under:

Sathguru Management Consultants Private Limited
Plot No.15, Hindi Nagar, Punjagutta, Hyderabad – 500 034

Contact Person: Mr. R. Chandrasekher – Sr. Divisional Manager (Capital Markets)
Tel: +91-40-2335-0586 / 2335-6507 / 2335-6975 Fax: +91-40-4004-0554,
Email: sta@sathguru.com Web: www.sathguru.com

For and on behalf of the Board of Directors

24 August 2011

K. Ramachandra Reddy
Chairman & CEO

**AUDITORS' REPORT ON THE
CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors
MOSCHIP SEMICONDUCTOR TECHNOLOGY
LIMITED
Hyderabad

We have audited the attached Consolidated Balance Sheet of MosChip Semiconductor Technology Limited and its wholly owned subsidiary MosChip Semiconductor Technology, USA as at 31 March 2011 and the Profit and Loss Account as well as the Cash Flow statement for the year ended on that date.

These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. The financial statements of the company's wholly owned subsidiary Moschip Semiconductor Technology Limited, USA have been audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of other auditors.
2. In the standalone Balance Sheet of Moschip Semiconductor Technology Limited, India, an amount of Rs 37,55,79,087 is being reflected as investment made by the company in its wholly owned unlisted subsidiary company MosChip

Semiconductor Technology, USA. The investment is being carried at cost. The subsidiary company has a negative networth 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.

Subject to what is stated in Para Nos 1 and 2 above, we report that the Consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21 on Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

On the basis of the information and explanations given to us and on the consideration of the audited financial statements of MosChip Semiconductor Technology Limited and its wholly owned subsidiary, we are of the opinion that:

- a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of MosChip semiconductor Technology Limited and its wholly owned subsidiary MosChip Semiconductor Technology, USA as at 31 March 2011;
- b) the Consolidated Profit & Loss Account for the year ended 31 March 2011 gives a true and fair view of the Consolidated results of operations of the company and
- c) the Consolidated Cash Flow Statement shows a true and fair view of the Consolidated Cash Flows for the year ended on 31 March 2011.

For **Gokhale & Co.**
Chartered Accountants

Chandrashekhar Gokhale
Partner

Membership No 23839
Firm Regn. No 000942S

23 May 2011

CONSOLIDATED

**CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2011**

	Schedule No.	As at 31 March 2011		As at 31 March 2010	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS:					
SHAREHOLDERS' FUNDS:					
Share Capital	1		460,355,170		460,355,170
Share Application Money			908,475		991,838
Reserves and Surplus	2		675,872,694		674,661,968
Secured Loans	3		109,062,625		117,671,728
Unsecured Loans	4		59,487,500		53,750,000
Total			1,305,686,464		1,307,430,704
APPLICATION OF FUNDS:					
FIXED ASSETS:					
Gross Block	5	328,879,012		311,602,504	
Less: Depreciation		274,126,454		228,087,456	
Net Block			54,752,558		83,515,048
Capital work in progress			16,687,720		36,385,200
Goodwill			235,817,338		235,817,338
INVESTMENTS	6		133,655		134,720
NET CURRENT ASSETS:					
CURRENT ASSETS, LOANS AND ADVANCES:					
Inventories	7	78,429,213		51,255,221	
Sundry Debtors	8	4,961,626		39,897,564	
Cash and Bank Balances	9	8,049,574		5,722,242	
Loans and Advances	10	18,678,916		19,125,898	
Interest accrued on Deposits		142,364		176,344	
GROSS CURRENT ASSETS		110,261,693		116,177,269	
Less: Current Liabilities and provisions	11	99,779,109		56,617,275	
NET CURRENT ASSETS			10,482,584		59,559,994
PROFIT AND LOSS ACCOUNT			987,812,609		892,018,404
NOTES TO ACCOUNTS	16				
Total			1,305,686,464		1,307,430,704

The Schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

CONSOLIDATED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2011**

	Schedule No.	For the year ended 31 March 2011 Rs.	For the year ended 31 March 2010 Rs.
I INCOME:			
Product Sales	12	249,359,122	254,866,718
Software Services		20,465,997	0
Other Income	13	1,018,894	2,177,173
		<u>270,844,013</u>	<u>257,043,891</u>
II EXPENDITURE:			
Material Cost, Software and Administrative Expenses	14	294,684,502	318,722,776
Financial Charges	15	22,924,452	16,665,249
Depreciation	5	48,614,422	49,684,761
		<u>366,223,376</u>	<u>385,072,786</u>
III Profit/(Loss) Before Tax		(95,379,363)	(128,028,896)
Less: Fringe Benefit Tax		0	0
Profit/(Loss) After Tax Before Exceptional Item		(95,379,363)	(128,028,896)
Less: Exceptional Item		397,404	4,062,340
Profit/(Loss) After Tax and Exceptional Item Before Extraordinary and Prior Period Item		(95,776,767)	(132,091,236)
Less: Extra Ordinary and Prior Period Items		17,438	23,739
Profit/(Loss) After Tax and After Extraordinary and Prior Period Item		(95,794,205)	(132,114,975)
Add: Balance brought forward from previous year		(892,018,404)	(759,903,429)
Balance carried to Balance Sheet		<u>(987,812,609)</u>	<u>(892,018,404)</u>
IV Earnings Per Share (EPS)			
Equity Share of face value Rs.10/- each			
Before Extraordinary and Prior Period Items			
Basic		(2.08)	(2.98)
Diluted		(2.08)	(2.98)
After Extraordinary and Prior Period Items			
Basic		(2.08)	(2.99)
Diluted		(2.08)	(2.99)
Number of shares used in computing EPS			
Basic		46,035,517	46,035,517
Diluted		46,035,517	46,035,517

The Schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

CONSOLIDATED

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

SCHEDULES	As At 31 March 2011 Rs.	As At 31 March 2010 Rs.
SCHEDULE 1		
SHARE CAPITAL:		
Authorised:		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	<u>550,000,000</u>	<u>550,000,000</u>
Issued:		
47,750,589 (Previous Year 47,750,589) equity shares of Rs.10/- each	<u>477,505,890</u>	<u>477,505,890</u>
Subscribed and Paid-up:		
46,035,517 (Previous Year 46,035,517) equity shares of Rs.10/- each	<u>460,355,170</u>	<u>460,355,170</u>
(Of the above 8,325,770 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA)		
(Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Verasity Technologies, Inc with the Company)		
SCHEDULE 2		
RESERVES AND SURPLUS:		
Foreign Currency Translation Reserve	3,338,774	2,128,048
Capital Reserve	1,250,000	1,250,000
Forfeited Share Warrants	4,650,000	4,650,000
Securities Premium		
Opening Balance	666,633,920	660,008,920
Additions	0	6,625,000
	<u>666,633,920</u>	<u>666,633,920</u>
	<u>675,872,694</u>	<u>674,661,968</u>
SCHEDULE 3		
SECURED LOANS		
Packing Credit	109,062,625	117,671,728
	<u>109,062,625</u>	<u>117,671,728</u>
SCHEDULE 4		
UNSECURED LOANS		
Unsecured loans	59,487,500	53,750,000
	<u>59,487,500</u>	<u>53,750,000</u>

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

CONSOLIDATED

SCHEDULE 5 FIXED ASSETS		(Amount in Rupees)											
		GROSS BLOCK				DEPRECIATION				NET BLOCK			
S. No.	Description	Balance at 01.04.10	Additions during the year	Adjustments during the year*	Deletions during the year#	Balance as at 31.03.11	Balance as at 01.04.10	For the Year	Adjustments during the year**	Deletions during the year#	Balance as at 31.03.11	Balance as at 31.03.11	Balance as at 31.03.10
1	Computers	30,313,242	182,724	0	40,450	30,455,516	21,034,784	3,315,778	0	14,120	24,336,442	6,119,074	9,278,458
2	Electrical Installation	2,298,675	44,481	0	42,694	2,300,462	685,886	150,458	0	9,573	826,771	1,473,691	1,612,789
3	Plant and Machinery	28,093,362	0	0	93,979	27,999,383	22,981,364	350,351	0	39,828	23,291,887	4,707,496	5,111,998
4	Software	67,975,146	0	(64,512)	0	67,910,634	61,573,581	4,707,071	(99,016)	0	66,181,636	1,728,998	6,401,564
5	Furniture and Fittings	9,202,334	0	(2,520)	434,713	8,765,101	4,320,337	531,756	(2,268)	314,668	4,535,157	4,229,944	4,881,996
6	Office Equipment	8,610,886	132,668	(20,380)	648,505	8,074,669	3,826,517	528,407	(21,139)	349,474	3,984,311	4,090,358	4,784,369
7	Vehicles	84,257	0	0	0	84,257	62,519	5,790	0	0	68,309	15,948	21,739
8	Lab Equipment	16,244,997	19,300	0	0	16,264,297	2,900,629	769,613	0	0	3,670,242	12,594,055	13,344,368
9	Leasehold Improvements	3,938,681	0	0	0	3,938,681	3,823,342	115,340	0	0	3,938,683	—	115,339
10	Mask Tools	144,840,924	19,562,660	(1,317,572)	0	163,086,012	106,878,497	38,139,857	(1,725,338)	0	143,293,016	19,792,996	37,962,427
	TOTAL	311,602,504	19,941,833	(1,404,984)	1,260,341	328,879,012	228,087,456	48,614,422	(1,847,761)	727,663	274,126,454	54,752,560	83,515,046
Previous Year		274,524,171	58,621,687	(17,489,833)	4,053,521	311,602,504	191,731,873	49,684,761	(12,049,727)	1,279,450	228,087,456	83,515,046	

Note :

* Adjustments for the year includes Rs.1,404,984/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

** Adjustments for the year includes Rs.1,847,761/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

CONSOLIDATED

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

SCHEDULES	As At 31 March 2011 Rs.	As At 31 March 2010 Rs.
SCHEDULE 6		
INVESTMENTS:		
Current		
SVB Securities Liquid Fund	133,655	134,720
	<u>133,655</u>	<u>134,720</u>
	<u><u>133,655</u></u>	<u><u>134,720</u></u>
 SCHEDULE 7		
INVENTORIES:		
Finished Goods	78,429,213	51,255,221
	<u>78,429,213</u>	<u>51,255,221</u>
	<u><u>78,429,213</u></u>	<u><u>51,255,221</u></u>
 SCHEDULE 8		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	0	0
Others	4,961,626	39,897,564
	<u>4,961,626</u>	<u>39,897,564</u>
	<u><u>4,961,626</u></u>	<u><u>39,897,564</u></u>
 SCHEDULE 9		
CASH AND BANK BALANCES:		
Cash on hand	24,280	22,144
Balance with Scheduled Banks		
- In Current accounts	3,900,711	2,121,375
- In fixed deposit accounts	585,301	907,433
(Rs.585,301/- (Previous Year Rs.907,433/-) pledged towards margin on Bank Guarantee)		
Balance with Non-Scheduled Banks in Current Accounts	3,539,282	2,671,290
	<u>8,049,574</u>	<u>5,722,242</u>
	<u><u>8,049,574</u></u>	<u><u>5,722,242</u></u>

CONSOLIDATED

**SCHEDULES FORMING PART OF
CONSOLIDATED BALANCE SHEET**

SCHEDULES	As At 31 March 2011 Rs.	As At 31 March 2010 Rs.
SCHEDULE 10		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	3,759,347	3,572,820
MosChip Employees Trust	2,795,000	2,795,000
Other Advances and Receivables	4,262,564	2,617,801
Prepaid Expenses	7,756,490	10,042,446
Prepaid Income Tax	105,515	97,831
	<u>18,678,916</u>	<u>19,125,898</u>
 SCHEDULE 11		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	0	0
Others	91,390,815	51,719,856
	<u>91,390,815</u>	<u>51,719,856</u>
PROVISIONS:		
Leave Encashment	1,759,779	2,119,473
Gratuity	4,346,582	2,079,578
Expenses	2,281,933	698,368
	<u>8,388,294</u>	<u>4,897,419</u>
	<u>99,779,110</u>	<u>56,617,275</u>

CONSOLIDATED**SCHEDULES FORMING PART OF
CONSOLIDATED PROFIT AND LOSS ACCOUNT**

SCHEDULES	For the year ended 31 March 2011 Rs.	For the year ended 31 March 2010 Rs.
SCHEDULE 12		
SALES:		
Semiconductor Sales	249,359,122	254,866,718
Software Services	20,465,997	0
	<u>269,825,119</u>	<u>254,866,718</u>
SCHEDULE 13		
OTHER INCOME:		
Interest Earned (Gross)	73,667	108,064
[Tax Deducted at Source Rs.7,684/- (previous year Rs.7,856/-)]		
Miscellaneous Income	945,227	2,050,653
Profit on Sale of Investments	0	18,455
	<u>1,018,894</u>	<u>2,177,172</u>

CONSOLIDATED

**SCHEDULES FORMING PART OF
CONSOLIDATED PROFIT AND LOSS ACCOUNT**

SCHEDULES	For the year ended 31 March 2011 Rs.	For the year ended 31 March 2010 Rs.
SCHEDULE 14		
MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES:		
Materials, Finished and Processed Stocks	132,814,610	136,559,659
Frieght Expenses	2,159,735	2,319,269
Salaries and Other Allowances to Employees	85,962,581	91,183,881
Contribution to PF,ESI & Gratuity	3,455,763	1,238,151
Staff Welfare Expenses	4,266,063	4,787,829
Directors' Remuneration	7,830,000	8,100,000
Consumables	1,271,796	4,360,198
Research and Development Expenses	1,637,517	1,801,262
Software Charges	3,413,035	3,281,732
Communication Expenses	529,603	490,754
Computer Maintenance	252,057	342,758
Directors' Sitting Fee	63,000	72,000
Printing and Stationery	47,078	157,395
Postage, Telegrams and Telephones	1,104,111	1,648,237
Rent	14,952,449	17,163,239
Fees, Rates and Taxes	739,938	3,178,651
Vehicle Maintenance	38,015	42,530
Repairs and Maintenance	1,084,167	308,171
Traveling and Conveyance	5,346,622	6,244,969
Marketing Expenses	1,847,721	1,852,365
Advertisement Expenses	5,005,164	4,367,653
Payments to Auditors	797,792	817,102
Insurance	4,936,746	4,702,762
Export Freight and Insurance	1,900,939	1,789,800
Professional charges	2,864,226	3,792,314
Electricity Charges	2,162,297	2,466,973
Recruitment Expenses	257,643	0
General Expenses	5,784,825	5,832,775
Bad Debts Written Off	121,795	0
Loss on fixed assets sold / discarded	110,601	1,541,890
Realised Loss on Forex Fluctuation	474,909	1,091,412
Unrealised Loss on Forex Fluctuation	1,451,709	4,368,953
GDR Issue Expenses Written Off	0	2,818,095
	294,684,502	318,722,776
SCHEDULE 15		
FINANCIAL CHARGES		
Loan Processing Charges	350,685	289,316
Interest Paid on Loans	22,137,991	15,849,749
Bank Charges	435,776	526,185
	22,924,452	16,665,250

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

SCHEDULE 16

Significant accounting policies and notes on accounts

16. Company overview

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") and its subsidiary (hereinafter collectively referred to as "the Group") is a a fabless semiconductor company engaged in the business of development and manufacture of application specific integrated circuits (ASICs) and System on Chip (SOC) technologies. The Company specializes in the areas of computer peripherals, data communications and consumer electronics. The Company also provides software services to its clients across the globe.

MosChip has its headquarters in Hyderabad with office in United States of America.

16.1 Significant Accounting Policies

16.1.1 Basis for Preparation of Financial Statements

The Consolidated financial statements present the accounts of the Company and its wholly owned subsidiary MosChip Semiconductor Technology, USA. The Consolidation is based on the audited financial statements of MosChip Semiconductor Technology Limited and MosChip Semiconductor Technology, USA (Wholly Owned Subsidiary) for the year ended 31 March 2011.

The Consolidated financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. Consistency in adoption of accounting policies among group companies is ensured to the extent practicable.

16.1.2 Principles of Consolidation

The financial statements of the Parent and its subsidiary have been Consolidated on a line-by-line basis by adding together the book value of like item of assets, liabilities, income and expenses, after eliminating intra group balance and unrealised profit / losses on intra group transaction, and are presented to the

extent possible, in the same manner as the Parent's independent financial statements.

The excess of cost to the Parent of its investment over its equity in the subsidiary at the respective dates on which the investment in such Subsidiary was made is recognized as Goodwill in Consolidated Financial Statements.

16.1.3 Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Examples of such estimates include future obligations under employee retirement benefit plans and the useful life of fixed assets. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

16.1.4 Foreign Currency Translation

Indian Rupee is the functional currency of MosChip Semiconductor Technology Limited and US Dollar is the functional currency of MosChip Semiconductor Technology, USA. Wholly owned subsidiary is classified as non-integral operation according to Accounting Standard 11. Therefore, in respect of Wholly owned subsidiary all the assets and liabilities both Monetary and Non – Monetary are translated using exchange rate prevailing at the Balance Sheet date and revenue, cost and expenses are translated using average exchange rate prevailing during the reporting period. The resultant translation exchange gain / loss have been disclosed as "Foreign Currency Translation Reserve" under Reserves & Surplus.

16.1.5 Revenue Recognition

Revenue from product sales is recognised on dispatch of material

Revenue from Software sales is recognized based on software developed and billed as per the terms of specific contracts. Provision for doubtful debts are recorded in the period in which such losses become probable based on the current estimates.

Interest income is recognized on accrual basis.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

16.1.6 Fixed Assets and Capital Work-in-Progress

Fixed Assets are stated at cost of acquisition inclusive of inland freight, duties and taxes and incidental expenditure incurred during installation wherever applicable.

Leasehold improvements represent expenses incurred towards civil works, interior furnishings, etc. on the leased premises.

Capital work-in-progress comprises outstanding advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

Fixed Assets sold or retired from active use are eliminated from accounts by removing the related cost and accumulated depreciation. On elimination or removal any gain or loss is included in the results of operations.

16.1.7 Depreciation

Depreciation on Fixed Assets other than Improvement to Leasehold Premises, Mask Tool Charges (Part of Plant & Machinery) and Computer Software is provided under Straight Line method at the rates specified in Schedule XIV of the Companies Act, 1956., except as stated in Note 15.2.9.

Depreciation on additions and deletions to assets during the year is charged to revenue pro rata to the period of their use.

Leasehold Improvements are amortized over the estimated useful life or unexpired period of lease (whichever is lower) on a straight line basis.

Mask Tools are depreciated over a period of 2 years based on estimated useful life.

Computer Software is depreciated over a period of 5 years based on the technical evaluation about their useful economic life. These rates are higher than those prescribed in Schedule XIV of the Companies Act, 1956. Assets costing less than Rs.5,000/- individually have been fully depreciated in the year of purchase.

Depreciation on fixed assets of the subsidiary company is computed using the straight-line method and is charged to income over the estimated useful life of two, three, five and seven years.

16.1.8 Foreign Exchange Transactions

Initial Recognition: Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

Conversion: Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

Exchange Differences: Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise except those arising on liabilities pertaining to fixed assets acquired from outside India, which are adjusted with the cost of the fixed assets.

Foreign Operations : The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself. Exchange differences arising on a monetary item forming part of net investment in a non-integral foreign operation is accumulated in foreign currency translation reserve until disposal of the net investments.

16.1.9 Investments

Investments are classified into current investments and long-term investments. Current Investments are carried at the lower of cost and fair value, and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.

16.1.10 Retirement benefits

Provident Fund: The Company contributes to the employees' provident fund (a defined contribution benefit) maintained under the Employees Provident Fund scheme by the Central Government.

Gratuity: The Company Contributes to LIC Group Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation as on the balance sheet date.

Leave Encashment: Liabilities with regard to

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

the Leave Encashment are determined by actuarial valuation as on the balance sheet date.

16.1.11 Earnings per share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard 20 "Earnings Per Share". Basic earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period. Diluted earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

16.2 Notes on Accounts

16.2.1 Contingent Liabilities:

(Amount in Rupees)

Particulars	As at 31 March	
	2011	2010
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by bankers	585,301	907,433
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty	8,025,000	8,025,000

16.2.2 Secured and Unsecured Loans

Export Packing Credit facility obtained from UCO Bank is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director.

The Company has obtained unsecured loan from director of an amount of Rs. 1.60 Crores at the rate of 12% interest payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2011.

Similarly the company has also obtained interest bearing Inter Corporate Deposit of Rs. 1 Crore at the rate of 10% interest. The provision for the same has been made in these accounts in the financial year ending 31st March 2011.

The unsecured loan includes a sum of USD 750,000 (Rs.33,487,500) as external commercial borrowings by subsidiary.

The interest and other terms and conditions are not prejudicial to the interest of the company

16.2.3 Exceptional Items

During the year under review, the company has discarded some assets which were retired from active use and as no further benefit was expected. The Gross block value and the Accumulated Depreciation of the assets are Rs. 986,364 and Rs. 654,743 respectively. Similarly during the year under review, the company has identified obsolete stocks of Rs.65,783.

The amounts being material in nature has been disclosed under "Exceptional Item" for the year.

16.2.4 Earnings per Share

The Company reports basic and diluted earnings per equity share in accordance with AS-20, "Earnings Per Share".

Basic earnings per equity share has been computed by dividing net loss after tax by the weighted average number of equity shares outstanding during the applicable periods. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the applicable periods. The reconciliation between basic and diluted earnings per equity share is as follows:

CONSOLIDATED**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

(Amount in Rupees except share numbers)

	Year ended 31 March 2011	Year ended 31 March 2010
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(95,379,363)	(128,028,896)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(95,794,205)	(132,114,975)
Weighted average number of equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(2.08)	(2.98)
EPS after extraordinary and prior period item	(2.08)	(2.99)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(95,379,363)	(128,028,896)
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(95,794,205)	(132,114,975)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(95,379,363)	(128,028,896)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(95,794,205)	(132,114,975)
Weighted average number of equity shares	46,035,517	46,035,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(2.08)	(2.98)
EPS after extraordinary and prior period item	(2.08)	(2.99)

16.2.5 Segment Reporting

The Company recognizes ASIC design as its only primary segment since its operations during the year consists of ASIC design and sale/license of related intellectual property developed by it. Accordingly revenues from sale/license of software (designs/intellectual property) comprise the primary basis of segmental information set out in these Financial Statements. Secondary segmental reporting is performed on the basis of the geographical location of customers

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

a) Business Segment Information:

Particulars	Year ended 31 March 2011	
	<i>Software</i> Rs.	<i>ASICs</i> Rs.
Revenue		
Sales to external customers	20,465,997	249,359,122
Segment Profit / (loss)	(110,942,392)	14,276,594
Other Income	72,528	946,367
Profit / (loss) before Tax	(110,869,864)	15,222,960
Fringe Benefit Tax	0	0
Exceptional Item	129,863	267,541
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(110,999,727)	15,222,960
Extraordinary and Prior Period Income	17,438	0
Net profit/(loss)	(111,017,165)	15,222,960
Other Segment Information		
Depreciation	8,301,188	40,313,234
Non-cash expenses other than depreciation	200,012	40,452
Particulars of Segment Assets and Liabilities		
Segment Assets	28,192,287	145,317,745
Investments	0	133,655
Cash and Bank Deposits	4,699,606	3,349,969
Other Assets	142,364	0
Total Assets	33,034,257	148,801,369
Segment Liabilities	9,009,743	90,769,367
Secured Loans	109,062,625	0
Unsecured Loans	26,000,000	33,487,500
Total Liabilities	144,072,368	124,256,867

b) Geographic Segment Information:

	Year ended 31 March 2011
Revenue	
Hong Kong	120,724,058
Taiwan	57,053,506
Japan	43,750,631
Europe	8,942,017
Rest of World	18,888,868
Carrying amount of segment fixed assets	
India	133,003,175
North America	212,563,556
Additions to fixed assets	
India	282,139
North America	19,659,694

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

16.2.6 Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. Pursuant to the scheme of Amalgamation, the Company continues to carry on the business of erstwhile Verasity Technologies and treats it as an overseas branch office. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2011. Hence, no provision has been made in the books of account for the tax liability for the year as well as for the deferred taxes as per the Accounting Standard – 22 on Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India.

16.2.7 Employee Stock Option Plans

As per the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 issued by the Securities and Exchange Board of India, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the options is to be recognized and amortized on a straight-line basis over the vesting period.

The Company has established nine schemes i.e, Employee Stock Option Plan, 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) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 equity shares respectively. Of these the Employee Stock Options Plan was established when the Company was unlisted and consequently, the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 are not applicable to the options granted under this Plan.

Stock Options Outstanding under the Employee Stock Option Plan

	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	156,800	180,200
Granted during the year	0	0
Forfeited during the year	95,000	23,400
Exercised during the year	0	0
Outstanding at the end of the year	61,800	156,800

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	110,000	174,500
Granted during the year	0	0
Forfeited during the year	41,375	64,500
Exercised during the year	0	0
Outstanding at the end of the year	68,625	110,000

Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	316,000	402,000
Granted during the year	0	0
Forfeited during the year	140,000	86,000
Exercised during the year	0	0
Outstanding at the end of the year	176,000	316,000

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	298,000	495,000
Granted during the year	0	0
Forfeited during the year	188,000	197,000
Exercised during the year	0	0
Outstanding at the end of the year	110,000	298,000

Stock Options Outstanding under the MosChip Stock Option Plan 2005-MI

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	112,000	132,000
Granted during the year	0	0
Forfeited during the year	62,000	20,000
Exercised during the year	0	0
Outstanding at the end of the year	50,000	112,000

Stock Options Outstanding under the MosChip Stock Option Plan 2005-WOS

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	400,000	400,000
Granted during the year	0	0
Forfeited during the year	400,000	0
Exercised during the year	0	0
Outstanding at the end of the year	0	400,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	868,068	2,009,627
Granted during the year	0	0
Forfeited during the year	328,368	11,41,559
Exercised during the year	0	0
Outstanding at the end of the year	539,700	868,068

Stock Options Outstanding under the MosChip Stock Option Plan 2008(ALR)

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	404,799	711,554
Granted during the year	150,000	0
Forfeited during the year	208,875	306,755
Exercised during the year	0	0
Outstanding at the end of the year	345,924	404,799

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Stock Options Outstanding under the MosChip Stock Option Plan 2008 (Director)		
Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	300,000	300,000
Granted during the year	0	0
Forfeited during the year	0	0
Exercised during the year	0	0
Outstanding at the end of the year	300,000	300,000

16.2.8 Gratuity Plan

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the respective plans:

(Amounts in Rupees)

	Year ended 31 March 2011
Gratuity cost for the period	
Current Service Cost	437,977
Interest cost on defined benefit obligation	313,772
Expected Return on Plan Assets	(150,963)
Net Actuarial losses/(gain) recognised in year	(8,825)
Net Gratuity cost	591,961
Balance Sheet	
Reconciliation of present value of the obligation and the fair value of plan assets	
Fair Value of Plan Assets at the end of the year	5,353,642
Present Value of the funded obligation at the end of the year	1,007,060
Asset/(Liability) recognized in the balance sheet	(4,346,582)
Change in the present value of defined benefit obligation are as follows:	
Present value of obligations at the beginning of year	3,611,446
Current Service Cost	437,977
Interest cost	313,772
Actuarial (gain)/loss	(19,399)
Benefits paid	(1,168,762)
Present value of obligations as at the end of year	5,353,642
Change in the fair value of plan assets are as follows:	
Fair Value of Plan Assets at beginning of year	1,531,868
Expected return on plan assets	150,963
Actuarial gain/(loss)	(10,574)
Contributions	503,565
Benefits paid	(1,168,762)
Fair Value of Plan Assets at end of year	1,007,060

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

The principal assumptions used in determining gratuity and other post employment benefit obligations for the company's plan are as follows:

Discount Rate	—	8.30%
Expected rate of return on assets	—	7.50%

The fund is administered by Life Insurance Corporation of India ("LIC"). The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market. Above figures have been adopted as per actuarial valuation done by Thanawala Consultancy Services.

The defined benefit obligation of compensated absence (leave encashment) in respect of the employees of the company as at 31st March 2011 is Rs. 1,142,895.

16.2.9 Differences in accounting policies and estimates

Depreciation on certain fixed assets of subsidiary is provided at rates which are different from the rates used by the parent Company. The estimates of useful life on which different rates are followed are as follows:

Asset Description	Estimated useful life
Equipment	5 Yrs
Furniture & Fixtures	7 Yrs
Computer Software	3 Yrs

Had the Subsidiary followed the deprecation rates in line with that of parent company, depreciation for the year ended 31 March 2011 would have been lower by Rs.376,417/- and loss for the period would have been lower by Rs. 376,417/-.

16.2.10 Regrouping/ Reclassification

The figures for previous year have been regrouped / reclassified wherever necessary.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

CONSOLIDATED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011**

	31 March 2011 Rs.	31 March 2010 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(95,776,767)	(132,091,236)
Adjustments for:		
Depreciation	48,614,422	49,684,761
GDR issue expenses written off	0	2,818,095
Interest Income	(73,667)	(108,064)
Loss on Sale of Fixed Assets	110,601	1,541,890
Profit on sale of Current Investments	0	(18,455)
Provision for Retirement Benefits	1,907,310	(185,312)
Foreign Exchange adjustments	4,753	25,541
Operating Profit before changes in working capital	(45,213,348)	(78,332,780)
Increase/(Decrease) in Secured Loans	(8,609,104)	46,272,521
Increase/(Decrease) in Unsecured loans	5,737,500	3,040,000
(Increase)/Decrease in Sundry Debtors	34,935,938	9,670,524
(Increase)/Decrease in Inventories	(27,239,778)	1,283,045
(Increase)/Decrease in Loans and Advances	454,666	(3,203,572)
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	303,884	(18,248)
Increase/(Decrease) in Current liabilities	43,161,834	(19,404,484)
Cash from operations before Tax , Exceptional,Extra Ordinary and Prior Period items	3,531,592	(40,692,994)
Income-tax paid	7,684	(398,895)
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	3,523,908	(40,294,099)
Fixed Assets Discarded (Exceptional Item)	397,404	4,062,340
Extra Ordinary Income	17,438	23,739
Net cash from operating Activities [A]	3,903,874	(36,255,498)
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(244,353)	(6,420,368)
Sale proceeds of Fixed Assets	108,707	597,366
Interest received on Fixed Deposits	107,647	58,902
Purchase of Current Investments	0	(27,900,000)
Sale of Current Investments	0	27,918,455
Foreign currency translation adjustment for non-integral operation	(1,139,361)	1,235,823
Net Cash used for Investing Activities [B]	(1,167,360)	(4,509,822)
C. Cash flow from Financing Activities:		
Net proceeds from Issue of Share Capital	(83,363)	27,376,715
Securities Premium	0	6,625,000
Convertible Warrants	0	0
Net Cash from Financing Activities [C]	(83,363)	34,001,715

CONSOLIDATED**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011**

	31 March 2011 Rs.	31 March 2010 Rs.
D. Exchange differences on translation of foreign currency cash	<u>(4,753)</u>	<u>(25,541)</u>
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	2,648,399	(6,789,145)
Cash and Cash equivalents at the beginning of the year	<u>4,949,529</u>	<u>11,738,674</u>
Cash and Cash equivalents at the end of the year	<u>7,597,928</u>	<u>4,949,529</u>
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	8,183,229	5,856,962
Less: Fixed Deposits towards Bank Guarantee considered as investments	585,301	907,433
	<u>7,597,928</u>	<u>4,949,529</u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants**Chandrashekhar Gokhale**
Partner
Membership No 23839**K. Ramachandra Reddy**
Chairman & CEO**C. Dayakar Reddy**
Managing DirectorPlace: Hyderabad
Date : 23 May 2011**Raj Kumar Singh**
Company Secretary

AUDITORS' REPORT

The Members

Moschip Semiconductor Technology Limited
Hyderabad

We have audited the attached Balance Sheet of MosChip Semiconductor Technology Limited, Hyderabad as at March 31, 2011 and the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of subsection (4A) of Section 227 of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. In the Balance Sheet, an amount of Rs 37,55,79,087 is being reflected as investment made by the company in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA. The investment is being carried at cost. The subsidiary company has a negative networth 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.
3. Further to our comments in the annexure referred to in paragraph 1, and subject to what is stated in paragraph 2 above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the

company so far as appears from our examination of those books.

- c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with books of account.
- d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956.
- e) On the basis of written representation received from the Directors, as on March 31, 2011 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on March 31, 2011 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) In the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2011
 - ii) In the case of the Profit & Loss Account, of the Loss of the company for the year ended on March 31, 2011; and
 - iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on March 31, 2011

For **Gokhale & Co.**
Chartered Accountants

Chandrashekhar Gokhale
Partner

23 May 2011

Membership No 23839
Firm Regn. No 000942S

AUDITORS' REPORT

ANNEXURE

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of subsection (4A) of Section 227 of the Companies Act, 1956 (1 of 1956) and on the basis of such checks, as we considered appropriate, we further report that:

- | | |
|--|---|
| <p>(i) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management according to the phased programme designed to cover all assets on rotation basis. In respect of assets verified according to this programme, which is reasonable, no material discrepancies were noticed. The company has not disposed off substantial part of its fixed assets during the year.</p> <p>(ii) The company is not holding any inventory in its premises and all the purchases made, which are imported from abroad, are directly dispatched from the customs ware house to the customers abroad. The company had no year end inventory on hand. Proper records relating to inventory have been maintained by the company.</p> <p>(iii) (a) The opening balance outstanding of Rs 1.15 crores in the loan account given to its subsidiary company MosChip Semiconductor Technology, USA has been received back during the year under audit. The rate of interest and other terms and conditions of this loan are, prima facie, not prejudicial to the interests of the company.</p> <p>(b) The company has taken unsecured loan from one of its directors and the balance outstanding in this account as at the year end was Rs 1.60 crores. The rate of interest and other terms and conditions of this loan amount are, prima facie, not prejudicial to the interests of the company.</p> <p>(iv) In our opinion, and according to the information and explanations given to us, the company has adequate internal control systems commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services.</p> <p>(v) Transactions that need to be entered into a register in pursuance of Section 301 of the Act have been entered. In our opinion and based on information and explanations given to us transactions of the value of Rs 5 lakhs or more have been made at prices which are reasonable having regard to the nature of transactions. However, no comparative market prices are available because of the nature of products and services.</p> | <p>(vi) The company has not accepted deposits from the public covered by the provisions of section 58 A of the Companies Act.</p> <p>(vii) The company has an internal audit system commensurate with its size and nature of its business.</p> <p>(viii) The company is not required to maintain any cost records under clause (d) of sub-section (1) of Section 209 of the Act.</p> <p>(ix) The company is regular in depositing the Provident Fund and ESI dues with the appropriate authorities. According to the explanations and information given to us there were no undisputed statutory dues including Investor Education and Protection Fund, ESI, Income-tax, Sales-tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty etc outstanding for a period of more than six months from the date they became payable.</p> <p>(x) The company's accumulated losses at the end of the financial year were more than fifty percent of its net worth. The company has incurred cash losses in the financial year under audit as well as in the immediately preceding financial year.</p> <p>(xi) The company has not defaulted in repayment of dues to its Bank. There were no dues payable to any financial institution/s during the year.</p> <p>(xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.</p> <p>(xiii) The company has not given any guarantee for loans taken by others from bank or financial institutions.</p> <p>(xiv) No part of the funds raised on short-term basis have been used for long-term investments.</p> <p>(xv) During the year the company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act.</p> <p>(xvi) On the basis of information and explanations given to us no fraud on or by the company has been noticed or reported during the year.</p> <p>The other clauses of the order are not applicable to the company for the year under audit.</p> |
|--|---|

For **Gokhale & Co.**
Chartered Accountants

Chandrashekar Gokhale
Partner

Membership No 23839
Firm Regn. No 000942S

23 May 2011

MOSCHIP INDIA

BALANCE SHEET AS AT 31 MARCH 2011

	Schedule No.	As at	
		31 March 2011	31 March 2010
		Rs.	Rs.
Share Capital	1	460,355,170	460,355,170
Share Application Money		908,475	991,838
Reserves and Surplus	2	672,533,920	672,533,920
Secured Loans	3	109,062,625	117,671,728
Unsecured Loans	4	26,000,000	20,000,000
Total		1,268,860,190	1,271,552,656
APPLICATION OF FUNDS:			
FIXED ASSETS:			
Gross Block	5	154,122,772	154,472,629
Less: Depreciation		120,222,114	112,309,457
Net Block		33,900,658	42,163,172
INVESTMENTS	6	375,579,087	375,579,087
NET CURRENT ASSETS:			
CURRENT ASSETS, LOANS AND ADVANCES:			
Sundry Debtors	7	116,521,813	44,651,216
Cash and Bank Balances	8	4,699,606	3,235,820
Loans and Advances	9	25,604,021	85,953,084
Interest accrued on Deposits		142,364	176,344
GROSS CURRENT ASSETS		146,967,804	134,016,464
Less: Current Liabilities and provisions	10	30,572,104	16,065,128
NET CURRENT ASSETS		116,395,700	117,951,336
PROFIT AND LOSS ACCOUNT		742,984,745	735,859,061
NOTES TO ACCOUNTS	14		
Total		1,268,860,190	1,271,552,656

The Schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2011**

	Schedule No.	For the year ended 31 March 2011 Rs.	For the year ended 31 March 2010 Rs.
I INCOME:			
Sales Revenue			
Product Sales		158,038,486	125,644,828
Software Services		87,618,302	34,050,834
Other Services		2,227,680	10,703,760
Other Income	11	548,354	300,547
		<u>248,432,822</u>	<u>170,699,969</u>
II EXPENDITURE:			
Material Cost, Software and Administrative Expenses	12	228,288,216	220,521,438
Financial Charges	13	18,821,801	11,751,701
Depreciation	5	8,301,188	11,538,752
		<u>255,411,205</u>	<u>243,811,891</u>
III Profit/(Loss) Before Tax		(6,978,383)	(73,111,922)
Less: Fringe Benefit Tax		0	0
Profit/(Loss) After Tax Before Exceptional Item		(6,978,383)	(73,111,922)
Less: Exceptional Item		129,863	177,445
Profit/(Loss) After Tax and Exceptional Item Before Extraordinary and Prior Period Item		(7,108,246)	(73,289,367)
Less: Extra Ordinary and Prior Period Items		17,438	23,739
Profit/(Loss) After Tax and Exceptional Item and After Extraordinary and Prior Period Item		(7,125,684)	(73,313,106)
Add: Balance brought forward from previous year		(735,859,061)	(662,545,955)
Balance carried to Balance Sheet		(742,984,745)	(735,859,061)
IV Earnings Per Share (EPS)			
Equity Share of face value Rs.10/- each			
Before Extraordinary and Prior Period Items			
Basic		(0.15)	(1.66)
Diluted		(0.15)	(1.66)
After Extraordinary and Prior Period Items			
Basic		(0.15)	(1.66)
Diluted		(0.15)	(1.66)
Number of shares used in computing EPS			
Basic		46,035,517	46,035,517
Diluted		46,035,517	46,035,517

The Schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account.
Per and subject to our report of even date For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

MOSCHIP INDIA

**SCHEDULES FORMING PART OF
BALANCE SHEET**

SCHEDULES	As At 31 March 2011 Rs.	As At 31 March 2010 Rs.
SCHEDULE 1		
SHARE CAPITAL:		
Authorised:		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	<u>550,000,000</u>	<u>550,000,000</u>
Issued:		
47,750,589 (Previous Year 47,750,589) equity shares of Rs.10/- each	<u>477,505,890</u>	<u>477,505,890</u>
Subscribed and Paid-up:		
46,035,517 (Previous Year 46,035,517) equity shares of Rs.10/- each	<u>460,355,170</u>	<u>460,355,170</u>
(Of the above 8,325,770 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the acquisition of 100% equity in MosChip Semiconductor Technology, USA)		
(Of the above 6,177,778 shares of Rs.10 each have been allotted for consideration other than cash pursuant to the Scheme of Amalgamation of Verasity Technologies, Inc with the Company)		
 SCHEDULE 2		
RESERVES AND SURPLUS:		
Capital Reserve		
State Govt Subsidy	1,250,000	1,250,000
Forfeited Share Warrants	4,650,000	4,650,000
Securities Premium		
Opening Balance	666,633,920	660,008,920
Additions	0	6,625,000
	<u>666,633,920</u>	<u>666,633,920</u>
	<u>672,533,920</u>	<u>672,533,920</u>
 SCHEDULE 3		
SECURED LOANS		
Packing Credit	<u>109,062,625</u>	<u>117,671,728</u>
	<u>109,062,625</u>	<u>117,671,728</u>
 SCHEDULE 4		
UNSECURED LOANS		
Loan from Directors	16,000,000	10,000,000
Loan from Others	<u>10,000,000</u>	<u>10,000,000</u>
	<u>26,000,000</u>	<u>20,000,000</u>

**SCHEDULES FORMING PART OF
BALANCE SHEET**

SCHEDULE 5 FIXED ASSETS		(Amount in Rupees)											
		GROSS BLOCK				DEPRECIATION				NET BLOCK			
S. No.	Description	Balance at 01.04.10	Additions during the year	Adjustments during the year*	Deletions during the year#	Balance as at 31.03.11	Balance as at 01.04.10	For the Year	Adjustments during the year**	Deletions during the year#	Balance as at 31.03.11	Balance as at 31.03.11	Balance as at 31.03.10
1	Computers	30,313,242	182,724	0	40,450	30,455,516	21,034,784	3,315,778	14,120	0	24,336,443	6,119,073	9,278,458
2	Electrical Installation	2,298,675	44,481	0	42,694	2,300,462	685,886	150,458	9,573	0	826,772	1,473,690	1,612,789
3	Plant and Machinery	28,093,362	0	0	93,979	27,999,383	22,981,364	350,351	39,828	0	23,291,887	4,707,496	5,111,998
4	Software	59,925,482	0	0	0	59,925,482	55,490,210	2,860,661	0	0	58,350,871	1,574,611	4,435,272
5	Furniture and Fittings	8,887,894	0	0	434,713	8,453,181	4,037,341	531,756	314,668	0	4,254,429	4,198,752	4,850,553
6	Office Equipment	4,686,039	35,634	0	20,160	4,701,513	1,293,381	201,440	10,342	0	1,484,479	3,217,034	3,392,658
7	Vehicles	84,257	0	0	0	84,257	62,519	5,790	0	0	68,309	15,948	21,739
8	Lab Equipment	16,244,997	19,300	0	0	16,264,297	2,900,629	769,613	0	0	3,670,242	12,594,055	13,344,368
9	Leasehold Improvements	3,938,681	0	0	0	3,938,681	3,823,342	115,340	0	0	3,938,682	0	115,339
	TOTAL	154,472,629	282,139	0	631,996	154,122,772	112,309,456	8,301,188	388,531	0	120,222,114	33,900,658	42,163,172
	Previous Year	152,685,227	2,396,137	0	608,735	154,472,629	100,926,092	11,538,753	155,388	0	112,309,457	42,163,172	0

**SCHEDULES FORMING PART OF
BALANCE SHEET**

SCHEDULES	As At 31 March 2011 Rs.	As At 31 March 2010 Rs.
SCHEDULE 6		
INVESTMENTS:		
Long-Term		
<i>Unquoted, At cost</i>		
Wholly-owned Subsidiary:		
19,192,404 (Previous Year 19,192,404) shares of MosChip Semiconductor Technology USA (a company incorporated in USA)	375,579,087	375,579,087
	<u>375,579,087</u>	<u>375,579,087</u>
	<u>375,579,087</u>	<u>375,579,087</u>
 SCHEDULE 7		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	9,234,186	17,172,992
Others	107,287,627	27,478,224
	<u>116,521,813</u>	<u>44,651,216</u>
 SCHEDULE 8		
CASH AND BANK BALANCES:		
Cash on hand	24,280	22,144
Balance with Scheduled Banks		
- In Current accounts	3,900,711	2,121,374
- In fixed deposit accounts	585,301	907,433
(Rs.585,301/- (Previous Year Rs.907,433/-) pledged towards margin on Bank Guarantee)		
Bank of America, USA	189,314	184,869
(Maximum amount outstanding during the period Rs.318,093/- (previous year Rs.299,681/-)		
	<u>4,699,606</u>	<u>3,235,820</u>

**SCHEDULES FORMING PART OF
BALANCE SHEET**

SCHEDULES	As At 31 March 2011 Rs.	As At 31 March 2010 Rs.
SCHEDULE 9		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	1,206,951	1,206,951
MosChip Employees Trust	2,795,000	2,795,000
Advance to Suppliers	12,399,746	59,811,813
Loan to Subsidiary	0	11,454,600
Other Advances and Receivables	4,262,564	2,617,801
Prepaid Expenses	4,834,246	7,969,089
Prepaid Income Tax	105,515	97,831
	<u>25,604,021</u>	<u>85,953,084</u>
SCHEDULE 10		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	0	0
Others	3,520,266	5,143,015
Advance from Customers	21,562,361	7,450,226
	<u>25,082,627</u>	<u>12,593,241</u>
PROVISIONS:		
Leave Encashment	1,142,895	1,392,309
Gratuity	4,346,582	2,079,578
Fringe Benefit Tax (Net of Advance Tax)	0	0
	<u>5,489,477</u>	<u>3,471,887</u>
	<u>30,572,104</u>	<u>16,065,128</u>

**SCHEDULES FORMING PART OF
PROFIT AND LOSS ACCOUNT**

SCHEDULES	For the year ended 31 March 2011 Rs.	For the year ended 31 March 2010 Rs.
SCHEDULE 11		
OTHER INCOME:		
Interest Earned (Gross)	548,354	282,092
[Tax Deducted at Source Rs.7,684 (previous year Rs.7,856)]		
Profit on Sale of Investments	<u>0</u>	<u>18,455</u>
	<u>548,354</u>	<u>300,547</u>
SCHEDULE 12		
MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES		
Materials, Finished and Processed Stocks	120,225,304	100,750,228
Import Clearance Charges	1,370,747	1,404,395
Salaries and Other Allowances to Employees	56,235,346	61,758,949
Contribution to PF,ESI & Gratuity	3,455,763	1,238,151
Staff Welfare Expenses	3,677,195	4,111,868
Directors' Remuneration	7,830,000	8,100,000
Rent	10,809,327	10,343,264
Electricity Charges	1,865,266	2,053,354
Consumables	1,271,796	4,360,198
Software Charges	3,413,035	3,281,732
Communication Expenses	529,603	490,754
Computer Maintenance	252,057	342,758
Directors' Sitting Fee	63,000	72,000
Export freight and insurance charges	1,900,939	1,789,800
Printing and Stationery	41,207	61,108
Postage, Telegrams and Telephones	511,004	698,615
Fees, Rates and Taxes	191,001	181,062
Vehicle Maintenance	38,015	42,530
Repairs and Maintenance	1,084,167	308,171
Traveling and Conveyance	3,309,139	3,924,712
Advertisement Expenses	123,760	97,600
Payments to Auditors	267,500	252,000
Insurance	2,337,299	2,351,310
Professional charges	2,587,760	1,015,218
Recruitment Expenses	257,643	0
General Expenses	2,643,579	3,195,587
Loss on fixed assets sold / discarded	70,149	17,616
Realised Loss / (Gain) on Forex Fluctuation	474,909	1,091,412
Unrealised Loss / (Gain) on Forex Fluctuation	1,451,709	4,368,953
GDR Issue Expenses Written Off	<u>0</u>	<u>2,818,095</u>
	<u>228,288,216</u>	<u>220,521,437</u>
SCHEDULE 13		
FINANCIAL CHARGES:		
Interest on Packing Credit	18,035,341	10,936,200
Loan Processing Charges	350,685	289,316
Bank Charges	435,775	526,185
	<u>18,821,801</u>	<u>11,751,701</u>

SIGNIFICANT ACCOUNTING POLICIES AND NOTESTO ACCOUNTS

SCHEDULE 14

14. Significant accounting policies and notes on accounts

Company overview

MosChip Semiconductor Technology Limited ("MosChip" or "the Company") is a fabless semiconductor company engaged in the business of developing application specific integrated circuits (ASICs) and System on Chip (SOC) technologies. The Company also sale application specific integrated circuits (ASICs). The Company specializes in the areas of computer peripherals, data communications and consumer electronics. The development/design process is carried out at its design centre located in Hyderabad. The Company also provides Software Services to its clients across the globe.

MosChip has its headquarters in Hyderabad, India with a branch office in Santa Clara, CA, USA.

14.1 Significant Accounting Policies

14.1.1 Basis for Preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used during the previous year.

14.1.2 Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Examples of such estimates include future obligations under employee retirement benefit plans and the useful life of fixed assets. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

14.1.3 Revenue Recognition

Revenue from software sales / Services are recognized and billed as per the terms of specific contracts.

Revenue from royalty is recognized on accrual basis based on the terms of the agreement, provided collection is probable.

Interest income is recognized on accrual basis.

Revenue from product sales is recognized on dispatch of material.

Provision for doubtful debts are recorded in the period in which such losses become probable based on the current estimates.

14.1.4 Fixed Assets and Capital Work-in-Progress

Fixed Assets are stated at cost of acquisition inclusive of inland freight, duties and taxes and incidental expenditure incurred during installation wherever applicable.

Leasehold improvements represent expenses incurred towards civil works, interior furnishings, etc. on the leased premises.

Capital work-in-progress comprises outstanding advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

Fixed Assets sold or retired from active use are eliminated from accounts by removing the related cost and accumulated depreciation. On elimination or removal any gain or loss is included in the results of operations.

14.1.5 Depreciation

Depreciation on Fixed Assets other than Improvement to Leasehold Premises and Computer Software is provided under Straight Line method at the rates specified in Schedule XIV of the Companies Act, 1956.

Depreciation on additions and deletions to assets during the year is charged to revenue pro rata to the period of their use.

Leasehold Improvements are amortized over the estimated useful life or unexpired period of lease (whichever is lower) on a straight line basis.

Computer Software is depreciated over a

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

period of 5 years based on the technical evaluation about their useful economic life. These rates are higher than those prescribed in Schedule XIV of the Companies Act, 1956.

Assets costing less than Rs.5,000/- individually have been fully depreciated in the year of purchase.

14.1.6 Impairment of Fixed Assets

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amount of the Company's fixed assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds recoverable amount.

14.1.7 Foreign Exchange Transactions

Initial Recognition: Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

Conversion: Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

Exchange Differences: Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise except those arising on liabilities pertaining to fixed assets acquired from outside India, which are adjusted with the cost of the fixed assets.

Foreign Operations: The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself. Exchange differences arising on a monetary item forming part of net investment in a non-integral foreign operation is accumulated in foreign currency translation reserve until disposal of the net investments.

14.1.8 Investments

Investments are classified into current investments and long-term investments. Current Investments are carried at the lower

of cost and fair value, and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.

14.1.9 Retirement benefits

Provident Fund: The Company contributes to the employees' provident fund (a defined contribution benefit) maintained under the Employees Provident Fund scheme by the Central Government.

Gratuity: The Company Contributes to LIC Group Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation as on the balance sheet date.

Leave Encashment: Liabilities with regard to the Leave Encashment are determined by actuarial valuation as on the balance sheet date.

14.1.10 Earnings per share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard 20 "Earnings per Share". Basic earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period. Diluted earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

14.1.11 Provisions

A provision is recognised when the Company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions except those disclosed elsewhere in the financial statements, are not discounted to their present value and are determined based on best estimate required to settle the obligation at the each Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

SIGNIFICANT ACCOUNTING POLICIES AND NOTESTO ACCOUNTS

14.2 Notes on Accounts

14.2.1 Contingent Liabilities:

(Amount in Rupees)

Particulars	As at 31 March	
	2011	2010
Estimated amount of unexecuted capital contracts not provided	Nil	Nil
Outstanding Bank Guarantee given by bankers	585,301	907,433
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty	8,025,000	8,025,000

14.2.2 Secured Loans

Export Packing Credit facility obtained from UCO Bank is secured by hypothecation by way of first charge on stocks of finished goods, raw materials, work in progress, stores and spares and book debts, and second charge in respect of other movable assets, and guaranteed by Chairman and Managing Director.

14.2.3 Unsecured Loans

The Company has obtained unsecured loan from director of an amount of Rs. 1.60 Crores at the rate of 12% interest payable. The provision for the same has been made in these accounts in the financial year ending 31st March 2011.

Similarly the company has also obtained interest bearing Inter Corporate Deposit of Rs. 1 Crore at the rate of 10% interest. The provision for the same has been made in these accounts in the financial year ending 31st March 2011.

The interest and other terms and conditions are not prejudicial to the interest of the company

14.2.4 Accounting for taxes on income

During the period under review, the Company carried its operations in India through its 100% Export Oriented Unit, registered with the Software Technology Parks of India (STPI), Hyderabad. The operations of the STPI Unit and overseas branch have resulted in a net loss for the year ended 31 March 2011. Hence, no provision has been made in the books of account for the tax liability for the year as well as for the deferred taxes as per the Accounting Standard – 22 on Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India.

14.2.5 Employee Stock Option Plans

As per the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 issued by the Securities and Exchange Board of India, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the options is to be recognized and amortized on a straight-line basis over the vesting period.

The Company has established nine schemes i.e., Employee Stock Option Plan, 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) with 600,000 equity shares, 300,000 equity shares, 700,000 equity shares, 1,000,000 equity shares, 500,000 equity shares, 500,000 equity shares, 3,000,000 equity shares, 1,000,000 equity shares and 1,000,000 equity shares respectively. Of these the Employee Stock Options Plan was established when the Company was unlisted and consequently, the Employee Stock Option Scheme and Employee Stock Purchase Guidelines, 1999 are not applicable to the options granted under this Plan.

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
Stock Options Outstanding under the Employee Stock Option Plan

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	156,800	180,200
Granted during the year	0	0
Forfeited during the year	95,000	23,400
Exercised during the year	0	0
Outstanding at the end of the year	61,800	156,800

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	110,000	174,500
Granted during the year	0	0
Forfeited during the year	41,375	64,500
Exercised during the year	0	0
Outstanding at the end of the year	68,625	110,000

Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	316,000	402,000
Granted during the year	0	0
Forfeited during the year	140,000	86,000
Exercised during the year	0	0
Outstanding at the end of the year	176,000	316,000

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	298,000	495,000
Granted during the year	0	0
Forfeited during the year	188,000	197,000
Exercised during the year	0	0
Outstanding at the end of the year	110,000	298,000

Stock Options Outstanding under the MosChip Stock Option Plan 2005-MI

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	112,000	132,000
Granted during the year	0	0
Forfeited during the year	62,000	20,000
Exercised during the year	0	0
Outstanding at the end of the year	50,000	112,000

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTESTO ACCOUNTS**

 Stock Options Outstanding under the MosChip Stock Option Plan 2005-WOS

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	400,000	400,000
Granted during the year	0	0
Forfeited during the year	400,000	0
Exercised during the year	0	0
Outstanding at the end of the year	0	400,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	868,068	2,009,627
Granted during the year	0	0
Forfeited during the year	328,368	11,41,559
Exercised during the year	0	0
Outstanding at the end of the year	539,700	868,068

Stock Options Outstanding under the MosChip Stock Option Plan 2008(ALR)

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	404,799	711,554
Granted during the year	150,000	0
Forfeited during the year	208,875	306,755
Exercised during the year	0	0
Outstanding at the end of the year	345,924	404,799

Stock Options Outstanding under the MosChip Stock Option Plan 2008 (Director)

Particulars	Year ended 31 March 2011	Year ended 31 March 2010
Options outstanding at the beginning of the year	300,000	300,000
Granted during the year	0	0
Forfeited during the year	0	0
Exercised during the year	0	0
Outstanding at the end of the year	300,000	300,000

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
14.2.6 Earnings per Share

The Company reports basic and diluted earnings per equity share in accordance with AS-20, "Earnings per Share".

Basic earning per equity share has been computed by dividing net loss after tax by the weighted average number of equity shares outstanding during the applicable periods. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the applicable periods. The reconciliation between basic and diluted earnings per equity share is as follows:

(Amount in Rupees except share data)

	Year ended 31 March 2011	Year ended 31 March 2010
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional ,extraordinary and prior period item	(6,978,383)	(73,111,922)
Net Profit/(Loss) for the period after exceptional ,extraordinary and prior period item	(7,125,684)	(73,313,106)
Weighted average number of equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(0.15)	(1.66)
EPS after extraordinary and prior period item	(0.15)	(1.66)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(6,978,383)	(73,111,922)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(7,125,684)	(73,313,106)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(6,978,383)	(73,111,922)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(7,125,684)	(73,313,106)
Weighted average number of equity shares	46,035,517	46,035,517
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	46,035,517	46,035,517
EPS before extraordinary and prior period item	(0.15)	(1.66)
EPS after extraordinary and prior period item	(0.15)	(1.66)

14.2.7 Directors' Remuneration:

(Amounts in Rupees)

	Year ended 31 March 2011	Year ended 31 March 2010
1. Salary and allowances	7,830,000	8,100,000
2. No Provision for Commission to Whole Time Directors has been made in the books, as there is no profit in accordance with Section 198 of the Companies Act, 1956.		

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTESTO ACCOUNTS**
14.2.8 Related Party disclosures
A. List of Related Parties

Description of Relationship	Name of Related Parties	Designation
Subsidiary	MosChip Semiconductor Technology, USA.	----
Key Management Personnel	K. Ramachandra Reddy	Chairman & CEO
	C. Dayakar Reddy	Managing Director

B. Transactions and balances due to / from related parties:

(Amounts in Rupees)

Nature of Transaction	Transactions during the year	Balance as on 31 March 2011
Transactions with Subsidiary		
Reimbursement of expenses / Payable	465,735	Nil
Reimbursement of expenses / Receivable	475,826	Nil
Advance for sales/ Payable	94,655,300	21,562,361
Loans/ Receivable	16,213,300	Nil
Sales / Receivable	247,884,468	113,624,700
Transactions with whole time directors		
Remuneration to Chairman & CEO	3,915,000	Nil
Remuneration to Managing Director	3,915,000	Nil
Loan from Directors/Payables	20,000,000	16,000,000
Interest Payable on Directors Loan	1,713,974	480,000

14.2.9 Additional information as required under Part II of Schedule VI of the Companies Act, 1956:

(Amounts in Rupees)

Particulars	Year ended 31 March 2011 Rs.	Year ended 31 March 2010 Rs.
A. C I F Value of Imports :		
Capital Goods	67,458	118,279
Material purchase	124,934,965	96,612,488
B. Expenditure in Foreign currency		
Software Charges	3,108,679	2,871,390
Traveling Expenses	1,728,570	2,201,007
Professional Charges	85,793	88,592
Consumables	433,742	590,073
Other Expenses	183,202	221,543
C. Earnings in Foreign Exchange		
Sales Revenue	247,884,468	170,399,422

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO ACCOUNTS**
14.2.10 Segment Reporting

The Company recognizes ASIC design as its only primary segment since its operations during the year consists of ASIC design and sale/license of related intellectual property developed by it. Accordingly revenues from sale/license of software (designs/intellectual property) comprise the primary basis of segmental information set out in these Financial Statements. Secondary segmental reporting is performed on the basis of the geographical location of customers

a) Business Segment Information:

(Amounts in Rupees)

Particulars	Year ended 31 March 2011 Rs.	Year ended 31 March 2010 Rs.
Revenue		
Sales to external customers	247,884,468	170,399,422
Segment Profit / (loss)	(7,526,737)	(73,412,469)
Other Income	548,354	300,547
Profit / (loss) before Tax	(6,978,383)	(73,111,922)
Fringe Benefit Tax	0	0
Exceptional Item	129,863	177,445
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(7,108,246)	(73,289,367)
Extraordinary and Prior Period Item	17,438	23,739
Net profit/(loss)	(7,125,684)	(73,313,106)
Other Segment Information		
Depreciation	8,301,188	11,538,752
Non-cash expenses other than depreciation	200,012	3,013,156
Particulars of Segment Assets and Liabilities		
Segment Assets	176,026,492	172,759,617
Investments	375,579,087	375,579,087
Cash and Bank Deposits	4,699,606	3,235,820
Other Assets	142,364	184,200
Total Assets	556,447,549	551,758,725
Segment Liabilities	30,572,104	153,736,856
Total Liabilities	30,572,104	153,736,856

b) Geographic Segment Information:

(Amounts in Rupees)

Revenue		
North America	247,884,468	170,399,422
Others	Nil	Nil
Carrying amount of segment fixed assets		
India	133,003,176	133,353,033
North America	21,119,596	21,119,596
Additions to fixed assets		
India	282,139	2,396,137
North America	Nil	Nil

**SIGNIFICANT ACCOUNTING POLICIES AND
NOTESTO ACCOUNTS**
14.2.11 Amounts paid/payable to Auditors:

(Amounts in Rupees)

	Year ended 31 March 2011 Rs.	Year ended 31 March 2010 Rs.
For Statutory Audit	125,000	120,000
For Tax Audit	40,000	40,000
For Certification	102,500	92,000
Total	267,500	252,000

14.2.12 Gratuity Plan

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following table summarizes the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the respective plans:

(Amounts in Rupees)

	Year ended 31 March 2011 Rs.
Gratuity cost for the period	
Current Service Cost	437,977
Interest cost on defined benefit obligation	313,772
Expected Return on Plan Assets	(150,963)
Net Actuarial losses/(gain) recognised in year	(8,825)
Net Gratuity cost	5,91,961
Balance Sheet	
Reconciliation of present value of the obligation and the fair value of plan assets	
Fair Value of Plan Assets at the end of the year	5,353,642
Present Value of the funded obligation at the end of the year	1,007,060
Asset/(Liability) recognized in the balance sheet	(4,346,582)
Change in the present value of defined benefit obligation are as follows:	
Present value of obligations at the beginning of year	3,611,446
Current Service Cost	437,977
Interest cost	313,772
Actuarial (gain)/loss	(19,399)
Benefits paid	(1,168,762)
Present value of obligations as at the end of year	5,353,642
Change in the fair value of plan assets are as follows:	
Fair Value of Plan Assets at beginning of year	1,531,868
Expected return on plan assets	150,963
Actuarial gain/(loss)	(10,574)
Contributions	503,565
Benefits paid	(1,168,762)
Fair Value of Plan Assets at end of year	1,007,060

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

The principal assumptions used in determining gratuity and other post employment benefit obligations for the company's plan are as follows:

Discount Rate - 8.30%

Expected rate of return on assets – 7.50%

The fund is administered by Life Insurance Corporation of India ("LIC"). The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Above figures have been adopted as per actuarial valuation done by Thanawala Consultancy Services.

The defined benefit obligation of compensated absence (leave encashment) in respect of the employees of the company as at 31st March 2011 is Rs. 1,142,895.

14.2.13 Dues to Micro and Small Enterprises (SME):

In terms of Section 22 of the Micro, Small and Medium Enterprises Development Act 2006, (SME Act) the outstanding payable to Micro and Small enterprises, as defined under the SME Act, are required to be disclosed in the prescribed format. However, such Enterprises are required to be registered under the SME Act.

There are no dues to any small scale industrial undertakings and micro, small & medium enterprises which are outstanding for more than 30 days or 45 days respectively at the Balance Sheet date. This information has been determined to the extent such parties have been identified on the basis of information available with the company.

14.2.14 Quantitative Details

During the year the Company is engaged in computer software development and selling of ASICs (Semiconductor Chips). The production and sale of software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details computer software development sales. The following statement shows the quantitative details of ASIC's as required under Paragraphs 3 and 4C of Part II of Schedule VI of the Companies Act, 1956.

Year	Opening Balance	Quantity Purchased	Quantity Sold	Closing Balance
2010-2011	Nil	2,355,765	2,355,765	Nil
2009-2010	Nil	2,005,044	2,005,044	Nil

14.2.15 Regrouping/ Reclassification

The figures for previous year have been regrouped / reclassified wherever necessary.

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2011**

	31 March 2011 Rs.	31 March 2010 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(7,108,246)	(73,289,367)
Depreciation	8,301,188	11,538,752
GDR issue expenses written off	0	2,818,095
Interest Income	(548,354)	(282,092)
Loss on fixed assets sold / discarded	70,149	17,616
Profit on sale of Investments	0	(18,455)
Provision for Retirement Benefits	2,017,590	(248,456)
Exchange differences on translation of foreign currency cash	4,753	25,541
Operating Profit before changes in working capital	2,737,080	(59,438,366)
Increase/(Decrease) in Secured/Unsecured loans	(2,609,104)	66,272,521
(Increase)/Decrease in Sundry Debtors	(71,870,598)	(8,895,653)
(Increase)/Decrease in Loans and Advances	60,356,748	(25,709,975)
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	322,132	(18,248)
Increase/(Decrease) in Current Liabilities	12,489,386	(4,579,961)
Cash from operations before Tax, Exceptional, Extra Ordinary and Prior Period items	1,425,645	(32,369,682)
Income-taxes paid	7,684	(398,895)
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	1,417,961	(31,970,787)
Exceptional Item	129,863	177,445
Extra ordinary and prior period item	17,438	23,739
Net Cash from Operating Activities [A]	1,530,386	(31,817,080)
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(282,139)	(2,396,137)
Sale proceeds of Fixed Assets	43,453	258,286
Interest received on Fixed Deposits	582,334	232,930
Purchase of Current Investments	0	(27,900,000)
Sale of Current Investments	0	27,918,455
Net Cash used for Investing Activities [B]	343,648	(1,886,466)
C. Cash flow from Financing Activities:		
Proceeds from Issue of Share Capital	(83,363)	27,376,715
Securities Premium	0	6,625,000
Convertible Warrants	0	0
Net Cash from Financing Activities [C]	(83,363)	34,001,715

MOSCHIP INDIA**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2011**

	31 March 2011 Rs.	31 March 2010 Rs.
D. Exchange differences on translation of foreign currency cash	(4,753)	(25,541)
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	1,785,919	272,628
Cash and Cash equivalents at the beginning of the year	2,328,387	2,055,759
Cash and Cash equivalents at the end of the year	<u>4,114,305</u>	<u>2,328,387</u>
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	4,699,606	3,235,820
Less: Fixed Deposits towards Bank Guarantee considered as investments	585,301	907,433
	<u>4,114,305</u>	<u>2,328,387</u>

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants**Chandrashekhar Gokhale**
Partner
Membership No 23839**K. Ramachandra Reddy**
Chairman & CEO**C. Dayakar Reddy**
Managing DirectorPlace: Hyderabad
Date : 23 May 2011**Raj Kumar Singh**
Company Secretary

**PART - IV BALANCE SHEET ABSTRACT
AND COMPANIES GENERAL BUSINESS PROFILE**

1 Registration Details

Registration No.	:	L31909AP1999PLC032184
State Code	:	01
Balance Sheet Date	:	31 March 2011

2. Capital raised during the year (Amount in Rs. Thousands):

Public Issue	:	Nil
Right Issue	:	Nil
Bonus Issue	:	Nil
Private Issue	:	Nil

3 Position of Mobilisation and development of Funds: (Amount in Rs. Thousands) :

Total Liabilities	:	1,268,860
Total Assets	:	1,268,860
Source of Funds:		
Paid up Capital	:	460,355
Share Application Money	:	908
Reserves and Surplus	:	672,534
Secured Loans	:	109,063
Unsecured Loans	:	26,000
Application of Funds		
Net Fixed Assets	:	33,900
Investments	:	375,579
Net Current Assets	:	116,396
Misc. Expenditure	:	Nil
Accumulated Losses	:	742,985

4 Performance of Company (Amount in Rs. Thousands):

Turnover	:	248,433
Total Expenditure	:	255,411
Profit/(Loss) Before Tax	:	(6,978)
Profit After Tax	:	(7,126)
Earnings Per Share in Rs. (Basic)	:	(0.15)
Dividend Rate %	:	Nil

5. Generic Names of Three Principal Products/Services of Company (As per Monetary terms):

Item Code (ITC Code)	:	8491.90
Product Description	:	DEVELOPMENT AND EXPORT OF SOFTWARE

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.**,
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

**STATEMENT PURSUANT TO SECTION 212 OF
THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANY**

1	Name of subsidiary	:	MosChip Semiconductor Technology, USA
2	Financial year ended	:	Year ended 31 March 2011
3	Holding Company's Interest	:	100%
4	Shares held by the holding company In the subsidiary's common stock	:	19,192,404 shares
5	The net aggregate of profits(losses) For the current financial year of the Subsidiary so far as it concerns the Members of the holding company		
	a. dealt with or provided for in the Accounts of the holding company	:	Nil
	b. not dealt with or provided for in the Accounts of the holding company	:	US \$ (1,689,147)
6	The net aggregate of profits or losses for the previous financial years of the Subsidiary so far as it concerns the Members of the holding company		
	a. dealt with or provided for in the Accounts of the holding company	:	NA
	b. not dealt with or provided for in the Accounts of the holding company	:	US \$ (4,839,959)

Per and subject to our report of even date

For and on behalf of the Board of Directors

For **Gokhale & Co.,**
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place: Hyderabad
Date : 23 May 2011

Raj Kumar Singh
Company Secretary

MosChip Semiconductor Technology, USA

DIRECTORS' REPORT

To,
The Shareholders of MosChip Semiconductor Technology, USA.

Your Directors present this report for the Financial Year 2010-11.

Financial Results

(USD in Millions)

Particulars	2010-11	2009-10
Semiconductor Sales	5.489	5.369
Operating Profit/(Loss) before Depreciation	(0.804)	(0.435)
Less : Depreciation	0.884	0.806
Operating Profit/(Loss)	(1.688)	(1.241)
Add : Other Income	0	0.044
Net Profit/(Loss) Before Tax	(1.688)	(1.197)

Your Company achieved total revenues of USD 5.49 million for the financial year ended 31 March 2011.

Outlook

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. 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 world wide, MosChip decided to add another division to branch into Semiconductor Design Services. With the I/O line sold to ASIX, MosChip can concentrate on the SOC products and the Design Services.

Acknowledgements

Your Directors appreciate the support extended by the bankers, vendors, clients and employees.

For and on behalf of the Board of Directors

K. Ramachandra Reddy

CEO

23 August 2011

INDEPENDENT AUDITORS' REPORT



To the Stockholders of MosChip Semiconductor Technology, USA

I have audited the accompanying balance sheet of MosChip Semiconductor Technology, USA (a California corporation) as of March 31, 2011 and the related statements of net income, accumulated deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MosChip Semiconductor Technology, USA as of March 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "Bryce", is positioned above the typed name.

Forney Accountancy
Bryce Forney, CPA (CA License #76310)
Pleasant Hill, California

May 4, 2011

MOSCHIP USA

BALANCE SHEET

(Amount in US \$)

	As at 31 March 2011
Assets	
Current assets	
Cash	88,178
Accounts receivable	364,859
Inventory	2,241,792
Prepaid expenses	65,580
Total current assets	<u>2,760,409</u>
Deposits	47,280
Property and equipment	
Furniture & Fixtures	7,000
Equipment	4,110,119
Software	179,200
	<u>4,296,319</u>
Accumulated depreciation	<u>(3,453,867)</u>
	<u>842,452</u>
Total assets	<u><u>3,650,141</u></u>
Liabilities	
Current liabilities	
Accounts payable	2,251,079
Unearned revenue	318,528
Distributor interest payable	22,500
Related party payable	2,066,953
Distributor note payable	750,000
Accrued liabilities	32,816
Sublessee security deposit	4,224
Total current liabilities	<u>5,446,100</u>
Stockholders' equity	
Common Stock, no par value, 20,212,813 shares authorized 19,192,404 shares issued and outstanding	1,724,000
Additional paid-in capital	1,320,000
Accumulated deficit	4,839,959
Total stockholders' equity	<u>(1,795,959)</u>
Total Liabilities	<u><u>3,650,141</u></u>

MOSCHIP USA

**STATEMENT OF NET LOSS
AND ACCUMULATED DEFICIT**

(Amount in US \$)

	For the year ended 31 March 2011
Revenue	
Sales	5,488,732
Cost of goods sold	3,646,882
Shipping and handling	17,318
Gross profit	<u>1,824,532</u>
Expenses	
Selling, general, and administrative	1,186,289
Research and development	1,341,531
Depreciation	883,906
Interest	100,284
Loss on asset disposal	894
Total operating expenses	<u>3,512,904</u>
Operating loss	(1,688,372)
Other income/expense	
Interest income	<u>25</u>
Income before income taxes	(1,688,347)
Current income tax	<u>800</u>
Net loss	(1,689,147)
Accumulated deficit, beginning	(3,150,812)
Accumulated deficit, ending	<u>(4,839,959)</u>

STATEMENT OF CASH FLOWS

	(Amount in US \$)
	For the year ended 31 March 2011
Cash flows from operating activities	
Net loss	(1,689,147)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	883,906
Loss on asset disposal	(7,466)
(Increase) decrease in:	
Accounts receivable	523,333
Related party receivable	86,243
Inventory	(895,214)
Prepaid expenses	(19,423)
Deposit	(4,611)
Increase (decrease) in:	
Accounts payable	(65,809)
Unearned revenue	318,528
Related party interest payable	(22,500)
Accrued liabilities	3,057
Net cash provided by (used by) operating activities	<u>(889,103)</u>
Cash flows from investing activities	
Dispositions (purchases) of property and equipment	11,675
Net cash provided by (used by) investing activities	<u>11,675</u>
Cash flows from financing activities	
Increase (decrease) in:	
Related party payable	1,152,255
Related party note payable (long-term)	(255,000)
Net cash provided by (used by) financing activities	<u>897,255</u>
Net decrease in cash	19,827
Cash, beginning	68,351
Cash, ending	<u>88,178</u>
Supplemental disclosures of cash flow information	
Interest paid	122,784
Income taxes paid	<u>800</u>

NOTES TO FINANCIAL STATEMENTS

Summary of significant accounting policies:

- Nature of operations – MosChip Semiconductor Technology, USA (the Corporation), a California corporation, is a manufacturer of connectivity chips and embedded microprocessors primarily sold within Hong Kong and Taiwan.
 - Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.
 - Concentrations of cash – The Corporation at times during operations has cash deposits in excess of \$250,000. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks.
 - Accounts receivable – The Corporation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.
 - Inventories – Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method and market represents the lower of replacement cost or estimated net realizable value. Inventory consists of finished goods.
 - Property and equipment/Depreciation – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over estimated useful lives of two, three, five, and seven years. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.
 - Income taxes – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of current and deferred taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.
- The provision for income taxes is the tax payable MosChip financials or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.
- Subsequent events – Subsequent events were considered through May 4, 2011 which is the date the financial statements were available to be issued.
- A. Operating lease – The Corporation leases its Santa Clara facilities under an operating lease agreement with an unrelated party for \$4,700 per month. The Corporation subleases a portion of its Santa Clara facilities to an unrelated party for \$1,200 per quarter. The Corporation leases its Hong Kong facilities under an operating lease with an unrelated party for \$2,500 per month.
- The Corporation leases a Santa Clara apartment for temporary use by visiting parent company employees for \$2,170 per month. Rent expense, net of sublease proceeds, for the year totaled \$103,732.
- B. Related party payable – The Corporation carried an amount payable to MosChip Semiconductor Technology Limited, India; the sole shareholder of the Corporation. The payable represents amounts due for products and royalty fees provided by MosChip Semiconductor Technology Limited, India less reimbursable costs paid on behalf of MosChip Semiconductor Technology Limited, India. The amount due does not bear interest and is payable on demand. The balance of the amount payable at year end is \$2,066,953.
- C. Distributor note payable – The Corporation has a note payable to an individual who is both a 1.36% shareholder of the Corporation, and owner of a significant distributor of the Corporation. The note bears interest at 12% per year and is payable on demand. Principal and interest are due on demand. The principal balance of this note at year end is \$750,000.
- D. Related party transactions – The Corporation conducts business with MosChip Semiconductor Technology Limited, India, the sole shareholder of the Corporation. The Corporation contracts with its parent company for engineering, management, and product, and pays royalties to its parent company for the MosChip financials exclusive license of ASIC software from MosChip Semiconductor Technology Limited, India, as part of its production process on terms equivalent with those of other vendors.

NOTES TO FINANCIAL STATEMENTS

Transactions are as follows:

Expenses due to related party transactions	\$ 1,533,323
Inventory purchases from related party	\$ 3,473,931
Related party payable	\$ 2,066,953

The Corporation conducts business with a distributor whose owner is a 1.36% shareholder of the Corporation, owner of a significant distributor of the corporation, and a creditor to the Corporation.

Transactions are as follows:

Revenue due to related party transactions	\$ 1,824,438
Related party account receivable	\$ 76,299
Interest payable	\$ 22,500
Note payable	\$ 750,000

E. Concentration of credit risk – The Corporation had a concentration of credit risk with respect to revenue and accounts receivable from major customers as follows:

Number of major customers	4
Percentage of revenue from major customers	79%
Percentage of accounts receivable from major customers	79%

F. Income taxes – The total deferred tax asset due to taxable temporary differences is as follows. This calculation was last performed as of March 31, 2009. However, management believes that any change to deferred tax from the results of operations subsequent to that date, will change the valuation allowance by the same amount. Consequently, the deferred tax amounts remain as follows:

Federal deferred tax asset	\$ 713,453
State deferred tax asset	\$ 170,876
Federal deferred tax liability	\$ —
State deferred tax liability	\$ —
Valuation allowance	\$ (884,329)
Net deferred tax asset	\$ —

G. Going concern – These financial statements are presented on the basis that the Corporation is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The accompanying financial statements show that operations have resulted in an accumulated deficit. The Corporation anticipates increase in the revenues after successful launch of its products and divestment of some of its products, each of which is expected to increase revenue in the periods subsequent to these financial statements.

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MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: 8-2-685/1/1, ROAD: 12, BANJARA HILLS, HYDERABAD - 500034.

ATTENDANCE SLIP

(To be handed over at the entrance of the meeting hall)

I hereby record my presence at the **Twelfth Annual General Meeting** of the Company held at the Regd. Office of the Company at H. No. 8-2-685/1/1, Road No:12, Banjara Hills, Hyderabad - 500 034 on Friday, the 30 September 2011 at 10:30 hrs.

NAME OF THE SHAREHOLDER (IN BLOCK LETTERS) _____

NAME OF THE PROXY (IN BLOCK LETTERS) _____

FOLIO NO. _____ DP.Id. No. _____ Client Id. No. _____ No. of Shares held _____

SIGNATURE OF SHAREHOLDER _____

SIGNATURE OF PROXY (1) _____ PROXY (2) _____

*Note: Please complete the attendance slip and hand it over at the entrance of the meeting hall. Joint Shareholders desiring to attend the meeting may obtain additional Attendance Slips on request provided the Company receives such request **before 23 September 2011**. No duplicate Attendance Slip will be issued at the Meeting Hall. You are requested to bring your copy of the Annual Report to the Meeting. **Kindly note that gifts will not be distributed at Annual General Meeting.***

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: 8-2-685/1/1, ROAD: 12, BANJARA HILLS, HYDERABAD - 500034.

PROXY FORM

FOLIO NO. _____ DP.Id No. _____ Client Id. No. _____ No. of Shares Held _____

I/We _____ residing at _____

being a member/member of MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED hereby appoint

_____ resident of _____ (signature of proxy) _____

failing him/her _____ resident of _____ (signature of proxy) _____

as my/our Proxy to attend and vote for me / us on my / our behalf at the **Twelfth Annual General Meeting** of the Company to be held at the Regd. Office of the Company at 8-2-685/1/1, Road No:12, Banjara Hills, Hyderabad - 500 034. on Friday, the 30 September 2011 at 10:30 hrs.

Dated _____ September, 2011

Notes:

- The form should be signed across the stamp as per signatures registered with the company.
- The proxy form duly completed must be deposited at the Registered Office of the Company not less than 48 hrs before the time fixed for holding the aforesaid meeting.
- The proxy need not be a member of the Company.
- Un-filled proxy form is liable to be rejected. Kindly ensure all blanks of the form is filled-in before its submission.

Affix
Revenue
Stamp
of 0.30P and
sign across

Blank Space

Blank Space

Printed Matter
BOOK-POST

If undelivered, please return to:

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Regd. Office: 8-2-685/1/1, Road No. 12, Banjara Hills, Hyderabad - 500 034.

Tel: (91-40) 6622-9292, Fax: (91-40) 6622-9393

<http://www.moschip.com>