

GOKHALE & CO

Chartered Accountants

3-6-322, Off No 306, Mahavir House, Basheerbagh, Hyderabad 500 029

Ph No 2322 1167 2322 8874 email: gokhaleandco@vsnl.net

The Members

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Hyderabad

Audit Report on the Consolidated Financial Statements

We have examined the attached Consolidated Balance Sheet of MosChip Semiconductor Technology Limited and its wholly owned subsidiary MosChip Semiconductor Technology, USA as at 31 March 2009 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 company has made a total investment of Rs. 375,579,087/- in its wholly owned unlisted subsidiary company MosChip Semiconductor Technology, USA (formerly NetMos Technology Inc, USA). The investment is being carried at cost. The difference between the investment amount of Rs. 375,579,087/- and the Networth amount of Rs 55,257,399/- of MosChip Semiconductor Technology, USA, at book value, as on 31 March 2009 has not been charged to the Profit & Loss Account.

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 and on the basis of the separate audited financial statements of MosChip Semiconductor Technology Limited and the wholly owned subsidiary MosChip Semiconductor Technology, USA



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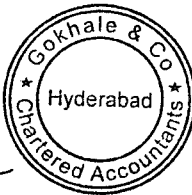
On the basis of the information and explanations given to us and on the consideration of the audited financial statements of MosChip Semiconductor Technology Limited and its wholly owned subsidiary, we are of the opinion that:

- 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 2009 ;
- b) the Consolidated Profit & Loss Account for the year ended 31 March 2009 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 2009.

For Gokhale & Co
Chartered Accountants



Chandrashekhar Gokhale
Partner
Membership No 23839



30 JUN 2009

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2009

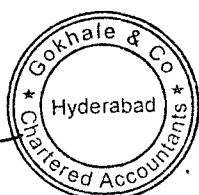
	Schedule No.	As at 31 MARCH 2009		As at 31 MARCH 2008	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS:					
SHAREHOLDERS' FUNDS:					
Share Capital	1	433,855,170		433,855,170	
Share Application Money		115,123		129,415	
Reserves and Surplus	2	672,426,562		650,879,147	
Secured Loans	3	71,399,207		0	
Unsecured Loans	4	50,710,000		0	
Total		1,228,506,062		1,084,863,732	
APPLICATION OF FUNDS:					
FIXED ASSETS:	5				
Gross Block		274,524,171		229,731,556	
Less: Depreciation		191,731,873		132,397,394	
Net Block		82,792,297		97,334,162	
Capital work in progress		88,586,519		13,905,150	
Goodwill		235,817,338		235,817,338	
INVESTMENTS	6	151,582		58,764,550	
NET CURRENT ASSETS:					
CURRENT ASSETS, LOANS AND ADVANCES:					
Inventories	7	55,965,794		19,708,486	
Sundry Debtors	8	49,568,087		42,736,662	
Cash and Bank Balances	9	12,476,277		23,331,792	
Loans and Advances	10	16,321,221		17,063,338	
Interest accrued on Deposits		127,182		57,973	
GROSS CURRENT ASSETS		134,458,561		102,898,251	
Less: Current Liabilities and provisions	11	76,021,759	58,436,802	36,196,349	66,701,902
NET CURRENT ASSETS					
MISCELLANEOUS EXPENDITURE	12	2,818,095		5,636,163	
PROFIT AND LOSS ACCOUNT		759,903,429		606,704,467	
NOTES TO ACCOUNTS	17				
Total		1,228,506,062		1,084,863,732	

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 Gokhale & Co.,
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No- 23839



For and on behalf of the Board of Directors

K.Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place : Hyderabad
Date : 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Rajkumar Singh
Company Secretary

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

	Schedule No.	For the year ended 31 March 2009	For the year ended 31 March 2008
		Rs.	Rs.
I INCOME:			
Sales Revenue	13	271,598,463	236,164,257
Other Income	14	3,471,592	7,641,478
		275,070,055	243,805,735
II EXPENDITURE:			
Material Cost, Software and Administrative Expenses	15	377,479,776	317,090,924
Financial Charges	16	6,577,943	62,754
Depreciation	5	43,837,280	34,093,876
		427,894,999	351,247,554
III Profit/(Loss) Before Tax		(152,824,944)	(107,441,819)
Less: Fringe Benefit Tax		379,845	433,996
Profit/(Loss) After Tax Before Exceptional Item		(153,204,789)	(107,875,815)
Less: Exceptional Item		0	2,465,114
Profit/(Loss) After Tax and Exceptional Item Before Extraordinary and Prior Period Item		(153,204,789)	(110,340,929)
Less: Extra Ordinary and Prior Period Items		(5,827)	(3,887,437)
Profit/(Loss) After Tax and After Extraordinary and Prior Period Item		(153,198,962)	(106,453,492)
Add: Balance brought forward from previous year		(606,704,467)	(500,250,975)
Balance carried to Balance Sheet		(759,903,429)	(606,704,467)
IV Earnings Per Share (EPS)			
Equity Share of face value Rs.10/-each			
Before Extraordinary and Prior Period Items			
Basic		(3.53)	(2.54)
Diluted		(3.53)	(2.54)
After Extraordinary and Prior Period Items			
Basic		(3.53)	(2.45)
Diluted		(3.53)	(2.45)
Number of shares used in computing EPS			
Basic		43,385,517	43,383,856
Diluted		43,385,517	43,383,856

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

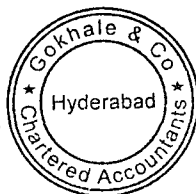
For Gokhale & Co.,

Chartered Accountants

Chandrashekhara Gokhale

Partner

Membership No- 23839



For and on behalf of the Board of Directors

K.Ramachandra Reddy

Chairman & CEO

Sathya Kalyanasundaram
Chief Financial Officer

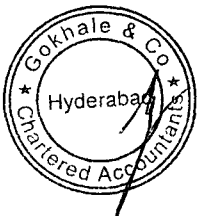
C. Dayakar Reddy
Managing Director

Rajkumar Singh
Company Secretary

Place : Hyderabad
Date : 30 June 2009

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

SCHEDULES	As At 31 March 2009 Rs.	As At 31 March 2008 Rs.
SCHEDULE 1		
SHARE CAPITAL:		
Authorised:		
55,000,000 (Previous Year 55,000,000) equity shares of Rs.10/- each	550,000,000	550,000,000
Issued:		
45,100,589 (Previous Year 45,100,589) equity shares of Rs.10/- each	451,005,890	451,005,890
Subscribed and Paid – up:		
43,385,517 (Previous Year 43,385,517) equity shares of Rs.10/- each	433,855,170	433,855,170
(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 Veracity Technologies, Inc with the Company)		
SCHEDULE 2		
RESERVES AND SURPLUS:		
Foreign Currency Translation Reserve	6,517,642	(15,029,773)
Capital Reserve	1,250,000	1,250,000
Forfeited Share Warrants	4,650,000	0
Convertible Warrants	0	4,650,000
Securities Premium		
Opening Balance	660,008,920	659,975,420
Additions	0	33,500
	660,008,920	660,008,920
	672,426,562	650,879,147
SCHEDULE 3		
SECURED LOANS		
Packing Credit	71,399,207	0
	71,399,207	0
SCHEDULE 4		
UNSECURED LOANS		
Unsecured loans	50,710,000	0
	50,710,000	0



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

SCHEDULE - 5

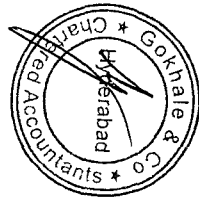
CONSOLIDATED FIXED ASSETS

S.No	DESCRIPTION	GROSS BLOCK					DEPRECIATION				NET BLOCK		
		Balance as at 01.04.2008	Additions during the Year	Adjustments during the Year	Deletions during the Year	Balance as at 31.03.2009	Balance as at 01.04.2008	For the Year	Adjustments during the Year	Deletions during the Year	Balance as at 31.03.2009	Balance as at 31.03.2009	Balance as at 31.03.2008
1	Computers	29,363,300	933,845	0	173,829	30,123,316	13,939,286	3,748,661	0	58,183	17,629,764	12,493,552	15,424,014
2	Electrical Installation	2,298,675	0	0	0	2,298,675	471,910	106,988	0	0	578,898	1,719,777	1,826,765
3	Plant and Machinery	28,144,442	14,500	0	99,830	28,059,112	22,320,258	349,325	0	38,120	22,631,463	5,427,649	5,824,184
4	Software	64,242,836	1,531,833	1,821,275	0	67,595,944	47,063,993	7,203,739	517,585	0	54,785,316	12,810,628	17,178,843
5	Furniture and Fittings	9,134,798	300,346	141,747	0	9,576,891	3,214,320	574,352	71,529	0	3,860,201	5,716,690	5,920,478
6	Office Equipment	6,997,209	3,761,258	1,552,336	0	12,310,803	3,059,111	959,445	636,566	0	4,655,122	7,655,681	3,938,098
7	Vehicles	84,257	0	0	0	84,257	46,910	7,804	0	0	54,714	29,543	37,347
8	Lab Equipment	16,065,867	72,469	0	0	16,138,336	1,370,872	761,973	0	0	2,132,845	14,005,491	14,694,995
9	Leasehold Improvements	3,938,681	0	0	0	3,938,681	1,155,355	1,065,176	0	0	2,220,531	1,718,150	2,783,326
10	Mask Tools	69,461,491	14,061,250	20,875,415	0	104,398,156	39,755,379	29,059,816	14,367,823	0	83,183,018	21,215,138	29,706,112
	TOTAL	229,731,556	20,675,501	24,390,773	273,659	274,524,171	132,397,394	43,837,280	15,593,503	96,303	191,731,873	82,792,297	97,334,162
	Previous Year	208,289,259	37,931,040	(3,998,809)	12,489,934	229,731,556	109,133,452	34,093,876	(2,238,413)	8,591,521	132,397,394	97,334,162	-

Note :

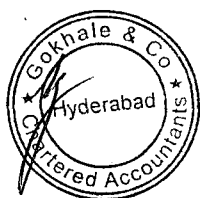
* Adjustments for the year includes Rs.24,390,773/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.

** Adjustments for the year includes Rs.15,593,503/- considered in Foreign Currency Translation Reserve due to Translation of non-integral foreign subsidiaries.



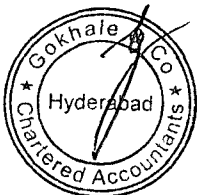
MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

SCHEDULES	As At 31 March 2009 Rs.	As At 31 March 2008 Rs.
<u>SCHEDULE 6</u>		
INVESTMENTS:		
Current		
Principal Cash Management Fund		
45943.020 (Previous Year Nil) Units of Rs.1000/- each in	0	50,000,000
Reliance Mutual Fund		
SVB Securities Liquid Fund	151,582	8,764,550
	151,582	58,764,550
<u>SCHEDULE 7</u>		
INVENTORIES:		
Finished Goods	55,965,794	19,708,486
	55,965,794	19,708,486
<u>SCHEDULE 8</u>		
SUNDRY DEBTORS:		
(Unsecured, Considered Good)		
Outstanding for a period exceeding six months	0	0
Others	49,568,087	42,736,662
	49,568,087	42,736,662
<u>SCHEDULE 9</u>		
CASH AND BANK BALANCES:		
Cash on hand	14,643	66,766
Balance with Scheduled Banks		
- In Current accounts	1,834,105	3,383,230
- In fixed deposit accounts	889,185	889,185
(Rs.889,185/- (Previous Year Rs.889,185/-) pledged towards margin on Bank Guarantee)		
Balance with Non-Scheduled Banks in Current Accounts	9,738,344	18,992,611
	12,476,277	23,331,792
<u>SCHEDULE 10</u>		
LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash Or in kind or for value to be received)		
Deposits	3,553,174	2,367,568
MosChip Employees Trust	2,835,000	2,835,000
Other Advances and Receivables	6,475,803	6,090,619
Prepaid Expenses	2,960,517	4,255,299
Prepaid Income Tax	496,726	1,514,852
	16,321,221	17,063,338
<u>SCHEDULE 11</u>		
CURRENT LIABILITIES AND PROVISIONS:		
CURRENT LIABILITIES:		
Sundry Creditors:		
Dues to Small Scale Industrial Undertakings	0	0
Others	71,117,775	31,026,259
	71,117,775	31,026,259
PROVISIONS:		
Leave Encashment	2,488,948	2,992,007
Gratuity	1,895,415	1,788,532
Expenses	481,745	355,555
Fringe Benefit Tax (net)	37,875	33,996
	4,903,983	5,170,090
	76,021,759	36,196,349
<u>SCHEDULE 12</u>		
MISCELLANEOUS EXPENDITURE:		
(To the extent not written off or adjusted)		
GDR Issue Expenses	2,818,095	5,636,163
	2,818,095	5,636,163



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

	For the year ended 31 March 2009	For the year ended 31 March 2008
	Rs.	Rs.
<u>SCHEDULE 13</u>		
<u>SALES:</u>		
Semiconductor Sales	271,598,463	235,936,627
Misc. Sales	0	227,630
	271,598,463	236,164,257
<u>SCHEDULE 14</u>		
<u>OTHER INCOME:</u>		
Interest Earned (Gross)	329,232	2,128,021
(Tax Deducted at Source Rs.15,975/- (previous year Rs.479,758/-))		
Miscellaneous Income	1,971,773	0
Profit on Sale of Investments	1,170,587	5,513,457
	3,471,592	7,641,478
<u>SCHEDULE 15</u>		
<u>MATERIAL COST, SOFTWARE AND ADMINISTRATIVE EXPENSES:</u>		
Materials, Finished and Processed Stocks	131,642,829	103,923,305
Freight Expenses	2,393,157	1,865,395
Salaries and Other Allowances to Employees	139,294,390	105,027,548
Contribution to PF, ESI & Gratuity	1,139,954	1,470,828
Staff Welfare Expenses	5,629,981	5,620,389
Directors' Remuneration	9,715,000	9,100,000
Consumables	11,134,399	7,969,787
Research and Development Expenses	3,456,353	3,217,941
Software Charges	1,908,037	4,030,131
Communication Expenses	665,142	719,521
Computer Maintenance	510,183	790,383
Directors' Sitting Fee	86,000	97,000
Printing and Stationery	465,172	107,098
Postage, Telegrams and Telephones	1,803,179	1,742,055
Rent	18,418,443	13,038,285
Fees, Rates and Taxes	4,527,941	1,797,844
Vehicle Maintenance	44,590	68,838
Repairs and Maintenance	257,811	1,038,932
Traveling and Conveyance	9,327,517	12,093,786
Marketing Expenses	4,954,987	4,635,770
Advertisement Expenses	4,313,159	3,421,748
Payments to Auditors	757,498	634,788
Insurance	5,319,736	3,591,491
Export Freight and Insurance	568,645	0
Professional charges	12,614,338	15,733,270
Electricity Charges	2,921,879	2,860,223
Recruitment Expenses	772,695	834,050
General Expenses	4,863,262	4,397,669
Penalties	0	4,738
Loss on fixed assets sold / discarded	129,898	141,255
Realised Loss on Forex Fluctuation	(2,946,525)	4,101,170
Unrealised Loss on Forex Fluctuation	(2,027,941)	197,618
GDR Issue Expenses Written Off	2,818,068	2,818,068
	377,479,776	317,090,924
<u>SCHEDULE 16</u>		
<u>FINANCIAL CHARGES</u>		
Loan Processing Charges	741,808	0
Interest Paid on Loans	5,632,274	0
Bank Charges	203,861	62,754
	6,577,943	62,754



MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009

	31 March 2009	31 March 2008
	Rs.	Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Tax, Exceptional, Prior Period and Extraordinary Item	(152,824,944)	(109,906,933)
Adjustments for:		
Depreciation	43,837,280	34,093,876
GDR issue expenses written off	2,818,068	2,818,068
Interest Income	(329,232)	(2,128,021)
Loss on Sale of Fixed Assets	129,898	141,255
Profit on sale of Current Investments	(1,170,587)	(5,513,457)
Provision for Retirement Benefits	(396,176)	(17,365)
Foreign Exchange adjustments	39,925	35,359
Operating Profit before changes in working capital	(107,895,768)	(80,477,218)
Increase/(Decrease) in Secured Loans	71,399,207	0
Increase/(Decrease) in Unsecured loans	50,710,000	0
(Increase)/Decrease in Sundry Debtors	(6,831,425)	218,373
(Increase)/Decrease in Inventories	(36,257,308)	371,332
(Increase)/Decrease in Loans and Advances	(276,009)	(3,055,811)
(Increase)/Decrease in Bank Guarantee Deposits with Bankers	0	(176,424)
Increase/(Decrease) in Current liabilities	39,787,535	8,202,328
Cash from operations before Tax, Exceptional, Extra Ordinary and Prior Period items	10,636,232	(74,917,420)
Income-tax paid	(676,156)	399,608
Cash from operations before Exceptional, Extra Ordinary and Prior Period items	11,312,388	(75,317,028)
Fixed Assets Discarded (Exceptional Item)	0	2,465,114
Extra Ordinary Income	(5,827)	(5,004,638)
Net cash from operating Activities [A]	11,318,215	(67,847,276)
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(95,356,869)	(38,631,935)
Sale proceeds of Fixed Assets	47,458	113,725
Interest received on Fixed Deposits	260,023	3,647,933
Purchase of Current Investments	(47,000,000)	(263,000,000)
Sale of Current Investments	48,170,587	268,513,457
Foreign currency translation adjustment for non-integral operation	13,146,320	(9,082,671)
Net Cash used for Investing Activities [B]	(80,732,480)	(38,439,491)
C. Cash flow from Financing Activities:		
Net proceeds from Issue of Share Capital	(14,292)	20,000
Securities Premium	0	33,500
Convertible Warrants	0	-
Net Cash from Financing Activities [C]	(14,292)	53,500
D. Exchange differences on translation of foreign currency cash	(39,925)	(35,359)
Net Increase/(Decrease) in cash & cash equivalents [A+B+C+D]	(69,468,483)	(106,268,626)
Cash and Cash equivalents at the beginning of the year	81,207,157	187,475,783
Cash and Cash equivalents at the end of the year	11,738,674	81,207,157
Supplementary Information		
Cash and Cash Equivalents as per Balance Sheet	12,627,859	82,096,342
Less: Fixed Deposits towards Bank Guarantee considered as investments	889,185	889,185
	11,738,674	81,207,157

Per and subject to our report of even date

For Gokhale & Co.,
Chartered Accountants

Chandra Shekhar Gokhale
Partner
Membership No- 23839



For and on behalf of the Board of Directors

K. Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Sathya Kalyanasundaram
Chief Financial Officer

Rajkumar Singh
Company Secretary

Place : Hyderabad
Date : 30 June 2009

MOSCHIP SEMICONDUCTOR TECHNOLOGY LIMITED

Schedules to the Consolidated Financial Statements for the year ended 31 March 2009

17 Significant accounting policies and notes on accounts

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 developing and manufacturer 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

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

17.1 Significant Accounting Policies

17.1.1 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 2009.

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.

17.1.2 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.

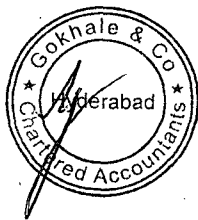
The excess of cost to the Parent of its investment over its equity in the subsidiary at the respective dates on which the investment in such Subsidiary was made is recognized as Goodwill in Consolidated Financial Statements.

17.1.3 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.

17.1.4 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.



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17.1.5 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.

17.1.6 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.

17.1.7 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.

17.1.8 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.



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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.

17.1.9 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.

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

17.1.11 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.

17.1.12 Miscellaneous Expenditure

Preliminary expenses and expenditure in connection with issue of shares are written off over a period of five years.

17.2 Notes on Accounts

17.2.1 Contingent Liabilities:

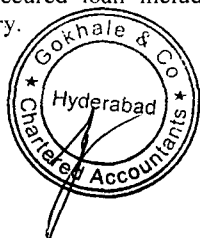
Particulars	(Amount in Rupees)	
	AS AT 31 MARCH	
	2009	2008
Estimated amount of unexecuted capital contracts not provided	12,555,967	25,268,375
Outstanding Bank Guarantee given by bankers	889,185	889,185
Outstanding Bank Guarantee on account of Bond executed by the Company to Government of India towards exemption of customs duty	2,525,000	2,525,000

17.2.2 Secured and Unsecured Loans

Working Capital Borrowing from Bank

The Company has availed a working capital loan from UCO Bank during the financial year. This borrowing 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 unsecured loan includes a sum of USD 1 million (Rs.50,710,000) as external commercial borrowings by subsidiary.



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17.2.3 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:

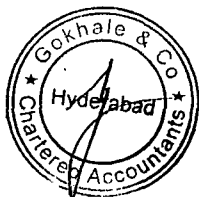
	(Amount in Rupees except share numbers)	
	Year ended 31 March 2008	Year ended 31 March 2007
BASIC EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(153,204,789)	(107,875,815)
Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(153,198,962)	(106,453,492)
Weighted average number of equity shares	43,385,517	43,383,856
EPS before extraordinary and prior period item	(3.53)	(2.54)
EPS after extraordinary and prior period item	(3.53)	(2.45)
DILUTED EARNINGS/(LOSS) PER SHARE		
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(153,204,789)	(107,875,815)
Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(153,198,962)	(106,453,492)
Adjustments	Nil	Nil
Diluted Net Profit/(Loss) for the period before exceptional, extraordinary and prior period item	(153,204,789)	(107,875,815)
Diluted Net Profit/(Loss) for the period after exceptional, extraordinary and prior period item	(153,198,962)	(106,453,492)
Weighted average number of equity shares	43,385,517	43,383,856
Diluted Potential weighted average number of equity shares	Nil	Nil
Weighted average number of diluted equity shares	43,385,517	43,383,856
EPS before extraordinary and prior period item	(3.53)	(2.54)
EPS after extraordinary and prior period item	(3.53)	(2.45)

17.2.4 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:

Particulars	Year ended 31 March 2009	
	<i>Software Rs.</i>	<i>ASICs Rs.</i>
Revenue		
Sales to external customers	-	271,598,463



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Segment Profit / (loss)	(188,701,678)	32,405,142
Other Income	3,327,929	143,663
Profit / (loss) before Tax	(185,373,749)	32,548,805
Fringe Benefit Tax	379,845	--
Exceptional Item	0	0
Profit / (loss) after Tax before Extraordinary and Prior Period Item	(185,753,594)	32,548,805
Extraordinary and Prior Period Income	(5,827)	0
Net profit/(loss)	(185,747,767)	32,548,805
Other Segment Information		
Depreciation	11,427,828	32,409,452
Non-cash expenses other than depreciation	2,947,966	--
Particulars of Segment Assets and Liabilities		
Segment Assets	60,824,025	232,409,893
Investments	0	151,582
Cash and Bank Deposits	2,944,944	9,531,333
Other Assets	127,182	0
Total Assets	63,896,150	242,092,809
Segment Liabilities	7,486,588	68,535,171
Secured Loans	71,399,207	0
Unsecured Loans	0	50,710,000
Total Liabilities	78,885,795	119,245,171

b) Geographic Segment Information:

	Year ended 31 March 2009
<u>Revenue</u>	
Hong Kong	157,218,742
Taiwan	49,044,600
Japan	35,997,922
Rest of World	29,337,199
<u>Carrying amount of segment fixed assets</u>	
India	231,545,058
North America	131,565,632
<u>Additions to fixed assets</u>	
India	18,877,552
North America	1,797,949

17.2.5 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 Veracity 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 2009. 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.

Fringe Benefits Tax (FBT) payable under the provisions of section 115WC of the Income-tax Act, 1961 is in accordance with the Guidance Note on Accounting for Fringe Benefits Tax issued by the ICAI regarded as an additional income tax and considered in determination of the profits/(losses) for the year.



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18.2.6 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 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

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Options outstanding at the beginning of the year	243,800	99,600
Granted during the year	0	190,000
Forfeited during the year	63,600	15,900
Exercised during the year	0	29,900
Outstanding at the end of the year	180,200	243,800

Stock Options Outstanding under the MosChip Stock Option Plan 2001

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Options outstanding at the beginning of the year	170,875	109,875
Granted during the year	153,000	87,000
Forfeited during the year	149,375	26,000
Exercised during the year	0	0
Outstanding at the end of the year	174,500	170,875

Stock Options Outstanding under the MosChip Stock Option Plan 2002

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Options outstanding at the beginning of the year	501,129	296,629
Granted during the year	448,000	329,000
Forfeited during the year	547,129	122,500
Exercised during the year	0	2,000
Outstanding at the end of the year	402,000	501,129

Stock Options Outstanding under the MosChip Stock Option Plan 2004

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Options outstanding at the beginning of the year	861,000	802,000
Granted during the year	572,000	523,000
Forfeited during the year	938,000	464,000
Exercised during the year	0	0
Outstanding at the end of the year	495,000	861,000



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

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Options outstanding at the beginning of the year	484,000	412,000
Granted during the year	0	118,000
Forfeited during the year	352,000	46,000
Exercised during the year	0	0
Outstanding at the end of the year	132,000	484,000

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

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Options outstanding at the beginning of the year	475,000	500,000
Granted during the year	0	400,000
Forfeited during the year	75,000	425,000
Exercised during the year	0	0
Outstanding at the end of the year	400,000	475,000

Stock Options Outstanding under the MosChip Stock Option Plan 2008

Particulars	Year ended 31 March 2009
Options outstanding at the beginning of the year	0
Granted during the year	2,814,327
Forfeited during the year	804,700
Exercised during the year	0
Outstanding at the end of the year	2,009,627

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

Particulars	Year ended 31 March 2009
Options outstanding at the beginning of the year	0
Granted during the year	741,554
Forfeited during the year	30,000
Exercised during the year	0
Outstanding at the end of the year	711,554

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

Particulars	Year ended 31 March 2009
Options outstanding at the beginning of the year	0
Granted during the year	400,000
Forfeited during the year	100,000
Exercised during the year	0
Outstanding at the end of the year	300,000

17.2.7 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.



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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 2009
	Rs.
<u>Gratuity cost for the period</u>	
Current Service Cost	700,698
Interest cost on defined benefit obligation	356,967
Expected Return on Plan Assets	(177,288)
Net Actuarial losses/(gain) recognised in year	(130,342)
Net Gratuity cost	748,076
<u>Balance Sheet</u>	
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	3,899,186
Present Value of the funded obligation at the end of the year	2,003,171
Asset/(Liability) recognized in the balance sheet	(1,895,415)
<u>Change in the present value of defined benefit obligation are as follows:</u>	
Present value of obligations at the beginning of year	3,654,732
Current Service Cost	700,698
Interest cost	356,967
Actuarial (gain)/loss	(130,342)
Benefits paid	(682,869)
Present value of obligations as at the end of year	3,899,186
<u>Change in the fair value of plan assets are as follows:</u>	
Fair Value of Plan Assets at beginning of year	1,866,200
Expected return on plan assets	177,288
Actuarial gain/(loss)	1,959
Contributions	641,193
Benefits paid	(682,869)
Fair Value of Plan Assets at end of year	2,003,771

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

Discount Rate - 7.95%

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 2009 is Rs. 1,787,053.



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17.2.8 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 depreciation rates in line with that of parent company, depreciation for the year ended 31 March 2009 would have been lower by Rs. 2,348,400/- and loss for the period would have been lower by Rs. 2,348,400/-.

17.2.9 Regrouping/ Reclassification

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

Per and subject to our report of even date

For Gokhale & Co.,
Chartered Accountants

Chandrashekhar Gokhale
Partner

Membership No- 23839



For and on behalf of the Board of Directors

K.Ramachandra Reddy
Chairman & CEO

C. Dayakar Reddy
Managing Director

Place Hyderabad
Date 30 June 2009

Sathya Kalyanasundaram
Chief Financial Officer

Raj Kumar Singh
Company Secretary