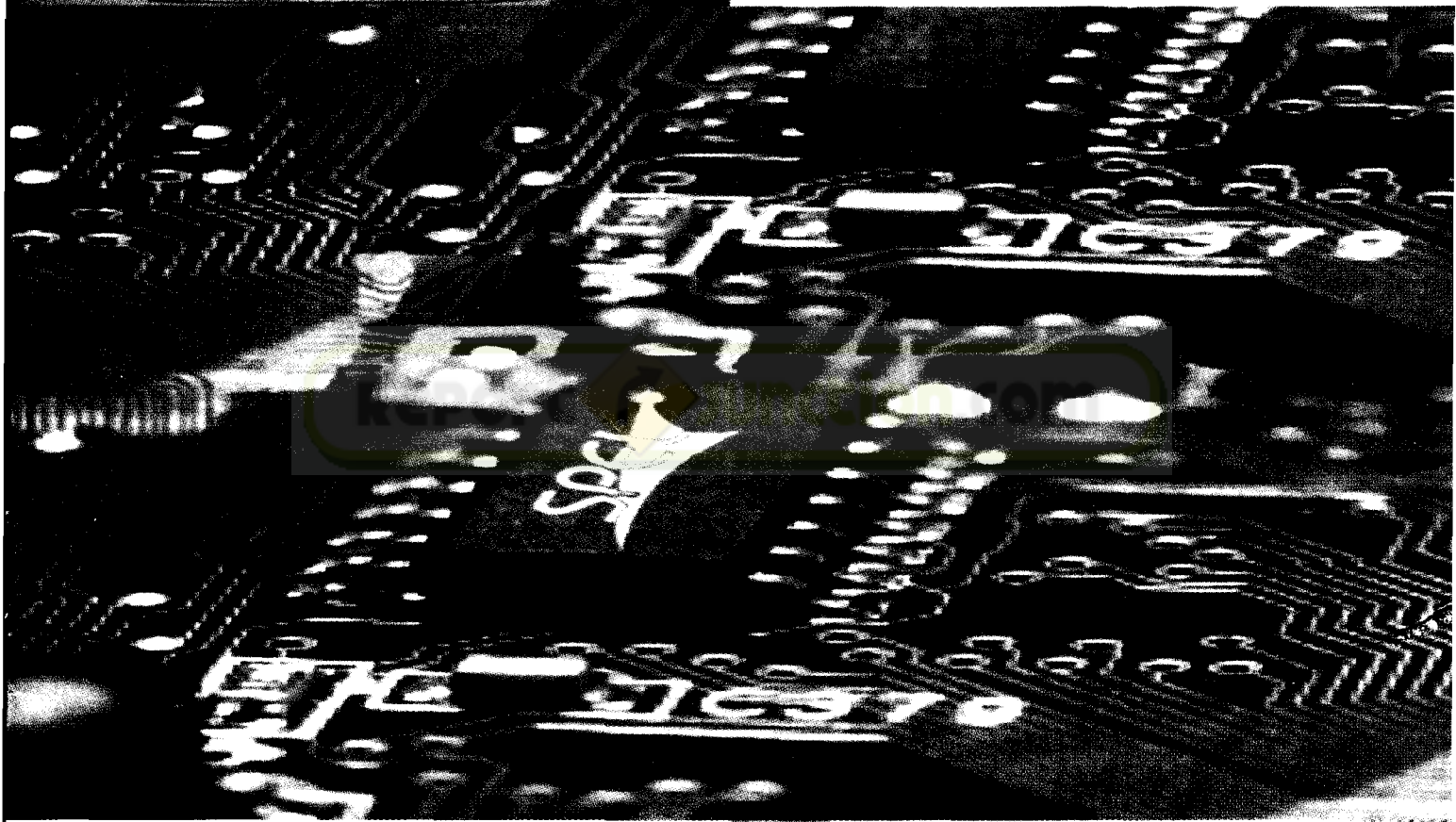


SPEL

SPEL Semiconductor Limited
an Assembly & Test Company



20th Annual Report
2004 - 05



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SPEL Semiconductor Limited

Board of Directors

- | | |
|----------------------------|-------------------------|
| 1. Dr. A.C. Muthiah | Chairman |
| 2. Ar Rm Arun | Vice Chairman |
| 3. S.R. Vijayakar | Director |
| 4. Dr. T.S. Vijayaraghavan | Director |
| 5. Dr. A. Besant C Raj | Director |
| 6. M.G. Thirunavukkarasu | Director |
| 7. R. Venkatesh Kumar | Chief Financial Officer |

Chief Executive Officer

Sam Varghese

Head Corporate Affairs & Company Secretary

Sudhir Anand

Auditors

Natarajan & Co
2/342 II Street, Kandaswamy Nagar,
Palavakkam, Chennai 600 041

Registered Office

MAC House
4 Sardar Patel Road
Guindy, Chennai 600 032 India

Factory

5 CMDA Industrial Estate
MM Nagar (Chennai) 603 209, India

US Office

2005 De La Cruz Blvd., Ste 180
Santa Clara, CA 95050

Bankers

1. State Bank of Hyderabad
2. Canara Bank
3. Allahabad Bank

Registrar & Share Transfer Agents

Cameo Corporate Services Limited
Subramaniam Building
V Floor, 1 Club House
Chennai 600 002
Tel : (044) 2846 0390
Fax : (044) 2846 0129



Vision

*To Be the **Natural Destination** for Global Customers Seeking Cost-Effective Offshore Turnkey IC Assembly & Test Services*

Mission

SPEL Semiconductor Limited, an IC Assembly & Test Subcontractor for over 15 years, works as one team to achieve Zero defect, Just-in-time, Cost-effective solutions with Service that is uncompromised

SPEL's Partners – Customers, Suppliers, Employees & Shareholders are confident in the knowledge that we are consistently meeting and exceeding their expectations

Quality Policy

Consistently provide products and services that will exceed the quality expectations of our Customers

*Implement process improvement programs, which will enable each Employee to do their job, **right the first time***

Work towards continual quality improvement through training and teamwork

Environment Policy

SPEL Semiconductor Limited is a leading Semiconductor Assembly & Test facility providing high quality Integrated Circuits Packaging solutions and has the following policy for environmental care

Nurture the nature by complying with accepted environmental practices in all our activities, with the following guiding objectives

Gearing up for continual improvement with our Environmental Management System and reviewing it periodically

Respecting and being committed to meet and exceed legal and other requirements

Emphasizing the minimization of significant impacts, wastes and pollution prevention

Enhancing the environmental performance by resource conservation, awareness through training and by reducing, recycling and reusing waste and packing

Notifying this policy to all Stakeholders



Previous 5 years

(Rs. in million)

	2004-05	2003-04	2002-03	2001-02	2000-01
Sales	363.69	259.26	200.99	158.66	128.88
Operating Profit	81.90	56.30	25.23	17.68	16.08
Interest	16.12	23.88	23.96	20.24	23.48
Profit before Depreciation	65.78	32.42	1.27	(2.56)	(7.40)
Depreciation	39.01	22.54	20.39	18.62	18.04
Profit before Tax and prior period items	26.77	9.88	(19.12)	(21.18)	(25.44)
Deferred Tax	12.07	5.58	(6.60)	(5.31)	-
Profit after Tax	14.70	4.30	(12.52)	(15.87)	(25.44)
Prior Period Expenditure	-	-	2.00	-	-
Net Profit	14.70	4.30	(14.52)	(15.87)	(25.44)

Notice to Members

Notice is hereby given that the 20th Annual General Meeting of the Members of SPEL Semiconductor Limited will be held at 2.55 pm on Friday, Jul 29, 2005, at Tamil Isai Sangam, Raja Annamalai Hall, Esplanade, (Near High Court) Chennai 600 108 to transact the following Business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet of the Company as at Mar 31, 2005 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To elect a Director in the place of Mr. S. R. Vijayakar, who retires by rotation and being eligible, offers himself for re-election.
3. To elect a Director in the place of Mr. R. Venkatesh Kumar, who retires by rotation and being eligible, offers himself for re-election.
4. To consider and if thought fit, to pass with or without modifications, the following Resolution as an Ordinary Resolution :

"Resolved that Natarajan & Co., Chartered Accountants, the retiring Auditors, be and are hereby re-appointed as the Auditors of the Company to hold Office until the conclusion of the 21st Annual General Meeting on a remuneration of Rs. 75,000/- plus out of pocket expenses."

Special Business

5. To appoint Dr. T. S. Vijayaraghavan as a Director liable to retire by rotation.

To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"Resolved that Dr. T. S. Vijayaraghavan whose term of office as an Additional Director of the Company expires at this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 from a member proposing his candidature, Dr. T. S. Vijayaraghavan, Additional Director be and is hereby appointed as a Director of the Company, whose period of Office will be liable to determination by retirement by rotation"

6. To increase the Authorised Share Capital of the Company

To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

Resolved that the Authorized Share Capital of the Company be increased from Rs. 50,00,00,000/- divided into 5,00,00,000 Equity Shares of Rs. 10/- each to Rs. 60,00,00,000/- divided into 6,00,00,000 Equity Shares of Rs. 10/- each ranking pari passu with

the existing equity shares in the Company and that in Clause V of the Memorandum of Association of the Company, the words and figures, "The Authorized Share Capital of the Company is Rs. 50,00,00,000/- (Rupees Fifty Crores only) divided into 5,00,00,000 Equity Shares of Rs.10/- (Rupees Ten only) be substituted by the following words and figures:

"The Authorized Share Capital of the Company is Rs. 60,00,00,000/- (Rupees Sixty Crores only) divided into 6,00,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each"

"Resolved further that the Articles of Association of the Company be altered by substituting the following new Article 5, in place of the present Article 5 thereof

"The Authorized Share Capital of the Company is Rs. 60,00,00,000/- (Rupees Sixty Crores only) divided into 6,00,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each."

7. To Issue Stock Option Scheme

To consider, and if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution.

Resolved that pursuant to the provisions of Section 81, 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof) and in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 or any other relevant authority, from time to time, to the extent applicable and subject to such approvals, consents, permissions and sanctions as may be required, the Board of Directors, which term shall be deemed to include any Committee of directors constituted for the purpose by the Board to exercise its powers, be and is hereby authorized, on behalf of the Company to grant from time to time, options to apply for equity shares of the face value of Rs.10/- each, of the Company to or for the benefit of the present and future Employees in Senior, Middle and Junior level management of the Company and to all the Directors of the Company (other than promoter directors), under a Scheme titled "SPEL Employee Stock Option Scheme" (hereinafter referred to as the "Scheme"), as submitted to this meeting and initiated by the Chairman for the purpose of identification, and consequently create, issue, offer, allocate and allot at any time and from time to time, equity shares not exceeding in the aggregate 60,35,398 equity shares of Rs.10/- each in terms of such options. The options and the consequential issue, offer, allocation and allotment of shares shall be at a price of Rs.10/- each during such period, in one or more tranches and on such other terms and conditions as the Board may decide.

Resolved further that to the extent permitted as per the existing provisions of law in this regard all / any

equity shares resulting from the conversion of the Options to be allotted as an outcome of the above mentioned resolution shall, upon such allotment, rank pari passu in all respects inter se as also with the then existing Equity shares including dividend entitlement.

Resolved further that to determine all other terms and conditions for the purpose of giving effect to any offer, issue or allotment of equity shares under SPEL Employee Stock Option Scheme, the Board be and is hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose with power on behalf of the Company to settle all questions, difficulties or doubts that may arise in this regard to such issue(s) or allotment(s) including to amend or modify the Scheme and any of the terms of such issue or allotment(s), without being required to seek any further consent or approval of the members.

Resolved further that the Board be and is hereby authorized to take necessary steps for listing of the shares allotted under SPEL Employee Stock Option Scheme on the Mumbai Stock Exchange, where the Company's shares are listed, as per the terms and conditions of the Listing Agreement with the Stock Exchange concerned, and in accordance with such other guidelines, rules and regulations as may be applicable with regard to such listing.

8. Profit incentive to Mr. Ar Rm Arun, Vice Chairman of the Company

To consider and, if thought fit, to pass, with or without modification, the following resolution as a Special Resolution :

Resolved that pursuant to provisions of Section 309 (4) and any other applicable provisions of the Companies Act, 1956, Mr. Ar Rm Arun, Vice Chairman of the Company be paid a profit incentive by way of commission not exceeding 1% on profit of the Company during the term of his office with effect from FY 2005-06

9. Revision in terms of remuneration of Mr. R. Venkatesh Kumar, Chief Financial Officer

To consider and, if thought fit, to pass, with or without modification, the following resolution as a Special Resolution :

"Resolved that in supersession of its earlier resolution passed by the Board of Directors of the Company at its meeting held on Jun 23, 2004 and as approved by the Shareholders at their meeting held on Jul 30, 2004, pursuant to the provisions of Section 198, 309, 310 and Schedule XIII of the Companies Act, 1956, consent of the Shareholders be and is hereby accorded for the increase in remuneration and perquisites payable to Mr. R. Venkatesh Kumar, Chief Financial Officer, as detailed hereunder and mentioned in the

supplemental agreement to be entered with him, during the remaining terms of his office commencing from Apr 1, 2005 till the expiry of his present term of office on May 13, 2006."

Remuneration

1. Salary

Rs.33,000 /- (Rupees Thirty Three Thousand only) per month

2. Special Allowance

Rs.33,000 /- (Rupees Thirty Three Thousand only) per month

3. Perquisites

Perquisites shall be allowed in addition to both salary and special allowance. However, it shall be restricted to an amount equal to the annual salary.

Perquisites are presently classified as follows

- Housing / House Rent Allowance: The expenditure incurred by the Company will be subject to a ceiling of 50% of the salary.
- Gas, Electricity, Water and Furnishing: As per the Rules of the Company. The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income-tax Rules, 1962.
- Medical reimbursement: Expenses incurred for the appointee and his family as per the Rules of the Company.
- Leave and Leave Travel Concession: Leave including encashment of leave as per the Rules of the Company. Leave Travel Concession, once in two years as per the Rules of the Company.
- Personal Accident Insurance and Group Insurance: Personal accident insurance and group insurance as per the Rules of the Company.
- Educational allowance: As per the Rules of the Company.

The individual ceilings under each of the above heads can be re-fixed so as not to exceed the limit of annual salary

For the purpose of calculating the above ceiling, perquisites will be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.

4. Other payments and provisions which shall not be included in the computation of ceiling on remuneration

- Contribution towards Provident Fund: Contribution towards Provident Fund will be subject to a ceiling of 12.5% of the salary. Contribution to Provident Fund, to the extent



of limit prescribed under Income-tax Act / Rules, 1962 or notification issued there under from time to time will not be included in the computation of the ceiling on perquisites to the extent it is not taxable under the Income-tax Act / Rules / Notification.

- b. Gratuity: Gratuity payable shall not exceed one half month's salary for each completed year of service.
- c. Telephone: Provision of telephone at residence as per the Rules of the Company.
- d. Reimbursement of expenses: Reimbursement of traveling / conveyance expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Company.

5. **Minimum Remuneration :** In the event of loss, absence or inadequacy of profits, in any financial year during the currency of tenure of Mr. R Venkatesh Kumar, the remuneration aforesaid

shall be the minimum remuneration payable to him. However, any excess over the limits on minimum remuneration prescribed under the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956 shall be payable to Mr. R Venkatesh Kumar, Chief Financial Officer, with the approval of the Central Government, if so required."

"Resolved further that the Board of Directors of the Company be and are hereby authorized to amend / alter / modify the agreement, referred to above, in terms of the aforesaid approval and as may be agreeable to Mr. R. Venkatesh Kumar."

(By order of the Board)
For SPEL Semiconductor Limited

Chennai
Jun 8, 2005

Sudhir Anand
Head Corporate Affairs
& Company Secretary

Notes

1. Explanatory Statement of material facts pursuant to Section 173(2) of the Companies Act, 1956 for item Nos. 5, 6, 7, 8 & 9 of the Notice is annexed hereto.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and on a poll, to vote instead of himself/herself and a Proxy need not be a Member of the Company. The instrument appointing the Proxy to be valid shall be deposited at the Registered Office of the Company not later than 48-hours before the time fixed for holding the Meeting.
3. Members/Proxies are requested to bring the Attendance slip sent with the Annual Report duly filled-in for attending the Meeting. Members who hold shares in the dematerialized form are requested to indicate their DP ID and Client ID Numbers in the Attendance slip.
4. The Register of Directors Shareholding maintained under Section 307 of the Companies Act will be available for inspection by the members at the AGM.
5. The Register of Members and the Share Transfer Books of the Company will remain closed from Jul 19, 2005 to Jul 29, 2005 (both days inclusive).
6. For shares held in physical form, any change in address may be intimated immediately to the Company/Share Transfer Agents by quoting the Folio Number(s). For shares held in demat form, change in address, nomination, power of attorney etc., may be intimated directly to the members' DP.
7. Members are requested to address all correspondences to the Registrar & Share Transfer Agents, Cameo Corporate Services Limited, Subramaniam Building, 1 Club House Road, Chennai 600 002.
8. Members seeking any information with regard to accounts are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
9. Investors may simultaneously opt for dematerialisation at the time of lodging their shares for transfer. For further details, Investors may write to the Company/Share Transfer Agent.
10. Members are requested to consolidate multiple share certificate/multiple folios into one share certificate/one folio to save on the cost of dematerializing their shareholdings.
11. Members are advised that the copies of the Annual Report will NOT be distributed at the venue of the AGM and hence they are advised to bring their copies of the Annual Report, which are mailed by the Company to them at their Registered address.

SPEL**Explanatory Statements pursuant to Section 173 (2) on the Companies Act, 1956****Item 5****Appointment of Dr. T. S. Vijayaraghavan as a Director liable to retire by rotation.**

Dr. T. S. Vijayaraghavan was appointed as an Additional Director w.e.f. Aug 20, 2004 to hold office till the next Annual General Meeting. Accordingly, his term of office expires at this Annual General Meeting and he is eligible for reappointment.

In accordance with the provisions of Section 257 of the Companies Act, Company has received a notice (along with Rs.500/- as deposit) from Mr. S. Raghupathiraj, member under folio No.48479 proposing the candidature of Dr. T. S. Vijayaraghavan as a Director of the Company liable to retire by rotation.

The Board commends the election of Dr. T. S. Vijayaraghavan as a Director liable to retire by rotation, for the approval of the Shareholders

Item 6**Increase in Authorized Capital of the Company**

The present Authorised Share Capital of the Company is Rs.50,00,00,000/- divided into 5,00,00,000 Equity Shares of Rs.10/- each. The issued, subscribed and paid-up Equity Capital of Rs.30,17,69,900/- has increased to Rs.45,43,62,030/- after giving effect to order passed by the Hon'ble High Court of Madras for the Scheme of Arrangement cum Restructuring which entails the conversion of the unsecured loan granted by the promoters, SPIC Ltd. into equity shares in the Company.

Further, Global Semiconductor Industry has been witnessing an upward trend beginning from the last financial year and is set to increase at about 28% on year-on-year comparison. In this direction, the Company has been pursuing various funding options for the new projects

In order to take advantage of this buoyant market conditions, it may be necessary for the Company to infuse fresh equity funds for which reason the present authorized share capital may not suffice.

Apart from the above two reasons, the Company contemplates to issue ESOS to the Employees and the Directors of the Company, due to which reason also the paid-up capital will increase.

Pursuant to the provisions of the Companies Act, 1956, approval of the members is sought by way of ordinary resolution to increase the Authorized Share Capital of the Company and the Board of Directors recommends this resolution for approval by the members.

Item 7**Issue of Employee Stock Option Scheme**

The Company has successfully turned around and is producing positive results and is poised for greater growth with the potential available for the Semiconductor Industry. At this juncture, with a view to provide an incentive to the Employees and to the Directors of the Company whose valuable directions and strategies have made this turnaround possible and with a view to enable employee participation in the business as an active stake holder to usher in an 'owner-manager' culture, it is desired to introduce Employee Stock Option Scheme in the

Company. Accordingly, the Company proposes to grant options to the Employees of the Company in Senior, Middle and Junior level management and to all Directors (other than promoter directors). The Company now proposes to formulate the SPEL Employee Stock Option Scheme to grant options aggregating to 60,35,398 equity shares

The Scheme shall be formulated in accordance with the guidelines laid down by SEBI under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and other authorities, with subsequent amendments thereto, as may be applicable in this regard. The Board of Directors of the Company has empowered the Management Committee of the Board to engage Consultants to formulate and design the Scheme and appoint the Merchant Bankers, as required by the SEBI Guidelines.

Specific disclosures as required under Clause 6.2 of the SEBI (Employee Stock option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, and subsequent amendments thereto are given below:

a. Total Number of options to be granted

The total number of options to be granted under the Scheme will be 60,35,398 equity shares of Rs.10/- each.

b. Identification of classes of Employees entitled to participate in the ESOS

The Scheme will be offered to all eligible present and future employees of the Company, belonging to the following categories, based on eligibility criteria, as may be decided by the Compensation Committee

Category A – All Directors of the Company (Other than promoter Directors)

Category B – Employees in Senior, Middle and Junior level management of the Company

The following are not eligible for ESOS

- Promoter or Promoter's group
- A director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the Company.

c. Requirements of vesting and period of vesting

There shall be a minimum vesting period of one year from the date of grant of option and may extend up to 5 years from the date of grant. The vesting may occur in tranches, subject to the terms and conditions of vesting, as may be stipulated in the Scheme.

d. Exercise price or pricing formula

Subject to the SEBI Guidelines, the Company has the freedom to price the options. It is proposed to issue the options for allotment of shares at Rs.10/- each

e. Exercise period and process of exercise

The options granted under SPEL Employee Stock Option Scheme shall be exercisable by making an application for issue of shares against the option vested, within a maximum period of 9 years from the date of grant.