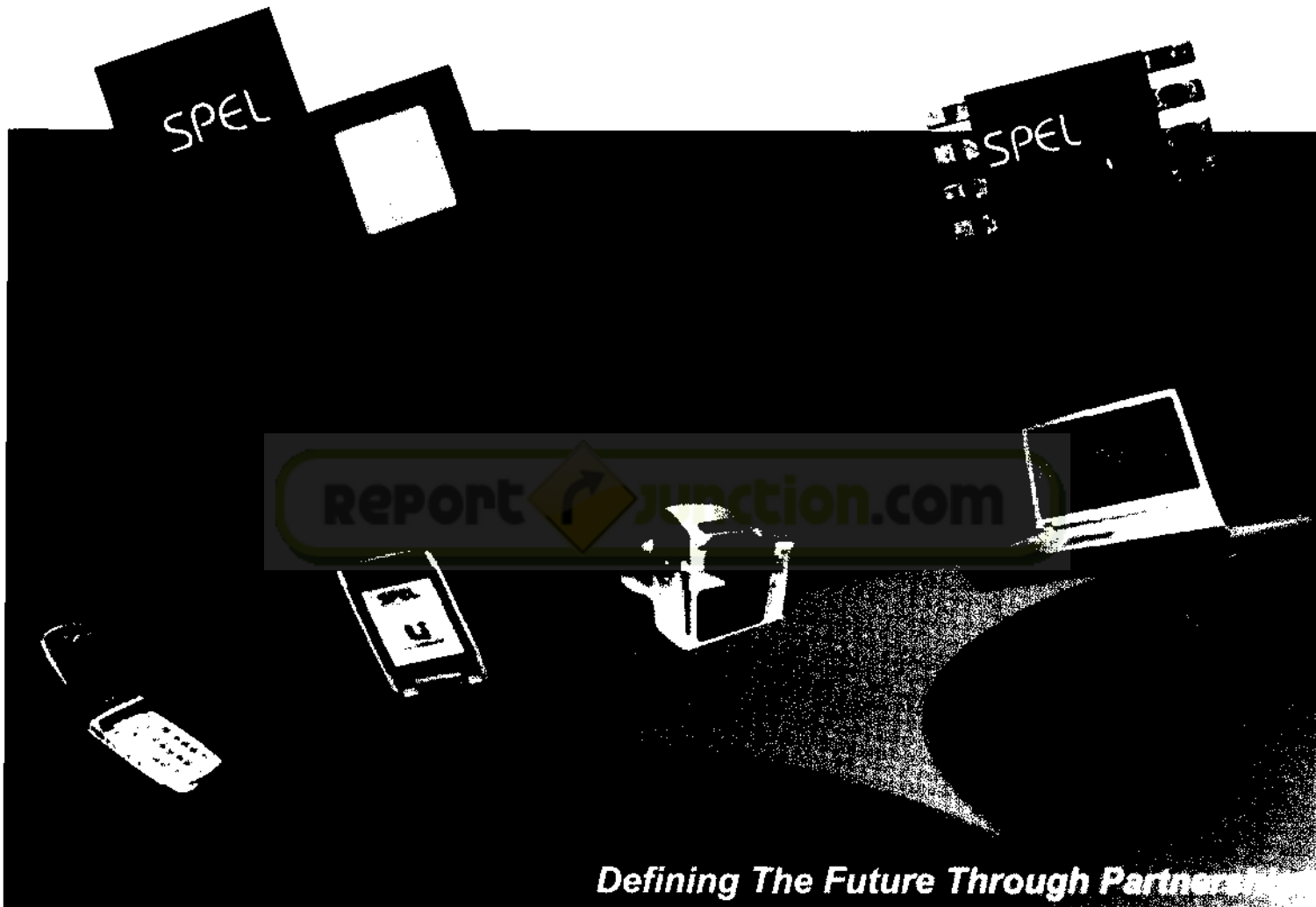


SPEL™

21st Annual Report 2005 - 06



Defining The Future Through Partnership

SPEL Semiconductor Limited
Assembly & Test Company

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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. Dr. A. Ramakrishna	Director
7. M. G. Thirunavukkarasu	Director
8. R. Venkatesh Kumar	Chief Financial Officer

Chief Executive Officer

Sam Varghese

Head Corporate Affairs & Company Secretary

S. S. Arunachalam

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

3120 De La Cruz Blvd.,
Suite # 107,
Santa Clara, CA 95054.

Bankers

1. State Bank of Hyderabad
2. Canara Bank
3. Allahabad Bank
4. Indian Overseas Bank

Registrar & Share Transfer Agents

Cameo Corporate Services Limited,
Subramanian Building,
V Floor, 1 Club House Road,
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)

	2005-06	2004-05	2003-04	2002-03	2001-02
Sales	462.85	363.69	259.26	200.99	158.66
Operating Profit	123.91	81.90	56.30	25.23	17.68
Interest	12.26	16.12	23.88	23.96	20.24
Profit before Depreciation	111.65	65.78	32.42	1.27	(2.56)
Depreciation	38.15	39.01	22.54	20.39	18.62
Profit before Tax and prior period items	73.50	26.77	9.88	(19.12)	(21.18)
Tax / Deferred Tax	15.41	12.07	5.58	(6.60)	(5.31)
Profit after Tax	58.09	14.70	4.30	(12.52)	(15.87)
Prior Period Expenditure	-	-	-	2.00	-
Net Profit	58.09	14.70	4.30	(14.52)	(15.87)



Notice to Members

Notice is hereby given that the 21st Annual General Meeting of the Members of SPEL Semiconductor Limited will be held at 4.00 pm on Monday, Jul 31, 2006, 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, 2006 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. M. G. Thirunavakkarasu, who retires by rotation and being eligible, offers himself for re-election.
- 3 To elect a Director in the place of Dr. T. S. Vijayaraghavan, 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 22nd Annual General Meeting on a remuneration of Rs. 75,000/- plus out of pocket expenses."

Special Business

5. Appointment of Dr. A. Besant C Raj as a Director

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

"Resolved that Dr. A. Besant C Raj whose term of office as a 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, be and is hereby appointed a Director of the Company, his period of Office being liable to determination by retirement by rotation."

6. Appointment of Dr. A. Ramakrishna as a Director

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

"Resolved that Dr. A. Ramakrishna 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, be and is hereby appointed a Director of the Company, his period of Office being liable to determination by retirement by rotation."

7. Extension of term of office of Mr. R. Venkatesh Kumar, Whole-time Director

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 Sections 198, 269, 309 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956 including any statutory modification(s) or re-enactment(s) thereof, for the time being in force and in partial modification of the special resolution passed by the Members vide item No.5 of the Notice at the 16th Annual General Meeting of the Company held on Sep 10, 2001 in respect of the appointment and payment of remuneration to Mr. R. Venkatesh Kumar, Whole-time Director, for a period of five years from May 14, 2001 to May 13, 2006, approval of the Members of the Company be and is hereby accorded for the re-appointment of Mr. R. Venkatesh Kumar, Whole-time Director, for the period from May 14, 2006 to Aug 20, 2006 by extension of his aforementioned term of office and that all other terms and conditions in this regard including the terms of payment of remuneration / minimum remuneration to the said Whole-time Director remain and be unaltered as per the earlier approval given by the Members."

(By order of the Board)
For SPEL Semiconductor Limited

Chennai
Apr 26, 2006

S. S. Arunachalam
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 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, 1956 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 26, 2006 to Jul 31, 2006 (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, Subramanian 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.

Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956

Item 5

Appointment of Dr. A. Besant C. Raj as a Director

Dr. A. Besant C Raj was appointed as Director at the Board Meeting held on Jun 8, 2005, in the casual vacancy caused by resignation of Dr. C.N. Gangadaran whose original office would have come to an end at the conclusion of this Meeting. Accordingly Dr. A. Besant C Raj will hold office only up to the date of this Annual General Meeting.

A Notice has been received from a Member as per Section 257 of the Companies Act, 1956 along with the prescribed fee of Rs.500/- proposing the candidature of Dr. A. Besant C. Raj as a Director of the Company liable to retire by rotation. A resolution seeking his appointment as Director is being placed before the Shareholders for approval.

The Board recommends the election of Dr. A. Besant C Raj as a Director liable to retire by rotation, for the approval of the Members.

None of the Directors except Dr. A. Besant C Raj, is concerned or interested in the resolution.

Item 6

Appointment of Dr. A. Ramakrishna as a Director

Dr. A. Ramakrishna, who was appointed as an Additional Director by the Board of Directors of the Company at its meeting held on Jan 26, 2006, will hold office only up to the date of the forthcoming Annual General Meeting. Dr. A. Ramakrishna has also filed his consent to act as Director, if appointed as required under Section 264 (1) of the Companies Act, 1956.

A Notice has been received from a Member as per Section 257 of the Companies Act, 1956 along with the prescribed fee of Rs.500/- proposing the candidature of Dr. A. Ramakrishna as a Director of the Company liable to retire by rotation. A resolution seeking his appointment as Director is being placed before the Shareholders for approval.

The Board recommends the election of Dr. A. Ramakrishna as a Director liable to retire by rotation, for the approval of the Members.

None of the Directors except Dr. A. Ramakrishna, is concerned or interested in the resolution.

Item 7

Extension of term of office of Mr. R. Venkatesh Kumar, Whole-time Director

Mr. R. Venkatesh Kumar, Whole-time Director was appointed by the Shareholders at their 16th Annual General Meeting held on Sep 10, 2001 for a period of 5 years commencing from May 14, 2001 to May 13, 2006. He has submitted his resignation citing personal reasons on Apr 10, 2006.

The Board accordingly has identified a new person, who will be joining the Company during Aug 2006. Your Board at its meeting held on Apr 26, 2006 requested Mr. R. Venkatesh Kumar to continue in office till the successor assumes office, to which he consented. Accordingly, Mr. R. Venkatesh Kumar's term of office was extended by the Board at the said meeting, from May 14, 2006 to Aug 20, 2006. Approval of the Members is presently sought for the extension of his term of office as Whole-time Director till Aug 20, 2006.



Details of the terms and conditions governing the appointment and payment of remuneration to Mr. R. Venkatesh Kumar, as approved by the members at the 20th Annual General Meeting are as hereunder.

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

- a. Housing / House Rent Allowance : The expenditure incurred by the Company will be subject to a ceiling of 50% of the salary.
- b. 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.
- c. Medical reimbursement : Expenses incurred for the appointee and his family as per the Rules of the Company.
- d. 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.
- e. Personal Accident Insurance and Group Insurance : Personal accident insurance and group insurance as per the Rules of the Company.
- f. 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

a. 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."

Except Mr. R. Venkatesh Kumar, none of the Directors of the Company is in any way concerned with or interested in the resolution at Item 7 of the above.

This resolution and explanatory statement shall also be treated as an abstract of variation in terms and conditions of the appointment of Mr. R. Venkatesh Kumar, and Memorandum of interest under Section 302 (7) of the Companies Act, 1956.

The Board recommends the resolution set forth in Item 7 for approval of the Shareholders.

(By order of the Board)
For SPEL Semiconductor Limited

Chennai
Apr 26, 2006

S. S. Arunachalam
Head Corporate Affairs
& Company Secretary



Directors' Report

Your Directors have great pleasure in presenting the 21st Annual Report of the Company together with the Audited Accounts for the year ended Mar 31, 2006.

SPEL & Global Competition

The worldwide semiconductor market is gradually improving and cautious investment in incremental capacity additions will keep the market on a course of steady growth during the next few years. Worldwide IC revenue is forecast to reach \$213.86 billion in 2006, a 11 per cent increase from 2005 revenue of \$192.80 billion. During the year 2010 the same is expected to reach \$294.5 billion.

India is now heading to become Semiconductor industry hub as envisaged by the Hon. Finance Minister during his budget speech. Your Company is gearing up towards this to grab the benefits of competition and growth. Your Company feels that Competition is the critical driver of performance and innovation. Competitive advantage stems out of Customer advantage which lies in the value proposition of the Customer. Your Company strives to lure Customers with innovations and the Customer tends to benefit through this healthy innovation. Very clearly it is the utilization of resources that gives one organization greater competitive advantage compared to other organizations.

SPEL Performance during the Year

The performance of your Company for the year has substantially improved over the previous year, with an increase in volume by 31% and revenues by 27%. Your Company also has achieved a higher profitability reflecting the strength of your Company's Managerial and Marketing strategies.

In the direction of your Company's commitment to environmental Policy, India's first environment friendly lead free plating process was inaugurated at the Facility by the Hon. Union Minister of Communications & IT, in Sep 2005.

Towards the end of year under review your Company has secured a Term Loan of Rs.200 Million from Indian Overseas Bank (IOB) for introducing a new package called LMP (Leadless Molded Package). This product has a huge demand as it goes into applications where size, weight and package performance matters. The Equipments for the Project have been ordered and are being installed. After the process and package qualification, the initial orders are expected by Oct 2006. Volume orders from Customers will flow in from Jan 2007. With the wide range of applications in cell phones, desktop PCs, PDA's, notebook computers, automobiles and digital cameras, the Customer base has been and will be growing.

Your Company has strengthened its relationship with its Customers by introducing new packages to meet the increasing market demand. The geographical presence of your Company makes it comfortable to cater to the increasing demand from US & non-US (especially APAC) Customers, who are increasingly interested in large volumes.

During the year your Company applied for the listing of 1,47,19,213 shares issued to SPIC and 5,40,000 shares issued to SPIC Holdings and Investments Limited, in The Bombay Stock Exchange Limited, under the Scheme of Arrangement and Restructuring sanctioned by the Hon. High Court, Chennai on Apr 27, 2005.

Members may be aware that at the 20th Annual General Meeting held on Jul 29, 2005, the Employees Stock Option Scheme has been approved. Accordingly the scheme has been introduced with effect from Apr 1, 2006. Disclosure required under Section 12 of the SEBI (ESOP and ESPS) Guidelines, 1999 is as follows :

Sl. No.	Particulars	Year ended Mar 31, 2006
1.	Options Granted	709590
2.	Pricing Formula	Priced on par
3.	Options vested	709590
4.	Options exercised	Nil
5.	Total no. of shares arising as a result of exercise of options	Nil
6.	Options lapsed	Nil
7.	Variations of terms of Options	Not Applicable
8.	Money realized by exercise of options	Nil
9.	Total no. of options in force	709590
10.	Employee-wise details of options granted to	
	i) Senior managerial personal	159590
	ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during that year	550000
	iii) Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital of the Company at the time of grant	Nil
11.	Diluted Earnings Per Share (EPS)	NA

A total of 7,09,590 Options have been granted for the Eligible Employees with a view to enable Employee participation in the business as an active stake holder to usher in an 'owner-manager' culture.