

**VITROX CORPORATION BERHAD (“VITROX” or “Company”)  
Research Report for the financial period ended 31 December 2008**

**1. FINANCIAL HIGHLIGHTS**

The table below sets out a summary of the unaudited consolidated results of ViTrox and its group of companies (“ViTrox Group” or the “Group”) for the 4th quarter and current year to date ended 31 December 2008.

Consolidated Results	3rd Quarter ended	4th Quarter ended	Quarter on	Preceding year to date ended	Current year to date ended	Year on year
	30/09/2008	31/12/2008	Quarter	31/12/2007	31/12/2008	year
	RM’000	RM’000	%	RM’000	RM’000	%
Revenue	7,849	4,022	(48.75)	36,169	26,413	(26.97)
Profit before tax (“PBT”)	2,794	391	(86.01)	14,867	8,599	(42.16)
Profit after tax (“PAT”)	2,756	283	(89.73)	14,427	8,324	(42.30)

For the fourth quarter of 2008, the Group recorded revenue of RM4.02 million compared to RM7.85 million recorded for the third quarter of 2008, representing a decrease of approximately 48.75%. The Group recorded a PBT and PAT of RM0.39 million and RM0.28 million respectively for the fourth quarter of 2008 compared to a PBT and PAT of RM2.79 million and RM2.76 million respectively for the third quarter of 2008. The decrease in revenue and profit was due to lower sales recorded for the machine vision inspections system, which remains as the Group’s highest contributor to revenue, due to slowdown in demand in the semiconductor and electronics industries.

The Group achieved lower revenue of RM26.41 million for the financial year ended 31 December 2008 compared to RM36.17 million recorded for the financial year ended 31 December 2007. For the financial year ended 31 December 2008, the Group recorded a PBT and PAT of RM8.60 million and RM8.32 million respectively compared to the PBT and PAT of RM14.87 million and RM14.43 million respectively for the financial year ended 31 December 2007. The decreases in revenue, PBT and PAT were mainly attributed to lower sales, which was affected by economic uncertainties worldwide and locally.

A summary of financial results for 5 financial years of the Group is as follow:

Financial years ended 31 December	Audited				Unaudited 2008 (RM’000)
	2004 (RM’000)	2005 (RM’000)	2006 (RM’000)	2007 (RM’000)	
Revenue	13,648	9,130	24,000	36,169	26,413
PBT	5,069	9,803	9,826	14,867	8,599
PBT margin (%)	37%	107%	41%	41%	33%
PAT	5,059	9,216	9,498	14,427	8,324

Financial years ended 31 December	Audited				Unaudited 2008 (RM'000)
	2004 (RM'000)	2005 (RM'000)	2006 (RM'000)	2007 (RM'000)	
No. of ViTrox Shares assumed in issue / in issue ('000)	75,400	67,375	155,000	155,000	155,000
Gross earnings per share (EPS) (sen)	6.7	14.5	6.3	9.6	5.5
Net EPS (sen)	6.7	13.7	6.1	9.3	5.4

## 2. INDUSTRY OUTLOOK

The international economic and financial conditions have deteriorated much more significantly in the recent period. The major industrial economies are now experiencing a recession and this has significantly increased the risks to global growth. The contraction in global demand and trade, combined with the reduction in global commodity prices, has affected the export earnings of many of the regional economies, including Malaysia. These contractionary factors have been exacerbated by the protracted turmoil in the international financial markets.

The sharper deterioration of the global economy is expected to have a greater impact on the Malaysian economy. The large decline in external demand has already led to a contraction in exports and a moderation in the pace of private investment activity. In addition, these developments have also affected labour market conditions. Under these circumstances, the urgent implementation of policy measures will be key towards ensuring that the Malaysian economy continues to experience positive growth in 2009.

In an environment of moderating growth and the significantly lower commodity prices, inflation has continued to decelerate to 4.4 percent in December 2008. This deceleration is expected to continue with the weaker demand conditions and lower imported inflation.

*(Source: Monetary Policy Statement, Bank Negara Malaysia, 21 January 2009)*

During the period of the Third Industrial Master Plan, 2006-2020, the industry will continue to grow and contribute significantly to the industrial progress and transformation. It will leverage upon its strengths in semiconductors, information and communication technology ("ICT") and support industries to develop new products, based on new and emerging technologies. The trend towards extensive applications of electronics in industries and services, together with the development of multimedia ICT, will provide growth opportunities, especially in the areas of miniaturisation, digitalisation and multimedia applications.

Within the next five years, the semiconductor industry is projected to grow at an average annual rate of 6.5 per cent and be able to generate revenues of US\$318 billion by 2010. This is attributed to high consumer spending and the changing preference for the most advanced electronics devices among developed countries. The growth in demand for E&E products is expected to be higher among emerging economies, especially in Asia Pacific, in view of the expansion in electronic commerce and increase in consumer purchasing power.

Malaysia is expected to benefit from the growth in demand for semiconductors from these markets, as a result of the further integration of existing semiconductor companies into the global production networks. The need to sustain competitiveness will compel semiconductor companies to outsource their manufacturing processes to more cost efficient producers. The future trend will be towards specialisation, where the larger semiconductor manufacturers will specialise in their core competencies, such as design of integrated circuits and marketing of fabless houses, while outsourcing almost all of their manufacturing functions. This trend will provide opportunities to attract companies in integrated circuits design and fabless houses to Malaysia.

*(Source: Third Industrial Market Plan, 2006-2020)*

According to SEMI latest forecast report, the equipment market will decline almost 28 percent in 2008. SEMI expects the market to decline about 21 percent in 2009, and then post almost 31 percent growth in 2010.

It is anticipated that the market for assembly and packaging equipment will decline by almost 24 percent to \$2.16 billion in 2008. The market for equipment to test semiconductors is expected to decline by about 27 percent to \$3.69 billion this year.

The Japanese market is projected to decline by about 20 percent, but it will surpass Taiwan to become the leading region for sales of new equipment.

South Korea is expected to decline by about 28 percent in 2008, and sales of new equipment in China will decline by 35 percent, while the Rest-of-World market regions will decline by about 10 percent.

*(Source: SEMI Announces Year-end Forecast for Chip Equipment Industry, SEMI, December 2, 2008)*

An economic recession of unknown proportion, combined with supply-side issues, has semiconductor manufacturers shifting into panic mode for the first half of 2009, cutting capital spending even more deeply than in 2008, according to Gartner, Inc.

Worldwide semiconductor capital equipment spending is expected to decline 30.6 percent in 2008 and total \$31.1 billion, this is down from Gartner's October forecast of a 25.2 percent decline. Worldwide capital equipment spending in 2009 is forecast to decline 31.7 percent. This is down from Gartner's earlier projection of 2009 spending declining 12.8 percent.

"The recession has come at a time when the overall semiconductor and semiconductor equipment industries were already in a vulnerable position," said Klaus Rinnen, managing vice president for Gartner's semiconductor manufacturing group. "Device makers across all segments and even in the NAND and dynamic random access memory (DRAM) industry have begun to take steps to lower production rates and shutter fabs that are not cost-effective. We are seeing fabs postponed, and what little capex (capital expenditure) there is, it is selectively focused on new technologies."

After declining nearly 30 percent in 2008, the automated test equipment (ATE) market will fall nearly 20 percent in 2009. This drop will bring three consecutive years of double-digit declines for the ATE market. For 2009, Gartner projects that tester sales will fall below the \$2 billion mark. At these spending levels, test capacity is being taken out of the system. While this destroys any positive view of 2009, it will open up 2010 for potentially more than 20 percent growth if macroeconomic conditions meet or exceed expectations.

*(Source: "Gartner Says Worldwide Semiconductor Capital Equipment Spending to Decline 32 Percent in 2009", Gartner Inc., December 18, 2008)*

In view of the current downward trend in the global semiconductor manufacturing and equipment industries and the economic downturn, the Group expects the financial year ("FY") ending 2009 to be very challenging.

### **3. PROSPECTS OF THE GROUP**

Despite the current global economic uncertainty, the Group will stay focus on its core business in the design, development, production and sales & marketing of machine vision systems ("MVS"), automated optical inspection ("AOI") system and electronics communication system ("ECS"). The Group will continue to stay focus in research and development on selected core and high value proposition products in order to remain in the forefront of the technologies and in preparation for the market upturn. Furthermore, the Group will selectively pursue new business opportunities in the regions such as China, Taiwan and South East Asia by offering wide range of standard and cost competitive machine vision and electronics communication system products to potential customers. In addition, the Group will continue with prudent internal cost cutting measures in order to ensure sufficient resources are available for product innovation and market expansion during this global economic uncertainty.

The digital revolution of mobile telecommunication, medical, automotive and computing will continue to drive the demand for the need of higher complexity circuitry, larger volume and smaller size Integrated Circuits packaging and Printed Circuits Board. Each of these trends calls for more inspection for higher quality standard and the ViTrox Group will benefit from such development in the long run. The Group's expanded product portfolio in its 3 core businesses and the Company's regional coverage put the Company in a good position to secure more businesses from its customers in the semiconductors and electronics assembly markets when the market recovers.

Based on the above, we foresee the FY ending 2009 will be a challenging year due to the global slowdown in the semiconductor and electronics industry and the economic downturn.

### **4. DEVELOPMENT MILESTONES OF BUSINESS DEVELOPMENT PLAN**

New and improved models of vision solutions for the semiconductors and electronics industries will continue to be rolled out to meet increasing demands. Among others, the Group successfully shipped and bought-off the color vision inspection system for Quad Flat No-Lead ("QFN") & Micro Leadframe Package ("MLP") inspection in second half of FY ended 2008. Once the market situation improved, these solutions expect to generate new business opportunities for the Group.

The Group appointed a new Hong Kong based sales representative for the AOI business and took part in the International Printed Circuit Assembly Exhibition (HKPCA) in Shenzhen, China in December 2008. The current global economy downturn had made potential AOI customers either holding off or delaying capital investment. Nevertheless, the Group successfully delivered an enhanced AOI for flexible Printed Circuit Board to a customer in southern China in third quarter of the FY ended 2008.

The Group will continue to expand its presence in the Philippines through sales representatives expansion in MVS and AOI business.

The business development plan of the ViTrox Group is being carried out as planned. The foregoing plans are expected to contribute positively to the earnings of the Group over a long-term period.

## 5. RESEARCH AND DEVELOPMENT (“R&D”)

For the entire FY2008, the Group spent RM3.64 million, approximately 13.78% for R&D and has capitalised a total of RM1.01 million as development expenditure under intangible asset. The Group continues to focus its R&D resources on high-end and advanced machine vision system, cost effective and high speed electronics communication system and low cost high performance AOI System developments for the semiconductor and electronics assemblies markets.

The Group does not allocate a fixed development budget for its R&D activities as R&D plans may be accelerated, postponed or modified if deemed necessary, depending on customers’ demand, technological development and/or market trend. Nevertheless, the spending on R&D has been on an increasing trend over the past few years, from RM0.28 million in year 2003 to RM3.64 million last year, and is likely to remain so given the Group’s unwavering commitment towards product innovations and technological advancements.

The status of the ongoing R&D programmes are as follows:

No.	Details	Estimated Year of Completion	Status Update
(i)	New generation of motion controller enhanced with more functionalities. The motion controller can operate in higher speed and mainly used in automation industries for various stepper, servo and DC motor control.	2008	Completed in December 2008
(ii)	Enhanced capabilities on Mark inspection. This advancement will give the inspection higher capability to handle product variances and provide more accurate recognition of marking printed on IC surface.	2008	Completed in October 2008
(iii)	5 sided (5S) QFN/MLP inspection. Provide new and advance inspection capabilities to detect defects that are formally undetectable. This will improve the inspection capabilities of 5S, hence creating higher values to customers.	2009	Undergoing continuous improvement.
(iv)	Enhanced capabilities on Automated optical inspection with better speed (2X) and better inspection accuracy.	2009	In progress

The above R&D activities are expected to enhance and diversify the products and services provided by the ViTrox Group, which will contribute to the sustained growth of the Group.

## 6. TOP TEN SHAREHOLDERS OF VITROX

Top ten (10) shareholders of ViTrox as at 31 December 2008 are as follows:

	<b>Name of shareholders</b>	<b>No. of shares held</b>	<b>% of shareholding</b>
1.	Chu Jenn Weng	52,925,503	34.15
2.	Siaw Kok Tong	37,947,343	24.48
3.	Yeoh Shih Hoong	19,904,479	12.84
4.	Sim Ah Yoong	4,009,233	2.59
5.	Teng Soo Fong	4,005,566	2.58
6.	Tan Booi Charn	3,314,300	2.14
7.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad [Qualifier: Exempt AN for Kumpulan Sentiasa Cemerlang Sdn Bhd (TSTAC/CLNT)]	3,007,300	1.94
8.	Tan Hong Soon	3,000,000	1.94
9.	Ooi Lay Hoe	2,108,356	1.36
10.	Chang Mun Kee	1,666,666	1.08

## 7. PROFIT FORECAST

No profit forecast for the financial year ended 31 December 2008 was made public by the Company.

## 8. UTILISATION OF PROCEEDS

There are no proceeds raised from any corporate proposal.