

ACCEL TRANSMATIC LIMITED

Annual Report 2009-10



BOARD OF DIRECTORS

N R Panicker

Chairman

M R Narayanan

Independent Director

A Mohan Rao

Independent Director

Philip John

Whole Time Director

S T Prabhu

Company Secretary

Statutory Auditors

M/s. Varma & Varma

Chartered Accountants

Adyar, Chennai 600 020

Registered office

T.C 17 / 27 Jagathy

Thiruvananthapuram 695 014

Phone: +91 471 234 2215 / 2265

Fax: +91 471 2339205

Internal Auditors

M/s. Vijayakumar & Easwaran

Chartered Accountants

Sasthamangalam, Trivandrum 695 010

Corporate office

"Accel House", 75 Nelson Manickam Road

Aminjikarai, Chennai 600 029

Phone: +91 44 44 4225 2200

E Mail : info@acceltransmatic.com

Website : www.acceltransmatic.com

Legal advisors

M/s S Ramasubramaniam & Associates

6/1 Bishop Wallers Avenue (West)

Mylapore, Chennai 600 004

Technologies Division

Ushus Technologies

311, Nila, Technopark, Thiruvananthapuram - 695581.

Kerala, India

Phone : +91-471-3061234 Fax: +91-471-3061222

Email: info@ushustech.com

Registrars & transfer agents

M/s Integrated Enterprises (India) Ltd

2nd Floor, Kences Towers

No. 1 Ramakrishna Street, North Usman Road

T Nagar, Chennai 600 017

Animation Division

1) No.9, Porur Somasundaram Street, T.Nagar,

Chennai - 600 017.

Phone: +91-44-28341465 / 42071332

Bankers

State Bank of India

Commercial Branch,

Thiruvananthapuram 695 014

2) Kinfra Film & Video Park,

Kazhakuttam, Thiruvananthapuram - 695 585

Phone : +91-471-2417434 / 2417435

Forward looking statement

In this annual report, we have mentioned certain forward looking information to enable investors to comprehend our business model and future prospects and make informed investment decisions. This annual report and other communications from us, oral or written, may include certain forward looking statements that set out certain anticipated results based on managements assumptions and plans. Even though the management believes that they have been prudent in making such assumptions, we cannot guarantee that these forward looking statements will be realised. We undertake no obligation to update forward looking statements. The achievement of results is subject to various risks, known and unknown. We request readers to bear this in mind while reading this report.

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Notice

Notice is hereby given that the Twenty fourth annual general meeting of the members of Accel Transmatic Limited will be held at Conference hall, Park Centre, KINFRA Film & Video Park, Kazhakkootam, Trivandrum-695 585 on Monday September 27, 2010 at 11am to transact the following business :

ORDINARY BUSINESS:

1. To consider and adopt the audited Profit and Loss account for the financial year ended 31st March 2010 and the audited Balance Sheet as at that date and Reports of the Directors and Auditors thereon.

2. To appoint a Director in place of Mr. N.R. Panicker who retires by rotation and being eligible has offered himself for re-appointment as a Director of the company. A brief resume of Mr. N.R. Panicker has been given in the Corporate Governance section of the Directors' Report.

Accordingly, to consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

"RESOLVED THAT Mr. N.R. Panicker, be and is hereby re-appointed a Director of the company."

3. To appoint a Director in place of Mr. A. Mohan Rao who retires by rotation and being eligible has offered himself for re-appointment as a Director of the company. A brief resume of Mr. A. Mohan Rao has been given in the Corporate Governance section of the Directors' Report.

Accordingly, to consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

"RESOLVED THAT Mr. A. Mohan Rao, be and is hereby re-appointed a Director of the company."

4. To appoint Auditors and to fix their remuneration and for this purpose to consider and, if thought fit, pass with or without modification, the following resolution as an ordinary resolution; provided that in the event of the provisions of Section 224A of the Companies Act, 1956, becoming applicable to the Company on the date of holding this meeting, the same will be proposed as a special resolution.

"RESOLVED THAT the Auditors, M/s. Varma & Varma, Chartered Accountants, Firm No.4532S who retire at the conclusion of this meeting, be and are hereby re-appointed Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the company, at a remuneration to be fixed by the Board, in consultation with the Auditors.

SPECIAL BUSINESS:

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

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 or any statutory modification(s) or re-enactment thereof and subject

to such approvals / consents, if any, approval of the company be and is hereby accorded to the appointment of Mr. Philip John as Wholtime Director for a period of 3 (Three) years with effect from 01.04.2009 on the terms, conditions including remuneration and perquisites as set out in the Explanatory Statement annexed to the Notice convening this meeting, with liberty to the Board of Directors (hereinafter referred to as "the Board," which term shall be deemed to include any Committee of the Board constituted to exercise its powers, including the powers conferred by this Resolution) to alter and vary the terms and conditions and / or remuneration, subject to the same not exceeding the limits specified under Schedule XIII to the Companies Act, 1956 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT the Board be and is hereby authorized to take such steps as may be necessary to execute and sign the agreement and other documents and desirable to implement and give effect to the foregoing Resolution.

RESOLVED FURTHER THAT during the currency of the term of the Wholtime Director, wherein any financial year, the Company has no profits or its profits are inadequate, the Company do pay the Wholtime Director, minimum Remuneration by way of salary and perquisites as specified as per relevant applicable provision of law including provision as contained in Schedule XIII to the Act.

Explanatory statement, pursuant to Section 173 of the Companies Act, 1956.

Item 5

The company had passed a resolution in Annual General Meeting held on 27.07.2009 appointing Mr. Philip John as a Wholtime Director, for a period of 3 years, with effect from 01.04.2009 to 31.03.2012 as an Ordinary Resolution.

It was also provided in the Resolution that in case the company has inadequate profits, a minimum remuneration could be paid to the Director in the year of loss or inadequacy of profits.

The shareholders / company had approved it as an Ordinary Resolution in the Annual General Meeting held on 27.07.2009, unanimously.

As per Schedule XIII Part II Section II of the Companies Act, 1956, a minimum remuneration can be paid to the Director in the year of loss or inadequacy of profit, provided the company had passed such a resolution as a Special Resolution.

Accordingly, the company has proposed to pass the resolution as a Special Resolution in the ensuing annual general meeting.

The Board recommends the resolution.

Mr. Philip John is interested in the resolution, as it relates to his appointment and payment of remuneration to him.

None of the other Directors is interested in the resolution set out in the Notice.

Mr. Philip John holds 152,721 shares in the Company.

Mr. Philip John is also a Director in one of the Company's subsidiary, Accel North America Inc.

Mr. Philip John is not related to any other Director of the Company.

This explanatory statement together with the accompanying notice may be treated as an abstract of the terms of appointment of Mr. Philip John and payment of remuneration to him and Memorandum of Interest under section 302(7) of the Companies Act, 1956.

Accordingly, the company is proposing to pass this resolution in this Annual General Meeting as a Special Resolution such that the minimum remuneration is paid to Mr. Philip John.

Information required under Clause (iv) of proviso to paragraph 1(B) of Section II of Part II of Schedule XIII of the Companies Act, 1956 is given below :

The information below is in relation to the proposal contained in Item No.5 of the Notice relating to re-appointment of Mr. Philip John as Wholetime Director of the Company.

(i) Background details

An engineer and a M.Tech from IIT, Chennai, with 33 years of experience in organizations like ER&DC, Thiruvananthapuram, as the President of Software division, NEST group of companies and Managing Director of erstwhile Ushus Technologies Private Limited.

(ii) Past Remuneration

For the financial year, 2009-10, Mr. Philip John 's total remuneration was Rs. 15.09 lacs.

(iii) Recognition or awards / job profile and his suitability.

Mr. Philip John has managed the technologies division ably over the last five years.

In the opinion of the Board, he is eminently suited for the position he holds.

(iv) Remuneration proposed

The remuneration of Mr. Philip John is set out above.

(v) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person.

The substantive remuneration of Mr. Philip John is not out of tune with the remuneration in similar sized companies in same segment of business.

(vi) Pecuniary relationship directly or indirectly with the company, or relationship with managerial personnel, if any.

Other than the remuneration and equity holdings as stated above, Mr. Philip John has no other pecuniary relationship directly or indirectly with the company or any of its Directors.

III. Other Information

The Agreement also sets out the duties and various obligations of Mr. Philip John. The appointment of Mr. Philip John as a Wholetime Director and the remuneration payable to him as aforesaid, are required to be approved by the members at

this Annual General Meeting in terms of section 269 of the Act. The Resolution at item 5 of Special Business is intended for this purpose.

I. General Information

(1) Nature of Interest

The Company is a provider of Information Technology and Media solutions & services.

(2) Date or expected date of commencement of commercial production.

The Company has been in business for about 23 years.

(3) In case of new companies, expected date of commencement of activities.

Not applicable, as the company is an existing company.

(4) Financial performance based on given indicators.

(Amount in rupees lacs)

	31.03.2010	31.03.2009	31.03.2008
Sales	1828.63	3677.46	4134.15
Profit Before Tax	(142.53)	(451.06)	396.43
Profit After Tax	(165.17)	(442.83)	300.34
Shareholders' Funds	1349.52	1350.11	1435.05
Rate of Dividend on equity shares (%)	NIL	NIL	6%

(5) Export performance

The Company's export for the past three years are as follows :

(Amount in Rupees Lacs)

	31.03.2010	31.03.2009	31.03.2008
Income from services	1415.47	2033.60	1212.57

(6) Foreign investments or collaborators, if any.

Not applicable.

(7) The company as a part of its long term plan has invested in animation business which has a long gestation period. This has resulted in losses or inadequate profits for the year. Even though the company incurred losses, it has gained invaluable experience in its line of business and is expected to make profits in future years.

By Order of the Board

Place : Chennai
Date : May 27, 2010

N.R. Panicker
Chairman

Notes:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself/herself and the proxy need not be a member, a proxy may not vote except on a poll. the proxy form, in order to be effective, should be received at the registered office of the company not later than 48 hours before the commencement of the meeting.
2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Special Business as set out above to be transacted at the meeting is annexed hereto and forms part of this notice.
3. The Register of members and share transfer books of the Company shall remain closed during the Book Closure period, ie., from Friday 17th September, 2010 to Monday, 27th September 2010) both days inclusive).
4. Corporate members intending to send their authorized representatives to attend the meeting are requested to send a certified true copy of the board resolution authorizing their representative to attend and vote on their behalf at the meeting upto the date of Annual General Meeting.
5. The Members / Proxies are requested to bring their copy of the annual report with them at the meeting and to produce the admission slip, duly completed and signed, at the entrance for admission to the meeting hall.
6. Notice alongwith explanatory statement, Annual Report as well as annual accounts of the subsidiary companies and Register of Directors' Shareholding are open for inspection, during the business hours, at the Registered Office of the Company.
7. The particulars of the Director, retiring by rotation and eligible for re-appointment, are given in the report of the Directors to the members and also in the report on corporate governance.
8. The Company whole-heartedly welcomes members / proxies at the annual general meeting of the company, however, the members / proxies may please note that no gifts / gift coupons will be distributed at the meeting.
9. Members who wish to obtain any information on the company or the accounts may visit company's website www.acceltransmatic.com or may send their queries at least 10 days before the date of the meeting to the company at the corporate office at III Floor, 75, Nelson Manickam Road, Chennai – 600 029 or at the company's registered office at T.C 17/27, Jagathy, Trivandrum – 695 014 or email to stprabhu@transmaticsystems.com.
10. While members holding shares in physical form may write to the company for any change in their address and bank mandates, members having shares in electronic form may inform any change in address and bank details to their depository participant immediately so as to enable the company to dispatch dividend warrants at correct address.
11. Members holding more than one share certificate in the same name or joint names in same order but under different Ledger folios, are requested to apply for consolidation of such Folios and send the relevant share certificates to the registrars and share transfer agents to enable them to consolidate all such holdings into one single account.
12. Members holding shares in the physical form can avail of the nomination facility by filing Form 2B (in duplicate) with the company or its registrars and share transfer agents, M/s. Integrated Enterprises (India) Limited, 2nd floor, Kences Towers, No.1 Ramakrishna Street, North Usman Road, T. Nagar, Chennai – 600 017.
13. In case the mailing address mentioned on this annual report is without Pin-code, Members are requested to kindly notify their Pin-codes immediately.
14. Members are requested to bring their Annual Report copies and the duly filled in attendance slips sent herewith while coming for attending the Annual General Meeting.

By Order of the Board

Place : Chennai
Date : May 27, 2010

N.R. Panicker
Chairman

Director's report

Dear shareholders,

Your directors are pleased to present the 24th annual report together with the audited accounts of the company for the year ended March 31, 2010.

(INR in millions)

Particulars	Standalone	
	2010	2009
Sales, services & other income	182.86	382.02
Profit before interest, depn & tax	38.98	14.87
Interest	24.52	34.94
Depreciation	28.65	25.03
Provision for tax	1.53	(0.82)
Profit after tax	(16.45)	(44.28)

Turnover

The details of revenues by segments are given below:

(INR in millions)

Particulars	March 31, 2010	March 31, 2009
Software Services	110.77	112.45
Animation Services	34.49	60.47
Systems & Services	-	209.11
Others	37.60	-
Total	182.86	382.03

Review of operations :

The year under review was challenging due to the economic slow down. The software division consolidated its relationship with its overseas customers, and reported an EBITDA of Rs.21.35 mn on a turnover of Rs. 110.77 mn. The animation division reported a net loss of Rs.54.40 mn. The turnover of the animation division was Rs.34.49 mn excluding the value of intellectual property capitalized of Rs.52.30 mn.

The highlights of the performance are discussed in detail in the management discussion and analysis report attached as annexure to this report.

During the year under review, the company reported a net turnover of Rs.182.86 mn as compared to Rs. 382.02 mn for the year ended March 31, 2009. The financial results of the company is not comparable with the previous year's figures as one of the divisions, Systems and Services Division, was hived off during the year as it was a non core activity and was incurring losses due to lack of sufficient orders. The company reported a net loss of Rs. 16.45 mn. On a consolidated basis, the net turn over was Rs.232 mn. as compared to the previous year net turnover of Rs.414 mn. During the year under review the company had cash crunch due to losses incurred and has delayed statutory payments beyond due dates as mentioned in annexure to the auditor's report. The company has since made good all the statutory payments due as on the date of the balance sheet. The company's cash flow is expected to improve during the current financial year.

Consolidated financial statements

Consolidated financial statements, prepared in accordance with Accounting Standard AS 21, issued by the Institute of Chartered Accountants of India, and as required by the listing agreement are attached and forms part of the annual report and accounts. The summary results are provided in the table above.

Report on conservation of energy, technology absorption etc.

Information as required under section 217 (1) (e) of the companies act, 1956 read with companies (disclosure of particulars in the report of board of directors) rule, 1988 regarding conservation of energy, technology absorption are given in annexure I to this Report. The details regarding foreign exchange earnings and outgo are being mentioned in the notes to the accounts.

Management discussion and analysis

The management discussion and analysis and various initiatives and future prospects of the company are provided, separately as annexure II

Report of corporate governance

A report on Corporate Governance together with auditor's certificate on compliance with the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is provided in annexure III to this report

Auditors certificate on corporate governance

The certificate issued by the auditors of the company on corporate governance is given in Annexure IV

CEO /CFO certification

The Chairman and the Company Secretary & Compliance Officer have submitted a certificate to the Board regarding the financial statements and other matters as required under Clause 49 (V) of the Listing Agreement. This is provided as Annexure V to this report

Directors responsibility statement

The directors responsibility statement pursuant to sub section 2 AA of Section 217 of the Companies Act 1956 is provided in annexure VI

Particulars of employees

The particulars regarding employees of the company pursuant to Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given in annexure VII to the Director's Report.

Subsidiaries

The company's subsidiary in USA reported a turnover of Rs.130.37 mn. (USD 2.73 mn) and the profit after tax was Rs. 2.39 mn (USD 0.05 mn)

During the year under review, the subsidiary in Japan was acquired by the JV partner and as on 31.03.2010 it is no longer a subsidiary of the company. The subsidiary was divested, as the turnover was insignificant at Rs.2.9 mn with a loss of Rs.0.9 million. The company shall continue to do business with the

JV partner on a case to case basis. This will save costs, while continuing to do business with Japanese clients.

Dividends

Considering the losses and the necessity to conserve resources, the Directors do not recommend any dividend on the equity shares.

Directors

Mr. N.R. Panicker and Mr. A. Mohan Rao, Directors of the company, retire by rotation and are eligible for re-appointment.

Auditors

Varma & Varma, Chartered Accountants, Chennai, auditors of the Company retire at the ensuing annual general meeting, and being eligible, offer themselves for reappointment. The company has received confirmation from them that their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. The audit committee of the Board has recommended their reappointment. The necessary resolution is being placed before the shareholders for approval.

Quality Management

Your company's quality policy is to enhance customer satisfaction through continued improvement of skills, processes and technologies. During the year the company continued to invest in technologies, infrastructure and processes in order to keep our quality management systems updated. Our software development processes (assessed at CMM L-3) ensure high quality deliverables, low risk and sustainable business.

Internal control systems

Your company has adequate internal control procedures commensurate with the size and nature of its operations. The audit committee constituted by the Board of Directors is functioning effectively. Internal audit for the year 2009 – 2010 was carried out by M/s. Vijayakumar & Easwaran, Chartered Accountants covering all areas of operations. All significant observations, if any, were discussed in the audit committee, which met 4 times during the year under review.

Depository systems

As the members are aware, your Company's shares are tradable compulsorily in electronic form and your company has established connectivity with both the depositories, i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). In view of the numerous advantages offered by the Depository system, members are requested to avail of the facility of dematerialization of the company's shares on either of the Depositories as aforesaid.

Acknowledgement

Your directors would like to express their grateful appreciation for the assistance and co-operation received from central and state governments, financial institutions, banks, government authorities, customers, suppliers and investors during the year under review. Your directors wish to place on record their deep sense of appreciation, of the dedicated and sincere services rendered by the employees of the company for its success.

For and on behalf of the
Board of directors

Place : Chennai.
Date : May 27, 2010

N. R. Panicker
Chairman

ANNEXURES TO THE DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

Annexure I

Conservation of energy, technology absorption, adaptation and innovation and foreign exchange earnings and outgo

The company's operations involve low energy consumption and therefore the scope of energy conservation is limited. The company has taken steps to conserve electricity consumption in offices. The company has also installed energy saving devices and lighting in offices.

The company is in high technology business and is constantly absorbing and upgrading the latest technology to meet the current challenges at all levels. The company uses the latest Internet based technology for its communication needs.

The details regarding foreign exchange earnings and outgo are given below:

Foreign Exchange Earnings and Outgo

(INR in Millions)

Year ended		31.03.2010	31.03.2009
(a)	Foreign exchange earnings	128.90	139.90
(b)	CIF value of Imports	Nil	32.75
(c)	Expenditure in foreign currency	9.41	14.76

For and on behalf of the
Board of directors

Place : Chennai.
Date : May 27, 2010

N. R. Panicker
Chairman

Annexure II to the Director's Report

MANAGEMENT DISCUSSION AND ANALYSIS.

The Year in brief

During the year under review, the company reported a net turnover of Rs.182.86 mn as compared to Rs.382.02 mn for the year ended March 31, 2009. The financial results of the company is not comparable with the previous year's figures as one of the division, Systems and Services Division, was hived off during the year as it was a non core activity and was incurring losses due to lack of sufficient orders. The company reported a net loss of Rs. 16.45 mn. On a consolidated basis, the net turn over was Rs.232 mn. as compared to the previous year turnover of Rs.414 mn.

Business Model

The company has two divisions, namely, Technologies division and Animation division.

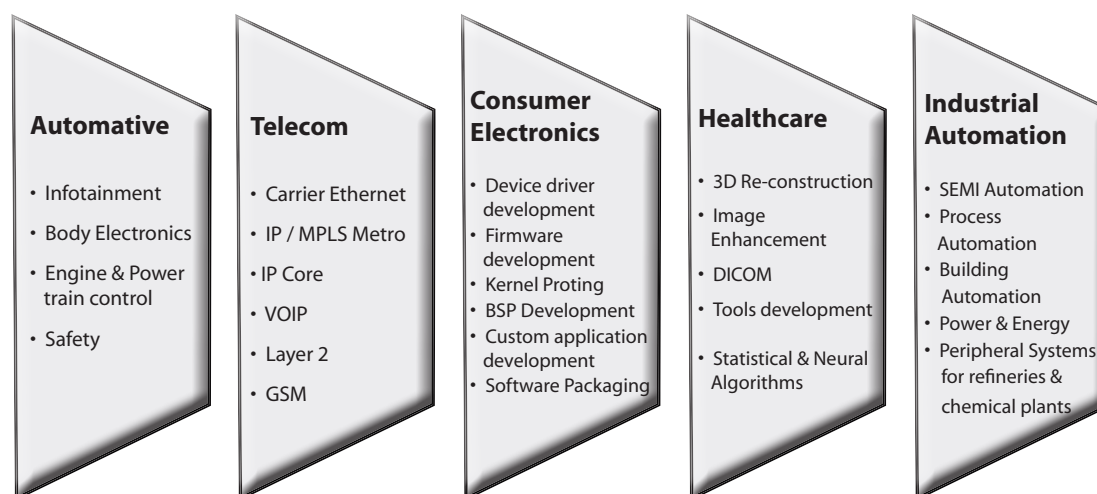
Technologies Division (www.ushustech.com) – known as Ushus Technologies, the software arm of the company and a quality provider of offshore technology solutions to world leaders including a few of the Fortune 500s, in rolling out technologically advanced software products to industry verticals as well as the mass consumer market. Leveraging its ability to handle high-technology projects with good quality and cost effective delivery, Ushus made forays in to the US technology market and has been able to forge successful on-going partnerships with premier engineering and business houses that have large experience and high maturity in outsourcing and multi-sourcing. Technologies development centre is located at Technopark in Trivandrum with marketing offices in Japan and the US.

Software Industry Overview

The emergence of Global Delivery Model (GDM) provided companies with new methods of reducing costs. The outsourcing of simple application and maintenance to emerging economies dramatically lowered the fixed costs for companies. But the positive shift towards global sourcing couple with GDM gave and added advantage for organizations with respect to wider choice in terms of capabilities across multiple locations. Rapidly evolving technologies meant that it was difficult to find the relevant expertise within the organization to justify the demand in the market. Outsourcing providers offer the knowledge and the resources which the companies found hard to identify within the organization or did not have the time or budget to acquire from the industry to justify the time to market conditions.

Over the years outsourcing services and delivery models have evolved to encompass more advanced capabilities. GDM has already been widely accepted across industries and organizations have started to view GDM more strategically considering the recessionary effects and the recovery path ahead. While the initial goals of outsourcing were capabilities and cost, but these days mature outsourcers also have and added advantage of competitiveness and drive for the transformational change. From R&D and engineering services companies have now started entrusting service providers with more and upstream strategic functions. The focus of companies from cost arbitrage has now shifted towards talent acquisition in the outsourcing Industry.

Technical competencies of the technology division – The division caters the software needs of product companies in the following verticals



The division has developed skills and competency in high technology areas such as embedded systems, network protocol development, multimedia and windows applications. The division has experience in product development, product testing, beta testing support and internationalization requirements. The technological expertise spans custom design, development, and testing of software based on Real Time Operating Systems, firm ware/ HMI development and BSP development on various hardware platforms like ARM, Intel, Motorola, MIPS, Philips, Hitachi, Fujitsu and NEC. We have expertise in development and porting of device drivers such as USB, SCSI, Ethernet and display driver and engineering development for kernel, utilities and libraries. The division did the implementation of applications compatible with protocols and standards like DeviceNet, CAN, MOST, TCP/IP, SNMP, OSEK, SECS, HSMS, GEM, OSS, SEMI, OBEM etc. and protocol stack / abstraction layer development for compatibility of application across various RTOS. The division has also worked with porting of RTOS across various hardware platforms and application porting across various RTOSs.

In networking domain, the division has experience in the development of wireless applications based on 802.1X, wireless gateway development and layer-2/Layer-3 protocol implementation and test software development for networking equipment. In mobile computing, application software development and conversion for PocketPC., the division has developed web interface software for various devices and VoIP implementations.



On the Windows applications front, our key strengths are in VC++, COM, ATL/STL, MFC, C# and UI development. We also had experience with kernel mode device drivers on Windows. In alignment with the Vista initiative at Microsoft, The division started competency building on Vista compatibility testing services, device driver migration to Vista, application redesign for Vista and installer design for Vista.

Our development facilities in India are staffed with talented team that drives our success in the latest technology while continually breaking the boundaries of conventional processes. Our group includes some of the most ingenious designers, software engineers, domain and documentation experts in the field. Many of our software professionals graduated from leading technical universities in India.

Animation Division (www.accelanimation.com) - Accel Animation Studios (AAS) was set up in July 2006, as an incubated unit. The main lines of business include 3D Animation content development, Visual Effects creation and Motion Capture Services. AAS provides International quality digital media content to its clients. Focused on consistent and seamless delivery with emphasis on delivering on time, AAS offers end-to-end services in animation, Motion Capture, VFX. Accel Animation Studios is poised to capture a large share of the quality-oriented business in the animation space in India. Currently the operations of AAS are being carried out in its studios situated in Chennai and Thiruvananthapuram Animation SEZ.

Animation Industry Overview The global animation market for animated content and related services (developer's perspective) is estimated at USD 25-26 billion and is forecast to cross USD 34 billion by 2010. Of the total revenue earned in the segment, approximately 40-45 percent is attributed to the cost of development. Within animation, the entertainment segment will continue to remain the major contributor, accounting for nearly three-fourth of the total market through the forecast period.

The Indian Animation industry revenues are estimated at USD 869 million by 2010, representing a CAGR of 25 percent over 2006-2010. The entertainment segment contributes nearly 68 percent of the total animation market in India. Key factors driving this growth include Significant cost advantage, large pool of English speaking manpower, growing maturity of animation studios, development of IP, Attractive domestic market opportunity. Currently there are about 300 animation companies, employing approximately 12,000 people in India. Further, industry estimates indicate that nearly 3,000 freelancers also work in the industry. The industry's dependence on exports is also reflected in a major proportion of the work force being involved in the outsourcing segment. However, looking forward, the share of the domestic market is expected to grow. Indian companies have started focusing on the domestic market and domestic demand for animated content has witnessed an upward trend over the past few years. Further, producers of several Bollywood movies, have started using special effects in their production.

Even at these impressive growth forecasts the Indian Animation and Gaming industry will account for less than 2 percent of the worldwide market in 2010, clearly indicating a significantly larger opportunity. Ensuring the availability of adequate, suitable manpower and a focused industry development program can help India achieve a larger share of the pie. Major competing destination for outsourced animation services are concentrated in the Asia Pacific Region including South Korea, China, Philippines, India, Singapore etc. The animation studios in these countries are moving up the value

chain, with services shifting gradually from the mechanized production phase to both the pre-production and post-production stages. The studios are enhancing their skill base in order to cater to end-to-end animation and gaming work. Cost savings remain a key driver for overseas companies looking to outsource animation and gaming development activities. India has picked up considerable momentum in animation development vis-à-vis outsourced work as well as domestic demand. Investors are finding Indian animation industry as a viable option to invest into.

Business Model The primarily engagement models will be to work on outsourced content development and post production services for Indian and overseas clients, to engage in co-production with renowned production houses, to create own IPs for long term gains

The studio has adopted creation of IPs as its primary engagement model. IP, once created yields recurring revenues over a long period of time, say 15 years, as animation contents can be telecast or sold repeatedly over the years, as their shelf life is longer. However, the IP creation is highly capital intensive and the revenues are expected to accrue only after a initial development period of 18 to 24 months. The studio has to invest continuously till the product is ready for release. The studio has already released the first IP, "Indian Fables" for broadcast and is currently developing another property, "Raju the Rickshaw" for worldwide release, the details of these are given below.

Indian Fables www.southindiafables.com

For the first time ever, and in 3D & HD Accel Animation Studios has released "Indian Fables" based on the centuries old Thirukkural in Tamil the famous collection of ancient couplet as a 26 * 11 minutes episode, currently being telecast in Disney in India. It is an universal text and has been translated into almost all languages of the world. Every episode tells a story with a moral that is applicable to the present and future generations in this fast moving world. The values taught are immense in today's moving world teaching children to live an ethical life. The IP is fully owned by the company and is expected to yield revenue across the globe over the next several years.. The company has appointed Monster Distributes of Ireland as the global distributor for the property while retaining the India subcontinent rights with the company. This property is going to be launched formally during MIPCOM 2010, in Cannes, France during in October 2010.

Raju the Rickshaw

The studio has entered into an agreement with Kahani World Inc, an animation content development company based out of Canada for licensing the above IPR owned by them for 15 years. This IP was earlier developed by the studio on a co-production agreement with Kahani World Inc. The studio, after an assessment of the future potential for the IP, has decided to produce on its own, 78 episodes of 7 minute each and market worldwide. The company has appointed Paris based Cyber group studios as the global distribution partner. This IPR is under production and is expected to be delivered stating 2011.

Major theatrical film project

Under the outsourcing model, during the year the studio completed a project to produce a full length animated feature film for a movie production and distribution company with 2K/35MM resolution in 3D which was under production for the last two years. This is a major achievement showcasing our

abilities to produce international quality animation movies. The company expects to bag many such orders in the years to come.

Human resource management

As on 31st March 2010, the company had employee strength of 327. We have an established employee recruitment and retention policy, which involves identifying right talents through recruitment training cum placement programme as well as lateral recruitment and providing them with appropriate training and induction.

We ensure that all our employees receive technical and managerial inputs regularly through various training programs.

Infrastructure

Our registered is located in Trivandrum and corporate office is located at Chennai. The Software division operates from Technopark in Trivandrum and occupies approximately 12,000 sqft and the animation division operates in fully equipped world class studio from its Chennai facility in about 24000 sqft & Trivandrum facility in about 18000 sqft. All the major offices and software development centres are well equipped with all necessary infrastructure facilities.

Finance Accounts and Operational Controls

The financial objective of the company is to bring in efficiencies of operations at all levels so as to maximize return on capital employed and to generate sufficient cash profits to fund on-going expansions and to meet the growth objectives.

The audit committee and the Board periodically review performance parameters related to financial performance of the company to ensure smooth implementation of the internal control systems and efficient management of the various resources. The audit committee conducts periodic reviews with the management, internal auditor and the external auditor. There is an on-going cost monitoring program to control various expenses and the Board reviews the variance analysis.

Revenues

Consolidated revenues have been mentioned at the beginning of this report. On a standalone basis, the company posted net revenues of Rs.182.86 million for the year ended March 31, 2010, as compared to Rs.367.74 million for the year ended March 31, 2009. The EBITDA for the year ended March 31, 2010 was Rs.38.97 mn as against Rs.14.87 mn for the previous year ended March 31, 2009. During the year the company hived off its Systems & Services division, which was incurring losses. The company reported a loss of Rs.16.50 million as against Rs.44.31 million for the corresponding period last year,

Sales from geographies

During the year under review 36 % of the revenue was from domestic operations and 64% of the revenue was from services exports.

Financial challenges 2009-10

The major challenges during the year was working capital management. The company has been incurring losses due to cash losses incurred in the animation division and the erst-while Systems & Services division. The animation division was in the investment phase during last three years and is expect-

ed to break even during the current year. The company wants to treat the losses as investments in the technology development that will lead to large outsourcing orders in the years to come. The company's capability to produce international quality animation content has been appreciated by Hollywood studios and is expected to result in prestigious orders during the current year.

Reserves and surpluses

During the year under review the company transferred Rs 8.45 million from the advance for issue of share warrants to Capital Reserves since the applicants have not exercised the option of converting into equity, and together with the balance at the beginning of the year, the General reserves stood at Rs 24.57 million including capital reserves of Rs 12.28 mn.. The company has not revalued any of its assets during the year.

Loan profile

As on March 31 2010, the company had a sanctioned working capital facility of Rs.278.10 million from company's bankers, out of which Rs.243.10 million is fund based and Rs.35.00 million is non-fund based facilities. The funds utilised and outstanding were Rs. 234.61 million including letters of credits utilized and accepted for payment. The total amount of performance bank guarantees issued by the bankers was Rs. 5.5 millions. The limits utilised includes Rs. 50 mn utilised for the Systems & Services business which was sold but the Bank limit not transferred to the buyer. The limit has since been closed as on 30th April, 2010, after receipt of sale consideration from the buyer.

Loans and advances

The loans and advances were at Rs 540.90 mn as at the end for the year under review. This includes an amount of Rs. 70.23 mn lying as security deposits offered for various leased premises taken by the company, an amount of Rs. 285 lacs being purchase consideration due and receivable for the transfer of Systems & Services business and Rs. 22.81 mn of unbilled revenues as on March 31, 2010. The purchase consideration has since been received.

Capital expenditure

The capital expenditure incurred during the year was Rs.89.39 mn excluding a capital work in progress of Rs 23.50 mn. The capital expenditure includes Rs 94.11 mn being the value of Intellectual property developed/ being developed by the company

Depreciation and amortization

The company has been following straight-line basis of depreciation and has depreciated assets based on the rates mentioned in the Companies Act 1956. The Digital Assets (Intangible) are amortized over the estimated life (revenue earning potential) of such assets under written down value method

Investments

During the year, the company sold 39% out of 49 % of the equity share capital held by it, in Accel IT Resources Limited, an associate company for a consideration of Rs 46.80 million and the consideration was received in full in cash, to settle the liabilities and reduce the interest burden of the company. During the year, the company sold of its entire stake in its Japanese subsidiary Accel Solutions Inc, Japan to the JV partner for a