

15th Annual Report 2004-2005

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Board of Directors

Dr. Sudhish S Rambhotla
Y. Suryanarayana
William Bill Buck
Y. Kasipathy
KCh. A.V.S.N.Murthy
Dr.Chandra Bhushan

Chairman and Managing Director
Executive Director
Director
Director
Director
Director

P. Satish

Company Secretary

Registered Office

Plot No.16, Road No.5
Jubilee Hills, Hyderabad - 500 033
Tel No. 040-23550268, 23544862\3\4

Auditors

S N Murthy & Co.,
Chartered Accountants
Chikkadapally
Hyderabad - 500 020.

Registrars and Share Transfer Agent (Physical and Electronic)

Venture Capital and Corporate Investments Pvt Ltd
6-2-913/914, 3rd Floor
Progressive Towers, Khairatabad
Hyderabad - 500 004.
Phone No. +91-040-22332226/4,
Fax No.+91-040-23324803

NOTICE

Notice is hereby given that the 15th Annual General Meeting of the members of the company is scheduled to be held on Thursday, 29th day of September 2005 at 11.00 AM at Sagi Ramakrishnam Raju Community Hall, Madhuranagar, Hyderabad - 500 038 to transact the following Business:

ORDINARY BUSINESS:

1. To consider and adopt the Director's Report, the Auditor's Report, the Balance Sheet as at 31st day of March 2005 and the Profit and Loss Account for the year ended 31st March 2005.
2. To appoint a Director in place of Mr. William Bill Buck who retires by rotation and is eligible for re-appointment.
3. To consider, and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution:

"RESOLVED that M/s S N Murthy & Co., Chartered Accountants, Hyderabad be and hereby appointed Auditors of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting on a remuneration to be fixed by the Board of Directors of the Company in addition to actual out-of-pocket expenses incurred by them for the purpose of audit."

AS SPECIAL BUSINESS:

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

"RESOLVED THAT pursuant to the provisions of Section 257 of the Companies Act, 1956 Dr. Chandra Bhushan, be and is hereby appointed as Director liable to retire by rotation."

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 314, 349, 350 and all other applicable provisions of the Companies Act, 1956 read with Schedule - XIII to the said Act, and subject to such other consents/approvals as may be required, Dr. Sudhish S Rambhotla, be and is hereby appointed as the Chairman & Managing Director of the Company for a period of 5 years with effect from 25th day of August, 2005."

"RESOLVED FURTHER THAT the Board of Directors / Remuneration Committee may subject to the provisions of Schedule XIII of the Companies Act, 1956 pay such remuneration to Dr. Sudhish S Rambhotla as they deem fit and revise from time to time."

"RESOLVED FURTHER THAT during his tenure as Managing Director of the Company Dr. Sudhish S Rambhotla shall not be liable to retire by rotation."

"RESOLVED FURTHER THAT Board of Directors be and is hereby authorised to execute all such documents, writings and agreements and to do all such acts, deeds, matters and things as may be required or expedient for giving effect to this Resolution."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 314, 349, 350 and all other applicable provisions of the Companies Act, 1956 read with Schedule - XIII to the said Act, and subject to such other consents/approvals as may be required, Mr. Y. Suryanarayana, be and is hereby appointed as the Executive Director of the Company for a period of 5 years with effect from 25th day of August, 2005."

"RESOLVED FURTHER THAT the Board of Directors / Remuneration Committee may subject to the provisions of Schedule XIII of the Companies Act, 1956 pay such remuneration to Mr. Y. Suryanarayana as they deem fit and revise from time to time."



"RESOLVED FURTHER THAT during his tenure as Executive Director of the Company Mr. Y. Suryanarayana shall not be liable to retire by rotation."

"RESOLVED FURTHER THAT Board of Directors be and is hereby authorised to execute all such documents, writings and agreements and to do all such acts, deeds, matters and things as may be required or expedient for giving effect to this Resolution."

7. ISSUE OF GDRs/ADRs/FCCBs/OTHER INSTRUMENTS:

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 Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 as also provisions of any other applicable laws, rules and regulations (including any amendments thereto or re-enactments thereof for the time being in force) and enabling provisions in the Memorandum and Articles of Association of the company and the Listing Agreements entered into by the Company with the Stock Exchanges, where the Company's shares are listed and subject to the such consents, approvals, permissions and sanctions of the Government of India, Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and all other appropriate and/or concerned authorities and departments, and subject to such conditions and modifications, as may be required by any of them in granting such approvals, consents, permissions and sanctions which may be agreed to by the Board of Directors of the Company ('Board') (which term shall be deemed to include any Committee which the Board may have constituted or hereafter constitute for the time being exercising the powers conferred on the Board by this resolution), which the Board be and is hereby authorised to accept, if it thinks fit in the interest of the Company, the consent of the Company be and is hereby accorded to the Board of Directors of the Company to issue, offer and allot Global Depository Receipts (GDRs)/ American Depository Receipts (ADRs)/ Foreign Currency Convertible Bonds (FCCBs) Equity Shares/Warrants and/or instruments convertible into Equity Shares optionally (hereinafter referred to as "Securities") for an aggregate sum upto US \$ 10 Million or equivalent in Indian and/or any other currency (ies) with or without premium directly to Indian/Foreign/Resident/Non-Resident investors (whether Institutions, Bodies Corporates, Mutual Funds Trusts/Foreign Institutional Investors/Banks and/or individuals or otherwise and whether or not such investors are members, promoters, directors or their relatives/ associates, of the Company) through Public Issue(s), Private Placement(s), or a combination thereof at such time or times in such tranche or tranches, at such price or prices at a discount or premium to market price or prices in such manner and on such terms and conditions as may be decided and deemed appropriate by the factors, wherever necessary in consultation with the Lead Managers, Underwriters, Advisors or through the subsidiaries, including by way of Initial Public Offer in US or other countries, so as to enable the Company to get listed at any Stock Exchanges in India and/or Luxemburg/London/Stuttgart/New York/the Australian Stock Exchange and/or any of the Overseas Stock Exchanges.

RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds, and things, as it may, in its absolute discretion deem necessary or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer, issue and allotment of securities.

RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any modifications in the proposal as may be required by the authorities involved in such issues but subject to such conditions as the SEBI/GOI/RBI or such other appropriate authorities may impose at the time of their approval and as agreed to by the Board..

RESOLVED FURTHER THAT without prejudice to the generality of the above, issue of securities in international offering may have all or any term or combination of terms in accordance with the international practice.



RESOLVED FURTHER THAT the Board is also entitled to enter into and execute all such arrangements/agreements with any Lead Managers / Underwriters / Guarantors / Depository(ies) /

Custodians / Advisors and all such agencies as may be involved in cash or otherwise including by way of payment or commission, brokerage, fees, expenses incurred in relation to the issue of securities and other expenses, if any or the like.

RESOLVED FURTHER THAT the Company and/or agency or body authorized by the Company may issue Global Depository Receipts and/or other form of securities mentioned herein above representing the underlying Equity shares issued by the Company in registered or bearer form with such features and attributes as are prevalent in capital markets for instruments of this nature and to provide for the tradeability or free transferability thereof as per the prevailing practices and regulations in the capital markets.

RESOLVED FURTHER THAT the Securities issued in international offering shall be deemed to have been made abroad in the markets and/or at the place of issue of the Securities in international markets and shall be governed by English or American Law or any other law as may be decided by the Board.

RESOLVED FURTHER THAT the Board be and is hereby authorised to finalise the mode and the terms of issue and allot such number of Equity Shares/Securities as may be required to be issued and allotted upon conversion of any Securities referred to in the paragraph(s) above as may be necessary in accordance with the terms of offering and all such shares to rank pari passu with the existing Equity Shares of the Company in all respects.

RESOLVED FURTHER THAT subject to necessary approvals, consents, permissions, the Board be and is hereby authorised to convert the Global Depository Receipts/Foreign Currency Convertible Bonds into ADR/GDRs and list at NASDAQ / NYSE / Luxemburg / London / the Australian Stock Exchange or on any other overseas Stock Exchanges.

RESOLVED FURTHER THAT the Board do open one or more bank accounts in the name of the Company in Indian Currency or Foreign Currency(ies) with such bank or banks in India and/or such foreign countries as may be required in connection with the aforesaid issue/offer, subject to requisite approvals from Reserve Bank of India and other overseas regulatory authorities, if any.

RESOLVED FURTHER THAT such of these securities as are not subscribed may be disposed off by the Board in its absolute discretion in such manner as the Board may deem fit.

RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers herein conferred in such manner as they may deem fit."

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

"RESOLVED THAT pursuant to Section 94 and other applicable provisions, if any, of the Companies Act, 1956 and Articles of Association of the company, the Authorised Share Capital of the company be and is hereby increased from Rs.39,31,50,000 (Rupees Thirty Nine Crores Thirty One Lakhs Fifty Thousand) divided into 3,93,15,000 equity shares of Rs.10 each to Rs.66,31,50,000 (Rupees Sixty Six Crores Thirty One Lakhs Fifty Thousand) divided into 6,63,15,000 equity shares of Rs.10 each by creation of 2,70,00,000 equity shares of Rs.10 each ranking pari passu in all respects with the existing equity shares."

"RESOLVED FURTHER THAT pursuant to the provisions of Section 16 of the Companies Act, 1956, Clause V of the Memorandum of Association of the Company be altered by substituting the following new Clause for the existing Clause V, namely -

The Authorised Share Capital of the Company is Rs.66,31,50,000 (Rupees Sixty Six Crores Thirty One Lakhs Fifty Thousand) divided into 6,63,15,000 equity shares of Rs.10/- each.

The Share Capital of the Company (whether original, increased or reduced) may be sub-divided



consolidated or divided into such classes of shares as may be allowed under the Law for the time being relating to the companies with such privileges or rights as may be attached and to be held upon such terms as may be prescribed by the regulations of the company."

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

"RESOLVED THAT pursuant to Clause 47 of the Listing Agreement and other provisions, if any, as may be applicable, the Company be and is hereby authorised to make voluntary delisting of the shares from the Hyderabad Stock Exchange, the Regional Stock Exchange."

10. CHANGE OF NAME:

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

"RESOLVED THAT pursuant to the provisions of Section 21 of the Companies Act, 1956 and subject to the approval of Central Government, the name of the company be and is hereby changed from COLOR CHIPS (INDIA) LIMITED to COLOR CHIPS ANIMATION LIMITED and upon the said change in the name becoming effective the new name be substituted for the existing name, wherever in the Memorandum and Articles of Association of the company, and on other documents as may be deemed necessary."

By Order of the Board

Hyderabad
August 25, 2005

(Dr. Sudhish S Rambhotla)
Chairman and Managing Director

NOTES:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy need not to be a member. The instrument appointing a proxy should be deposited at the Registered Office of the Company not less than Forty-Eight Hours before the commencement of the Meeting.
2. The Explanatory Statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956 is annexed hereto and forms a part of this notice.
3. Members seeking any information with regard to Annual Accounts are requested to write to the Company atleast one week in advance, so as to enable the Company to keep information ready.
4. The Register of Members and Share Transfer Books of the Company will remain closed on 29th September, 2005.
5. Members are requested to notify changes in their address, if any, to Venture Capital & Corporate Investments Limited (Unit: Color Chips).

Hyderabad
August 25, 2005

By Order of the Board of Directors

(Dr. Sudhish S Rambhotla)
Chairman and Managing Director

EXPLANATORY STATEMENT
(PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956)

ITEM NO.4:

Dr. Chandra Bhushan was appointed as Additional Director during the year under review and hold office upto the conclusion of this Annual General Meeting. The company has received the required nominations for the above mentioned director along with deposit of Rs.500/- and your directors propose the same for your approval.

As per the provisions of the Section 257 of the Companies Act, 1956 the appointment of Director requires the approval of the shareholders of the company at the general meeting. Hence your directors commend the same for your approval.

None of the Directors except Dr. Chandra Bhushan is concerned or interested in the above resolution.

ITEM NO. 5:

Dr. Sudhish S Rambhotla was re-appointed as the Chairman & Managing Director of the company by the Board of Directors of the Company at its meeting held on 25th August 2005. As per the provisions of the Companies Act, 1956, the appointment of Managing Director of the company requires the approval of the shareholders at general meeting. Hence your directors commend the same for your approval.

None of the Directors except Dr. Sudhish S Rambhotla is concerned or interested in the above resolution

ITEM NO. 6

Mr. Y. Suryanarayana was re-appointed as the Executive Director of the company by the Board of Directors of the Company at its meeting held on 25th August 2005. As per the provisions of the Companies Act, 1956, the appointment of Executive Director of the company requires the approval of the shareholders at general meeting. Hence your directors commend the same for your approval.

None of the Directors except Mr. Y. Suryanarayana is concerned or interested in the above resolution

ITEM NO. 7:

In order to finance the Company's future expansion plans, Capital Expenditure and for other corporate purposes, the Company at appropriate time proposes to raise capital in Indian and / or International market in one or more tranches by issue of any one or more kinds of shares/securities as detailed in the resolution at item no. 7 of AGM Notice.

Consent of the shareholders is sought for issuing Securities as stated in the resolution which would result in issuance of further shares of the company in accordance with the terms and nature of Securities to be issued by the company. The Board, in consultation with its Lead Managers, Merchant Bankers and other Advisors, will finalise detailed terms of the issue including in relation to the pricing of the issue which will be fixed keeping in view the capital market conditions/practices and guidelines, if any, issued by the Securities and Exchange Board of India (SEBI). The proposed resolution is an enabling resolution to authorise the Board of Directors to mobilize adequate resources to meet the growing needs of the company by way of issue of GDRs/ADRs/FCCBs and other Securities.

Under the proposed Special Resolution, consent of the shareholders is sought pursuant to the provisions of Section 81 and all other applicable provisions of the Companies Act, 1956 and in terms of the provisions of the Listing Agreement executed by the Company with the Stock Exchanges in India where the Company's shares are listed.

Section 81 of the Companies Act, 1956 and Clause 23 of the Listing Agreement provide, inter alia, that when it is proposed to increase the issued capital of a company by allotment of further shares, such further shares shall be offered to the existing shareholders of the Company in the manner laid down in Section 81 unless the shareholders in general meeting decide otherwise.



Since the Special Resolution proposed at item no. 7 may result in issue of shares of the Company otherwise than to the members of the company consent of the shareholders is being sought pursuant to the provisions of Section 81(1A) and all other applicable provisions of the Companies Act, 1956 and the Listing Agreement.

The Board of Directors recommend passing of the Special Resolution at item No. 7 of the Notice.

None of the Directors is in any way concerned or interested in the proposed resolution except to the extent of his holding of equity shares in the company.

ITEM NO.8:

It is decided to increase the Authorised Share Capital of the company from the present Rs.39,31,50,000 to Rs.66,31,50,000 by creation of 2,70,00,000 equity shares of Rs.10 each of the company in order to accomodate the issue of securities under Resolution No. 7. As per the provisions of the Section 94 of the Companies Act, 1956, any increase in the Authorised Share Capital requires the approval of the members by way of Ordinary Resolution. Consequent to the increase in Authorised Share Capital existing Capital Clause of Memorandum of Association requires amendments by way of seeking approval of the members in General Meeting. The Board of Directors recommends the same for your approval.

None of the Directors of the company is concerned or interested in the resolution except to the extent of his equity shareholdings in the company.

ITEM NO.9:

The Company is listed in Bombay Stock Exchange and National Stock Exchange Of India Limited besides the Hyderabad Stock Exchange (Regional Stock Exchange). Though the shares are being traded only on BSE and NSE since listing and not on the Hyderabad Stock Exchange, the directors did not recommend for delisting earlier because it was the designated Regional Stock Exchange.

SEBI has enacted SEBI(Delisting of Securities) Guidelines, 2003 and through these guidelines, abolished the concept of Regional Stock Exchange and has allowed companies to go for Delisting from such stock exchange, whether regional or otherwise provided the Company was listed on any Stock Exchange having nationwide trading terminals, the Directors propose the above resolution for Delisting of the Company shares from the Hyderabad Stock Exchange.

The Board recommends the resolution for your approval. None of the Directors are interested in the above resolution.

ITEM No.10:

The present name of the company is connoting an impression that the operations of the company are restricted only to India. But since the company is having its clients base abroad especially in Europe and U.S. And also in view of company's operations are going to be global scale and as the company is proposing to list its shares on stock exchanges abroad it is proposed to change the name of the company from COLOR CHIPS (INDIA) LIMITED to COLOR CHIPS ANIMATION LIMITED. The company has already applied to the Registrar of Companies, Andhra Pradesh, Hyderabad for the availability of name. As per provisions of Section 21 of the Companies Act, 1956, change of name of the Company requires consent of the members by way of Special Resolution.

The Board recommends the resolution for your approval. None of the Directors are interested in the above resolution.

By Order of the Board

Place: Hyderabad
August 25, 2005

(Dr. Sudhish S Rambhotla)
Chairman & Managing Director

Directors' Report & Management Discussion and Analysis Report

To
The Members

Your Directors have pleasure in placing before you the 15th Annual Report of the company together with Audited Financial statements for the year ended 31st March 2005.

OPERATIONS AND FUTURE OUTLOOK:

(Rs In Lakhs)

	2004-05	2003-04
Net Sales / Income from operations	1093.66	621.76
Other Income	34.12	2.97
Total Expenditure	1054.42	610.63
Profit before Depreciation	171.90	107.96
Depreciation	98.54	93.86
Profit after depreciation	73.36	14.10
Profit of the PY brought forward	(179.15)	(193.25)
Provision for Deferred tax asset current year	Nil	Nil
Transitional Cum Deferred tax asset	Nil	Nil
Profit / Loss carried to Balance Sheet	(105.79)	(179.15)

During the year under review, your company has successfully completed prestigious projects like "Legend of the Dragon" which has won appreciation from all quarters for the quality of its animation.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Articles of association of the Company, Mr. William Bill Buck, Director will be retiring by rotation at the Annual General Meeting and being eligible, offers himself for reappointment.

Dr. Chandra Bhushan who was appointed as Additional Director during the year, is now proposed to be appointed as a director liable to retire by rotation in accordance with the provisions of Section 257 of the Companies Act, 1956.

DIRECTORS RESPONSIBILITY STATEMENT:

As per Section 217(2AA) of the Companies Act, 1956, we directors of the Company, confirm the following:

1. That in the preparation of the accounts for the financial year ended 31st March 2005, the application accounting standards have been following along with proper explanation relating to material departures;
2. That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of the affairs of the Company at the end of financial year and of the profit and loss of the company year under review;
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. That the Directors have prepared the accounts for the financial year ended 31st March 2005 on a 'going concern' basis.



Animation - Opportunities and threats

Animation had an early start in India when Dadasaheb Phalke made one of the first stop motion films animating coins and match sticks as early as 1914. Subsequently, this medium stagnated until 1956 when the Films Division of the government of India setup the Cartoon Film Unit.

Creative skill is intrinsic to the process of animation. It is this factor that has motivated many companies providing media-services to enter the field of animation. While the Indian animation industry has been slow to take off, it has made rapid strides over the past few years.

Today, the animation business in India is synonymous with outsourcing. Classified as software outsourcing, the industry commands the strength similar to any outsourcing business in the country.

Prospects in the Animation Industry

Animation is not just about cartoon; it is just one genre of animation. Animation has several applications like educational CDs, online education, video games, Internet, mobile phones, commercials and industry-specific applications in architecture, medical, law and insurance. Besides, newer applications for animation are already in progress. In a classical sense, animation is converting drawing skills to a moving format it could be either on paper (2D) or on the computer (3D). The industry is said to have grown over 20% in the past year. Based on the contracts in hand with most animation studios, the industry is expected to grow over 30% in the next five years.

Segment wise analysis of the Industry

The high cost of production is one of the key reasons why studios are willing to outsource animation work to India. Overseas markets, already impressed by the country's proven success in the IT industry are increasingly looking at India to cut costs, as studios here offer services at lower rates due to availability of skilled yet cheaper manpower. India also has a strong advantage in getting outsourced work from the West because of the fast growing consumer class and lack of language barrier.

Industry Size

(Source: FICCI Report)

Total revenue of the animation production services sector in India, as estimated by NASSCOM, are around 1,125 Crores (USD 250 Million) in 2004. The industry is said to have grown over 20% in the past year. Based on the contracts in hand with most animation studios, the industry is expected to grow over 30% in the next five years.

Business overview of the Company

Color Chips (India) Limited is into 2D and 3D Animation and syndication of comics & contents. In a short span, the company emerged as a leading player in animation industry in India. Color chips has produced various short animation films and worked with international animation production houses like BKN International, Germany, Benj Productions, France etc.

Risks and Concerns:

Computer animation Industry in India is in its nascent stage:

Animation is a new industry to the Indian Business Environment. Hence, the functioning of the Industry, its risks, the payoffs and the time taken to achieve the payoffs, are not very well understood. The company has been able to develop a strong track record of successful deliveries and has established a strong foundation for a robust growth in the years to come.

Manpower risks:

Since past few years Color Chips emerged as a preferred destination due to exposure to international quality work opportunities and training and an atmosphere of work that is most congenial to creative talents, while quality trained manpower is a severe constraint and is a major challenge the Company faces today, the other challenge is to retain the manpower.