

**20th
Annual Report
2009-2010**



COLORCHIPS (INDIA) LIMITED

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COLOR CHIPS (INDIA) LIMITED

Board of Directors:

Mr. K. S. Ravi Shanker	Independent Director
Mr. M. Krishnam Raju	Independent Director
Mr. K.CH.A.V.S.N. Murthy	Independent Director
Dr. GChandra Bhushan	Independent Director
Mr. D. S. Subrahmanyam	Whole Time Director
Mr. Penugonda TVM. Suresh	Managing Director

Registered Office:

Plot No.91 Road No.7-B
Jubilee Hills, Hyderabad - 500 033
Tel No. 040 - 23550268, 23544862

Auditors:

M/s, Karumanchi & Associates
Chartered Accountants
Flat No.301, Swarga'nivas Enclave
H.No 7-1-619/A, Behind HUDA Complex
Ameerpet, Hyderabad-500038

Bankers:

HDFC Bank Limited
Jubilee Hills Branch
Hyderabad

Registrars & Share Transfer Agents:

Venture Capital and Corporate Investments Private Ltd
12-10-167, Bharat Nagar
Hyderabad-500018
Ph: 040-23818475/476
Fax: 040-23868024

Listed At:

- 1) National Stock Exchange of India Limited
- 2) Bombay Stock Exchange Limited

NOTICE

NOTICE is hereby given that the 20th Annual General Meeting of the Members of **Color Chips (India) Limited** will be held on Friday the 31st day of December, 2010 at 11.00 AM at Plot No.91, Road No.7-B, Jubilee Hills, Hyderabad- 500033, AP to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Balance Sheet as at 30th June, 2010 and the Profit and Loss Account for the year ended 30th June, 2010 and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Dr.G.Chandra Bhushan who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. K.CH.A.V.S.N. Murthy who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Statutory Auditors of the Company.

BY ORDER OF THE BOARD

Hyderabad
November 16, 2010

**SD/-
PENUGONDAT.V.M. SURESH
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 IN HIS STEAD AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. A blank form of proxy is enclosed and, if intended to be used, it should be returned to the Company duly completed not less than forty-eight hours before the time appointed for this Annual General Meeting.
2. Members/Proxies should bring the Attendance slip duly filled in for attending the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 29th December 2010 to 31st December 2010 (both days inclusive).
4. Members are requested to bring their copies of the Annual Report at the time of attending the Meeting as the same will not be distributed at the Meeting.
5. Members are requested to send all communication relating to shares (Physical and Electronic) to the Company's Share Transfer Agents at M/s. Venture Capital & Corporate Investments Private Limited, 12-10-167, Bharat Nagar, Hyderabad- 500018.

Details of Directors retiring by rotation and seeking re-appointment:
(In pursuance of Clause 49 of the Listing Agreement)

Particulars	Dr. G. Chandra Bhushan	K.CH.A.V.S.N. Murthy
Date of Birth	June 01, 1955	Dec 31, 1956
Date of Appointment	July 01, 2007	Dec 02, 2001
Expertise in specific functional areas	He has over 14 years of experience in health care sector	He is a Chartered Accountant having 22 years experience in Accounts, Finance and Taxation
Qualifications	MBBS	Chartered Accountant
No. of Shares held as on Nov 16, 2010	Nil	Nil
Directorships held in other companies (excluding private limited and foreign companies)	Nil	Nil
Positions held in mandatory committees in other companies	Nil	Nil

DIRECTORS' REPORT

To
The Members
Color Chips (India) Limited

Your Directors have pleasure in placing before you the 20th Annual Report of the Company with Audited Financial Statements for the year ended 30th June 2010.

Financial Results:

(Rupees in Lakhs)

Particulars	2009-10	200849
Gross Total Income from Operations	0.50	541.50
Refit before Depreciation, Interest and Taxes	(41.40)	(425.84)
Depreciation	12.74	127.47
Finance expenses	4.83	7.92
Refit Before Tax	(23.82)	(219.16)
Revision for Tax	—	—
Net Profit/(Loss)	(23.82)	(256.77)
Balance Carry forward to Balance Sheet	(704.76)	(680.94)

Dividend:

The Company has incurred losses for the financial year. Therefore, your directors have not recommended any dividend for the financial year.

Directors:

Members are aware that with effect from September 23, 2010 the Management of the Company has been changed in accordance with Regulation 12 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 by regularizing Mr. Penugonda TVM. Suresh and Mr. M. Krishnam Raju who were inducted as additional directors with effect from August 14, 2010 consequent to resignation of Mr. Y. Suryanarayana and Mr. B. Kishan Rao as Directors with effect from May 10, 2010.

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Dr. G. Chandra Bhushan and Mr. K.CH.A.V.S.N. Murthy retire by rotation and being eligible, offer themselves for re-appointment and brief particulars of these gentlemen, are given in the Explanatory Statement to the Notice of this Meeting.

The Board commends the re-appointment of these Directors as Directors of the company.

Auditors:

M/s. Karumanchi & Associates, Chartered Accountants, Statutory Auditors of the Company appointed in the previous Annual General Meeting hold office till the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The Company has received from Karumanchi & Associates a consent letter to the effect that their appointment, if made, would be within the prescribed limits under Section 224(1 B) of the Companies Act, 1956.

Directors' Responsibility Statement:

In pursuance of Section 217(2AA) of the Companies Amendment Act, 2000 your directors confirm:

- i) That the directors in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures.
- ii) That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of company for that period.
- iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safe guarding the assets of the company and for preventing and detecting fraud and other irregularities.
- iv) That the directors had prepared the annual accounts on the going concern basis.

Particulars of Employees:

There are no employees drawing remuneration exceeding the limits as specified under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

During the Financial year, company has not accepted any deposits falling with the preview of Section 58A of the Companies Act, 1956 read with Companies (Acceptance of Deposits) Rules, 1975.

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Information in accordance with the provisions of Section 217 (1) (e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, regarding conservation of energy, technology absorption and foreign exchange earnings and outgo:

We firmly believe that technology is the genesis of innovative business practices, which in turn enable the organization to carry out business effectively and efficiently. Even though the Animation industry is technology intensive, we believe that there is an increasing need to mechanize the processes involved in order to minimize costs and increase efficiency. We intend to make investments in innovative techniques for this regard.

Energy: The Company is in the business of development of Animation software sector and does not require large quantities of energy. However, wherever possible energy saving efforts are made.

Foreign Exchange Earning and outgo :

Foreign Exchange Earnings : Nil

Foreign Exchange Earnings : Nil

Corporate Governance:

A separate section on Corporate Governance and a Certificate from the statutory auditors of the Company regarding compliance of the conditions of corporate governance as stipulated in Clause 49 of the Listing Agreement entered into with the Stock Exchanges form a part of this Annual Report.

Management Discussion and Analysis:

A separate section on Management Discussion and Analysis as stipulated under Clause 49 of the Listing Agreement entered into with the Stock Exchanges forms a part of this Annual Report.

Acknowledgements:

Your Directors take this opportunity to record their appreciation for the continuous support and co-operation extended by the customers, employees and bankers. The Directors also acknowledge the confidence reposed by the investors in the Company.

Hyderabad
November 16, 2010

BY ORDER OF THE BOARD

**SD/-
PEMUGONDAT.V.M. SURESH
CHAIRMAN OF THE MEETING**

MANAGEMENT DISCUSSION AND ANALYSIS

(Forming part of Directors' Report)

Industry Structure and Developments:

The global animation market (demand perspective) estimated at \$59 billion in 2006 and is expected to reach \$80 billion by 2010. Global market for animated content and related services is estimated at \$25 to 26 billion is forecast to cross \$34 billion by 2010. 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).

Segment wise analysis of the Industry:

The Indian animation industry was estimated at \$354 million in 2006 and is to reach \$869 million by 2010, representing a CAGR of 25 percent over 2006-2010. The Indian gaming industry was estimated at nearly \$48 million in 2006 and is expected to cross \$424 million by 2010, representing a CAGR of 72 percent.

Opportunities:

The digital animation industry in India is witnessing an exponential growth with music videos, advertisements, and even features films going big with digital effects. In addition, the worldwide demand for animation experts from India stands testimony to this rapidly growing market. According to NASSCOM estimates, the global animation industry is expected to touch \$80 billion by 2010 and the Indian digital animation industry will be close to \$900 million by 2010, out of which exports account for over 70 per cent of revenues. The digital sector is catalyzed by India's cost advantage and attractive domestic market opportunity. In addition, the large pool of skilled, English speaking manpower, the growing maturity of animation studios and the development of IP has drawn world-wide attention towards Indian animation industry.

Outlook:

India is emerging as an outsourcing hub for animation and visual effects with large number of international media companies entering into joint ventures with animation studios in India. Animation market in India is estimated to be worth USD 460 mn in 2008 and is expected to reach USD 1,192 mn by 2012. Animation sector comprises of education, multimedia/web design, entertainment and custom content development. The Indian animation industry has matured on the technical expertise since last five years. Color Chips (India) Limited is into 2D and 3D Animation and syndication of comics & contents now needs to focus on creativity and build its own IP content based on indigenous story themes to become more credible in the world market.

Challenges, Risks and Concerns:

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 under

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stood. 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.

Over the years, one distinguishing factor about Color Chips has been the quality of the manpower and low attrition rate, which is much below the industry levels. Particularly, in the 3D animation business, the animators have seen Color Chips as a destination of choice due to training and high quality work opportunities, and a culture best suited for creative talents. This franchise is of utmost importance to this risk reduces progressively with the increase in trained manpower base but nevertheless is an inherent part of the business and needs to be managed actively at all times. Quality computer animation talent is in short supply and also takes time to develop and hence the other major challenges are to successfully increase the talented manpower base of the company.

Discussion on Financial Performance with respect to Operational Performance:

During the year under review the Company has achieved a turnover of Rs. 0.50 Lakhs and Profit after tax of Rs. (23.82) Lakhs.

The earning per share of the Color Chips (India) Limited as on 30-06-2010 is Rs. (0.011/-) (basic & diluted).

The paid-up capital of the Company as on 30-06-2010 is Rs. 20,72,42,738/-.

Human Resources Development and Industrial Relations:

Color Chips (India) Limited firmly believes that Human Assets are more critical than physical and financial assets as they are the ones who manage and sustain the growth of physical and financial assets of the company. Color Chips is well on its way in establishing an integrated system of workforce, which endeavors to develop the capability of its employees that clearly aligns with the business objectives and performance.

Further, we also encourage individual and team awards to sustain and institutionalize the various workforce practices. This helped in giving lots of encouragement to the workforce who have been striving hard to achieve various goals.

Cautionary Statement:

Statement in this Management Discussion and Analysis describing the Company's objective, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Certain observations made on the industry and other players also reflect on opinion by the management and the management accepts no liability on such opinions. Actual results might differ materially from those either expressed or implied.