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ZEE NETWORK

Annual Report 2003-2004

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Padmalaya

Telefilms Limited

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Corporate Information

Board of Directors

G.Adiseshagiri Rao	- Chairman & Managing Director
G.V.Narasimha Rao	- Executive Director
Atul Goel	- Director
Rajiv Garg	- Director
K.Gopala Krishna	- Director
K.Srinivasan	- Director
Bijay Khemka	- Director

Company Secretary

A. S. Ram Kumar

Regd. & Corporate Office

Plot No A-33, Road No 2, Film Nagar,
Jubilee Hills, Hyderabad - 33.

Auditors

M/s. N G Rao & Associates
H.No. 6-3-1186/A/6 (New No. 325), IInd Floor
Chinna Balreddy Building, Begumpet, Hyderabad-16

Bankers

HDFC
UTI
ICICI
State Bank of India
Andhra Bank

Registrars & Transfer Agents

Karvy Computershare Pvt. Ltd.
46, Avenue 4, Street No 1
Banjara Hills, Hyderabad – 500 034

Listing

The Hyderabad Stock Exchange Limited
The Stock Exchange, Mumbai
The National Stock Exchange of India Limited, Mumbai

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Notice

Notice is hereby given that the Thirteen Annual General Meeting of Padmalaya Telefilms Limited will be held on Friday, the 31st day of December.2004 at 10.30 A.M. at State Gallery of Fine Arts, Road No.1, Kavuri Hills, Hyderabad-500033 to transact the following business.

Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet of the company as at 31st March, 2004 and the Profit and Loss Account for the year ended on that date along with the reports of the Auditors and Directors thereon.
2. To appoint a Director in place of Sri. K.Gopala Krishna, who retires by rotation.
3. To appoint a Director in place of Sri. Rajiv Garg, who retires by rotation.
4. To appoint Auditors and to fix their remuneration by passing the following resolution as ordinary Resolution.

   "Resolved that M / s N.G.Rao & Associates, Chartered Accountants, Hyderabad be and are hereby appointed as Auditors of the company, to hold office from the conclusion of this Annual General meeting till the conclusion of the next Annual General Meeting of the company at a remuneration to be fixed by the Board of Directors of the company."

By order of the Board of Directors

Place: Hyderabad
Date : 6th December, 2004

A.S. Ramkumar
Company Secretary

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. IN ORDER TO BE VALID THE PROXY FORM MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 29-12-2004 to 31-12-2004 (Both Days Inclusive) to ascertain the list of members for 13th Annual General Meeting.
3. Shareholders who have not encased the Dividend warrants in respect of the final Dividend for the financial year 2000-2001,2001-2002 and 2002-2003 are requested to apply for revalidated warrants.
4. The attendance slip is annexed to the proxy Form, Members/ proxies are requested to duly fill in and affix their signatures at the space provided therein and hand over the same at the entrance of the place of meeting.
5. Members desiring any information on accounts are requested to write to the company at least seven days before the meeting so as to enable to company to keep the information ready.
6. Members/Proxies are requested to bring the Copies of the Annual Report to the Meeting in view of high cost of printing; The Annual Report will not be distributed at the Meeting.

Additional Information required to be furnished as per the Listing Agreement.

Brief Profile Of Mr K.Gopala Krishna

Mr K.Gopala Krishna, aged about 43 years, has a Bachelor of Science, Bachelor of Law and is a Fellow Member of Institute of Chartered Accountants of India. He has rich experience in the Advertising and Marketing activities, which involve promotional campaigns of national and multinational clientele involving various media like out door, road shows, print and electronic media. He was a Director on the Board of Andhra Sinters limited till 1998 and is a Director of Message Ads Private Limited

Brief Profile of Mr Rajiv Garg

Mr Rajiv Garg holds a master degree in Management from McGill University, Canada and Post Graduate Diploma in International Management from INSEAD, France. He is working as Chief Financial officer of Zee Telefilms Limited; he also responsible for Essel Group Corporate Strategy and Finance. Has over 25 years experience in various business segments like Commercial Banking, Investment Banking, Operational Management, corporate finance and Strategies. He worked in Raymond Ltd as president - Corporate affairs, Saw Pipes Limited as Chief Executive officer. He holds the Director ships in Shalimar Paints limited, XL Telecom Limited and ETC Network Limited.

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Directors' Report

Your Directors take pleasure in presenting the Thirteenth Annual Report of your Company and the Audited Statement of Accounts for the year ended 31st March 2004 thereof. The Business and operations of the Company over the last fiscal year are briefly encapsulated below:

Financial Results (Rs.in.lakhs)

Particulars	Year Ended 31st March 2004	Previous year ended on 31st March 2003
Turnover	9436.69	8801.46
Profit After Tax	-(2248.15)	1699.47
Add: Profit Brought Forward from last Year	2433.48	1743.97
Profit Available for Appropriation	185.33	3443.44

Business Performance Review

The overall performance of your company during this year has not been encouraging due to tough competition and sluggish market conditions. Animation division due to these sluggish conditions was not encouraging and had taken a sharp turn on the sales realization side. The orders that were booked during the year were not forthcoming. For the animation division, the company had no other alternate but to reverse these orders in accordance with prudential business norms. Also the TV Software and Programming division has taken a beating due to some unexpected business specific reasons and your Company once again had no other alternative except to reverse these sales bookings. In a way, this was a year which posed the company challenges in all segments, and it would be the fullest endeavour of your company to rise to the occasion and face the challenges ahead.

Out look for the current year

Your Directors inform that due to the business set back during the year, the company has reviewed each of its business divisions and has under taken a substantial re-organizing, restructuring exercise of its total divisions. In this process the company has decided to re-organize and refocus on animation business, in addition to reassessing other areas and its operations. To strengthen its strategic alliance with Zee Telefilms Limited, and to provide value added services, your company has been establishing integrated team of technical, finance and marketing experts and to specifically focus on developing the business in all segments. Hence your directors have the confidence in executing these decisions.

Re - Structuring

The company has undertaken a substantial re-organization and re-constitution exercise of its structure. In this process, the Company has decided to re-orient and refocus on animation business in addition to re-assessing other areas of its operations. The Company has decided to concentrate on core areas of its expertise and downsize its operations in other under and non-performing areas. The Company has commenced enhancement of the digitalisation project of Feature Films division to support the expansion of the Film Exhibition line of business and the Cable Division has been de-linked and reverted to Siti-Cable. The Company plans to close the operations of United States subsidiary during the current financial year. Your Directors are of the opinion that these measures will contribute to a consolidated development of the Company in the ensuing years.

These developments have resulted in an amount of Rs. 56 crores incurred on various projects infructuous and necessitated revision of accounts that were previously approved on 26th July 2004. The effect of such revision is explained in Note No.1 in the Notes to Accounts. Your Board of Directors is unable to recommend any dividend consequent to such revision.

Statutory Disclosures

Conservation of Energy and Technology Absorption

The company is not engaged in manufacturing activities, and as such the particulars relating to conservation of energy and technology absorption are not applicable. The company makes every effort to conserve energy as far as possible in its editing facilities, Production Floors, offices etc.

Foreign Exchange Earnings and Outgoings.

	Rs.in.Lakhs
1. Total Foreign Exchange earned	22.30
2. Total Foreign Exchange utilised	16.08

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Particulars of Employee's Remuneration and Industrial Relations

There are no employees whose particulars, pursuant to Section 217(2A) of the Companies Act 1956, read with Companies (Particulars of Employees) Rules, 1975, are to be disclosed. Industrial relations in the company were very cordial and stable

Subsidiaries.

The Statement required U/s 212 of the Companies Act 1956. The financial Statements, Auditors and Directors report of the Company's Wholly owned Subsidiary Padmalaya Telefilms Inc, USA have been attached and form part of Annual Report.

Public Deposits

Your Company has not accepted any deposits from the public during the year under review and there are no outstanding deposits as on 31st March 2004.

Directors

In accordance with the Provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr K.Gopala Krishna and Mr. Rajiv Garg will retires by rotation and being eligible, offer themselves for re-appointment.

Shri G.S.R.Krishna Murthy Promoter Director and Chairman of the company resigned from the Board w.e.f 2nd February 2004 due to personal reasons, further Mr Jayadev Galla and Mr P.C.Reddy are resigned w.e.f. 3rd September, 2004. The Board places on record its appreciation for the contributions made by them during their tenure.

Auditors

M/s. N G Rao & Associates, Chartered Accountants are Auditors of the company retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Explanation to Auditors Qualification:-

Auditors have commented in point No 12 of Annexure to the Auditors Report as Company is regular is depositing undisputed all statutory dues other than income tax dues mentioned in point 17 of Schedule L.

Management feels that the comment of Auditor is self-explanatory. Due to blocking of funds in some long-term current assets, delay has happened and the same was explained in point No 17 of Notes to accounts.

Corporate Governance

Pursuant to clause 49 of the Listing Agreement executed with the stock exchanges, the company has complied with all the provisions of Corporate Governance and a detailed note in this regard is provided in this Annual Report elsewhere. A certificate from the Auditors of the company regarding compliance of conditions of Corporate Governance is attached to this report.

Management Discussion and Analysis

A Management Discussion and Analysis Report has been attached and forms part of the Annual Report.

Director's Responsibility Statement

As required under the Companies Act 1956, your Directors wish to state:

1. In the preparation of the Annual Accounts for the year ended March 31, 2004 applicable accounting standards have been followed with no material departure.
2. Accounting policies have been selected and applied consistently, at the same time judgements and estimates have been made, 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 for the year under review.
3. Proper and sufficient care has been taken 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; and
4. Accounts for the year ended 31st March 2004 have been prepared on Going Concern basis.

Human Resources

The Board of Directors would like to place on record its deep appreciation to all the employees for their dedicated services to the company. Our organizational culture and work environment is central to our ability to compete effectively.

Acknowledgements

Your Directors wish to place on record their deep sense of appreciation for the devoted services of the Executives, Staff, viewers, Clients and Advertising Agencies, Various TV Channels, Distributors, Exhibitors and Channel Partners, the Central & State Governments , Bankers, and Institutions for their continued support and as well as co-operation with the Company.

For and on behalf of the Board

Place : Hyderabad
Date : 6th December, 2004

G.Adiseshagiri Rao
Chairman and Managing Director

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Report on Corporate Governance

Padmalaya Telefilms Limited is committed to the highest standards of corporate governance in all its activities.

Company's Philosophy on code of governance:
Your company believes in providing highest transparency and ethical value in Corporate Governance. Your company also believes in taking into confidence all the stakeholders viz Shareholders, Employees, Creditors, Customers etc. Your company is committed to take the torch of Corporate Governance forward, so that every stakeholder of the company synchronises and synergise their efforts in their growth along with the growth of their company.

Board of Directors:-

a) **Composition**

The Board of Directors of the Company consists of 9 Members comprising of.

- Four Promoters Directors out of which two are in the Whole time employment of the Company.
- Three Independent Directors, drawn from amongst persons with experience in Business, Finance, Management, Marketing and industry.

b) **Other Directorship/Committee Memberships held:**

Name of Director	Category	Designation	Directorship Held in other Companies	
			Director	Committee Member
G.Adiseshagiri Rao	Promoter Executive	Chairman & Managing Director	4	NIL
G.V.Narasimha Rao	Promoter Executive	Executive Director	1	NIL
K.Gopala Krishna	Non-Promoter Non-Executive	Director	1	NIL
Atul Goel	Promoter Non-Executive	Director	2	NIL
Rajiv Garg	Promoter Non-Executive	Director	3	NIL
K.Srinivasan	Non-Promoter Non-Executive	Director	3	NIL
Bijay Khemka	Non-Promoter Non-Executive	Director	NIL	NIL

Note :- The Re-structuring and Re-Constitution of the Structure of the company is in process, management is taking initiatives to increase the No of Independent Directors and compliance of Clause 49 of the Listing Agreement.

c) Board Meetings held during the year:

S.No	Date of Board Meeting
1.	16th April 2003
2.	22nd July 2003
3.	21st August 2003
4.	15th October 2003
5.	30th January 2004

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D) Attendance of Directors at Board Meetings and Last Annual General Meeting:

Name of Director	Meetings Attended	Attendance at last AGM
G.S.R.Krishna Murthy*	3	Yes
G.Adiseshagiri Rao	5	Yes
G.V.Narasimha Rao	4	Yes
Jayadev Galla***	0	Yes
P.C.Reddy***	5	Yes
K.Gopala Krishna	5	Yes
Rajiv Garg	1	Yes
Atul Goel	0	No
K.Srinivasan**	1	Yes
Bijay Khemka**	1	No

* Resigned as Chairman and Director W.E.F 2nd February 2004
** Appointed as an additional Directors on the Board W.E.F 21st August 2003.
*** Resigned as Directors W.E.F. 3rd September 2004

Audit Committee

a) Terms of Reference

The Audit Committee Provides the Board with additional Assurance as to the adequacy of the Company's internal control systems and financial disclosures. The Audit Committee acts as a link between the Management, Statutory Auditors, Internal Auditors, and the Board of Directors. The composition, powers and functions of the Audit committee meet the requirements of the Listing Agreement and Section 292 A of the Companies Act 1956. The Broad terms of reference of the Audit committee are to review with the Management and / or Internal Auditors and / or Statutory Auditors in the following areas.

I. Overview of Company's financial reporting process and financial information disclosures.
II. Review with Management, external and internal audits, the adequacy of internal control systems.
III. Review the adequacy and effectiveness of accounting and financial controls of the Company, compliance with the company's policies and applicable laws and regulations.
IV. Review with Management, the Annual financial statement before submission to the Board.
V. Recommending the appointment/removal of external and internal auditors, fixation of Audit fees.

b) Composition, name of members and Chairman

The Audit Committee of the Company comprises three members; all of them are "Independent " Non-Executive Directors. The names of the members of the Audit Committee are as follows.

K.Gopala Krishna - Chairman
Rajiv Garg - Member
Bijay Khemka - Member

Meetings and Attendance During the Year

Name of the Director	No. of Meetings Held	No. of Meetings Attended
K.Gopala Krishna	4	4
P.C.Reddy*	4	4
Bijay Khemka	4	2

* Mr P.C.Reddy has resigned w.e.f 3rd September 2004 consequently Board has appointed Mr Rajiv Garg as member of the committee.

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Remuneration policy

The Remuneration Committee recommends the Company policy on all elements of remuneration of Executive Directors.

The Remuneration Committee Comprises the Following members: -

K.Srinivasan - Chairman

Bijay Khemka - Member

K.Gopala Krishna - Member

The committee was formed on 26th July 2004 and met once after the formation.

Details of Remuneration to the Executive Directors paid / payable for the Financial year 2003-04 is as follows.

(Amount in Rupees)

Particulars	G. Adiseshagiri Rao Manging Director	G.V. Narsihma Rao Executive Director
Salary	13,20,000	5,28,000
HRA	1,98,000	79,200
Commission	Nil	Nil
Total	15,18,000	6,07,200

Non-Executive Directors have been paid sitting fees for attending Board and Committee Meetings.

Shareholders / Investors Grievance Committee

As a measure of Good Corporate Governance and to focus on the shareholder's grievances and towards strengthening investor relations, an Investor's Grievance Committee has been constitutes as sub committee of the Board.

In Pursuance of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (Duly Amended), the Board has approved the "Code of Conduct for Prevention of Insider Trading" and authorised the Committee to implement and monitor the various requirements as set out in the code.

The Board has designated the Company Secretary, as the Compliance Officer.

a) The functions of the Committee include:
To specifically look into redressing investor's grievances pertaining to:
1. Transfer of Shares
2. Dividend
3. Dematerialisation of Shares
4. Replacement of lost/stolen/mutilated share certificates.
5. Non-receipt of rights/bonus/split shares certificates
6. Any other related issues.

b) Constitution and composition
The committee was constituted with three directors under the Chairmanship of Non executive Director as follows.

K.Gopala Krishna - Chairman
G.Adiseshagiri Rao - Member
G.V.Narasimha Rao - Member

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Investor Complaints Received and resolved during the year 2003-2004

Nature of Complaints	No's
A. Relating to Transfer, Transmission, Transposition, Dividend and Change of Address	107
B. Others	90
C. Legal Proceedings on Share Transfer issues and Complaints to SEBI, Department of Company Affairs if any.	Nil

General Body Meetings

a) Particulars of last three Annual General Meetings:

Venue	Date	Time	No of Special Resolutions
Padmalaya Studio Complex Road No. 78, Jubliee Hills Hyderabad - 500 033	27-09-2001	10.30 A.M	One
Padmalaya Studio Complex Road No. 78, Jubliee Hills Hyderabad - 500 033	27-09-2002	10.00 A.M	Nil
Padmalaya Studio Complex Road No. 78, Jubliee Hills Hyderabad - 500 033	27-09-2003	10.00 A.M	Nil

b) Particulars of last three Extraordinary General Meetings

Purpose	Venue	Date	Time
Issue of further Shares etc.	Regd. Office	24-09-1998	11.00 A.M.
Alteration of Articles*	Regd. Office	07-02-2000	11.00 A.M.
Increase of Authorised Capital, Alteration of Articles and Preferential Allotment of Shares	Padmalaya Studio Complex Raod No. 78, Jubliee Hills Hyderabad - 500 033	27-03-2002	10.30 A.M.

* Providing for Dematerialisation of Securities.

Disclosures

1) The company has related party transactions in the ordinary course of business, which are not having any potential conflict with the interest of the company.

2) The company has complied with the requirements of regulatory authorities on capital markets and no penalties / strictures have been imposed against it in the last three years.

Means of Communication

Pursuant to the Listing Agreement, Financial Results are generally published in Financial Express, Business Standard, National newspapers and in Andhra Bhoomi / Vaartha a Regional Language newspaper. As the results of the company are published in newspapers and submitting to the stock exchanges immediately after the Board meeting and are not send to the each household of shareholder.

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