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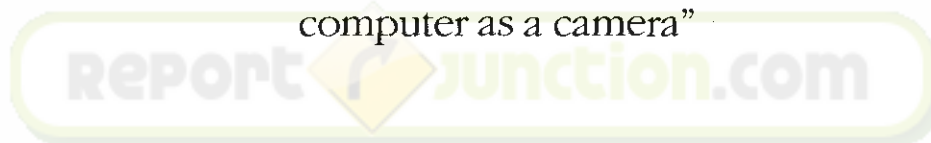
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“Constant improvisation of entertainment using the  
computer as a camera”

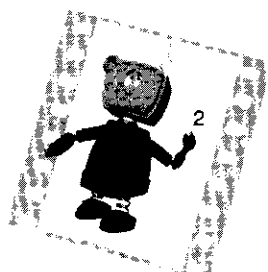


**PENTAMEDIA**  
GRAPHICS LIMITED 

(Formerly PENTAFOUR SOFTWARE & EXPORTS LIMITED)



Chairman & CEO	V. Chandrasekaran
Directors	Dr. S. Ramani T.K. Seshadri Kenneth P. Silverman S. Ranganathan V.S. Sundararajan
Director & COO	K. Srinivasan
Company Secretary	S. Ramesh
Auditors	M/s. Price Waterhouse, Chartered Accountants, Chennai. M/s. S. Viswanathan, Chartered Accountants, Chennai.
Legal Advisor	T.K. Seshadri
Bankers	Global Trust Bank Bank of India Dresdner Bank AG
Registered Office	No.1, First Main Road, United India Colony, Kodambakkam, Chennai - 600 024. Tamilnadu, India.
Factory Premises	Software Development Park & Multimedia Center 1/162, Old Mahabalipuram Road, Thaiyur Sengammal Village, Kelambakkam, Chengai MGR District 603 103. Tamilnadu, India.



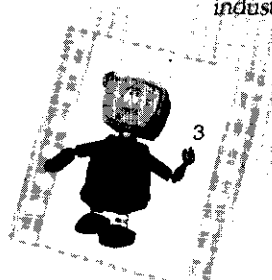


Dear friends,

Report Junction

As I often reiterate, there's just one thing permanent in this world and that is *CHANGE*. Everything changes for the good, attitude, age, life-style and corporate world indeed. The changes reflected on us in the form of the strategic *hive-off* of the our erstwhile Business Software Segment. But what one should remember is that when there's change there's growth and when there's growth there's an element of sacrifice to it and the sacrifice is negligible when compared to the best in store for us. And believe me, most of the times, sacrifice hurts! We have *marched forth* with fortitude amidst a lot of changes that the Company and its associates experienced not to forget that the changes also instill a certain amount of apprehension into us.

Your Company is now a full-fledged entertainment graphic player concentrating on rendering Animation and Special Effects for the Big Screen (theaters) Small Screen (home videos and television) and the Personal Screen (personal computer). Statistics indicate that in the last decade, the entertainment industry has recorded an exponential growth and is now valued



at Rs.15,400 crores and is expected to grow to approximately Rs.60,000 to Rs.70,000 crores in the next 5-7 years and this is also far below the true potential. Goods demanded out of necessity have the best penetration not only into the markets but also into the lives of the people world over. However, entertainment has now taken a big, giant leap. Entertainment has now caught the normal lives of the people by storm and as a hard-core technology man, I personally feel and am sure in cognizance with your views that a bit of technology blended into entertainment will make it more effective. This effectiveness is very vivid in terms of the upgradation that the industry has faced in keeping line with the global changes. If 2D was sturdy, we brought in new techniques of 3D and we also interwove it with the motion capture technology, in short we wanted to achieve effectiveness into technology to customize it for the households.

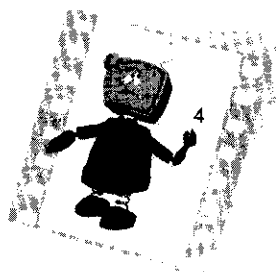
As a matter of plain fact, technology has wormed its way into the entertainment industry by way of Computer Animation and Graphics. The global computer animation industry has seen a growth of 28.98%. A jump from USD \$ 15.7 billion to USD \$ 20.27 billion. Infact the industry is estimated to grow to a whopping USD 40 billion in the next couple of years not considering the web entertainment which has the maximum potential.

So much so that entertainment has taken a strong foot amidst young adults too and has resulted in the birth of what we call Edutainment, a blend of Education and Entertainment, the one that we are achieving in our 2D movie "The story of the Buddha" for a Japanese major. Nearly 4 animation films are under production at the PentaMedia studios. Worth mentioning is our prowess in the turnaround time. Previously animation films took nearly 2-3 years for their completion with its relative cost, (anywhere between US \$ 90-1000 million) but this was duly revolutionized by us. We brought down the completion time by 1 year and this relatively reduced our costs to the world markets. "Sinbad - Beyond the Veil of Mists", was completed in a year's time. Incidentally, the movie has hit the theaters of India in the month of December and the US in January 2000. This will logically hit the small screen segment too and spread into home videos, broadcasting, cable TV, pay-per-view, games, and merchandising.

At PentaMedia, state-of-the-art technology and expertise is the watchword. The market is still rich and ripe with 2D. Our expertise may be 3D but we still play to tunes of the market before actually moving the market to our tunes. Not to miss out on the vast potential of the 2D market, our relationship with the Animasia Companies (Animasia International and Kingdom Animasia) will help us to spread over this arena. The inherent 2D skills and the invaluable assets, especially the database, of the Animasia Companies will now be intertwined to suit the requirements of our clients. Our alliance with IWERKS-USA is yet another logical extension of the theme park market through Big Screen films. The characters thus created by our films will now reach out to the world in the form of simulation or virtual rides which is the core expertise of IWERKS.

The games market should not be underestimated. The popularity of Play Station, DVD, Pentium etc., have caught us unawares. The role of animation in this segment is increasingly becoming indispensable. Our own games on Sinbad is a classic example of this extension. The craze is hotting up to make games out of live action films and TV Serial rather than animation films. The convergence of the television and the personal computer is more than evident in this juncture. Infact, it is being loudly acknowledged that the television is being injected with intelligence with a personal computer converged to it-PentaMedia certainly endorses this point.

The Federation of Indian Chambers of Commerce and Industry have deduced that the demand for Indian language programming is emerging from diverse regions such as the already recognized markets of the US, UK, UAE and South Africa, to the newly emerging markets of Australia, New Zealand, Malaysia and Kenya. Industry pundits estimate that in the not too distant future almost every major television satellite will have at least one Indian language channel in its bouquet of channels. As a relative comparison our tie-up with Stan Lee Media, the creators of "Spiderman" and the "Incredible Hulk" have fetched us the honour of being their Indian counterparts to feature in the launch of their 7th Portal. Our Num TV, the New Millennium for the Non-Resident Indians across the world stand direct testimony to this, however I shall discuss about this in the latter part of my letter.



I can, at this point in time, proudly claim that PentaMedia has been one of the companies, with a combination of Animation and Special Effects under one roof, have taught to its audiences, general and technical, that the beauty and essence of special effects lies in 'concealing'. The art of special effects is defined by how well the effects are not visibly seen. We have time and again proven this in "Jeans", "51/2 hours to dawn", "Mudhalvan" to name a few of our projects. So much so that the industry worldwide have realised the indispensability of special effects that an exclusive category for the same is being earmarked at the Oscars, "Saving Private Ryan", "Titanic", "Matrix" have been a few nominations for this. PentaMedia's "Jeans" revolutionized the special effects industry with respect to the dual roles that the film had, the only Indian movie which was nominated for the Oscars. We are one of the pioneers to indicate that special effects need not be visibly seen. Our Joint Venture with Digital Domain Inc., -USA, is another kick starter to this. Digital Domain which is being headed by Mr.Scott Ross, the man & team behind Titanic, True Lies, Jurassic Park to name a few and PentaMedia Graphics will now closely work to create world class feature length motion pictures for its audiences.

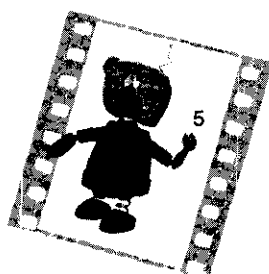
Research indicates that since 1993, computer households have nearly doubled, reaching approximately 51 million homes in 1998. Between 1999 and 2010 the CAGR of computer households especially in the US is expected to scale to be 4% twice as fast as US household growth and by 2010, 80% of US homes will have computers. This is the platform and scenario in which our entertainment portal Num TV – The New Millennium TV is traversing. If life habits have to be adjusted and adapted to suit the entertainment that is available to us, then Num TV is an exception. The leisure-recall facility in this internet broadcasting television will now enable its viewers to watch their favourite programmes at any time in any zone. The recent past was infested with hardware connectivity problems but corporates across the globe were consciously overcoming this and now the result is clarity – a clear, visual entertainment. The various channels of Num TV is nearing its testrun completion and the commercial broadcast is expected shortly not to forget our Audio Video compression techniques that has helped us to achieve this. Num TV is a very fascinating entertainment to us because it is digital and anything digital is natural to us.

Internet broadcasting has shown us the way to spruce the B2B (business to business) and B2C (business to consumers). The impact of this field has seeped us knee deep to constantly upgrade and stay online with our technology. But what we can flaunt around is our pioneering concept to the world – **E2C, Entertainment to Consumers** which is a blend of entertainment and commerce customised to suit the needs of the consumers and inturn enhance internet transactions.

As we are aware, India is the largest producer of films in the world and it has been researched that in the last two years, film exports have been growing at over 80% and the Indian Motion Pictures Association estimates that film exports will at least double this year. Close on the lines of keeping up with the technology which enhances the film output, your Company inaugurated the Asia's first technological studio with blue screen and motion capture techniques. Our predominance in the overseas market and our services for the domestic market will be enhanced with this infrastructural addition. The world of real characters and unreal backgrounds, real backgrounds and unreal characters will now come live with due thanks to our infrastructural enhancements.

The year has done our spirits good when we acknowledged our No:3 ranking in the world by the Roncarelli Report of the Computer Animation Industry, but the associates of PentaMedia glimpsed the entertainment graphics world at our own development center at Kelambakkam during EGO 2000, a conference for Entertainment Graphics Organization, a non-profit annual organization that met and discussed the potentials and obsolescence of the industry. Industry majors across the world participated and gave their inputs during this three day conference.

But what one should not forget is the nature of the projects at PentaMedia. The projects are based on milestone events and so are our revenues. The expenditure invested for the execution of the film and the maturity of the milestone are the two important components of your Company's performance. The existing accounting standards, however, do not account the progress of work and neither is there a value for the content or database thus created. Hence there is a mirage-line reflection in the performances but the long term consistency is obvious.



Our strategies on acquisition, and joint ventures have been clearly defined. Our alliances with distribution companies, selectively, will help us to enjoy in the success of the films thus created by us. The repeated usage of its content is a tangible revenue driver. But our venturing into distribution will center around Internet distribution which is now available through video streaming by the click of a button anywhere in the world without any physical transmission of CDs, Tapes, DVDs etc.,

With our state-of-the-art facilities and development centers across India with STP status, 100% EOU status and a tax holiday for 6 plus years with 50% limit to render services for the domestic segment we are all poised to benchmark the best as our performance. Infact, an ADR listing is being envisaged at the appropriate time to enhance our expansion plans. As a matter of plain coincidence, the Company has declared a millennium dividend of 120% for this year.

In the last decade, the computer was initially used as a mixing medium and slowly graduated into being used as a processing medium. PentaMedia Graphics has redefined the usage of the computer as a camera – computer as a camera. After all traditional cameras use only one eye for shooting but computers use both the eyes which undoubtedly gives a clearer and subtler vision!! And as we know today's capital is not buck or brains, its time and we are fully equipped to confront this. Exit Innovation Enter Improvisation!

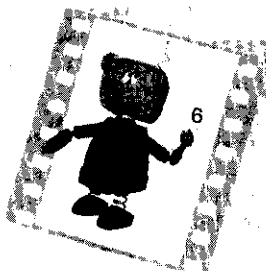
My heartfelt thanks for all the cooperation and support and more for being with us.

Yours



**Dr.V.Chandrasekaran**

Chairman&CEO







The results for the current year highlight the finance performance for the Multimedia activities as Business Software division is hived off as part of restructure.

	Rs in million	
	Current Year (MM)	Last Year (MM)
Sales	3,929.87	2,845.80
Operating Profit	1,461.93	1,233.10
Profit Before Tax (Operations)	1,057.44	676.70

The sales registers an impressive growth of 38.08% over last year, while the Profit before Tax (Operations) has shown an increase of 56.25%.

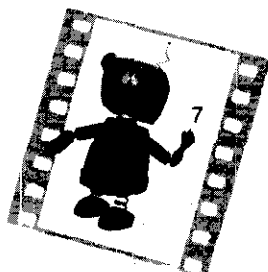
Software development expenses form 49% of the turnover. The development expenses are incurred for new projects for which quantifiable milestones are not achieved in the current year. While the project as a whole will certainly result in profit, in the initial stages there will not be an exact matching of cost with revenue. Software development expenses includes Software such as Softimage, 3D Max for 3D, Animo, Pentacartist for 2D and Cineon, Illusion for SPECIAL EFFECTS etc., to name a few.

Depreciation is provided in an accelerated manner and computers are depreciated between 3-4.2 years as against 3-5 years. This has resulted in additional depreciation of around Rs.80 million in the current year.

The purchase consideration for Hive Off of Software division is US \$ 205 million, which included the value for transfer of assets, Non-compete value and consideration for transfer of Intellectual rights and Brand name overseas. The profit on Hive off is Rs.806.70 million, which reflects the consideration for assets transferred over the net value of assets.

The capital reserve addition is Rs.5,442 million in view of hive off transactions

The secured borrowings represents the External Commercial Borrowings (ECB) of Rs. 480.98 million which could not be prepaid for want of approval from Ministry of Finance. These are fully covered by deposits.



**Value Added**

	<b>Rs in million</b>	
	2000 Multimedia	1999 Multimedia & Software
Sales	4,004.25	5,307.83
Material & Multimedia Software Development Expenses	2,259.90	2,979.43
Other Administration Expenses	208.05	306.14
Total Expenditure	2,467.95	3,285.57
Value Added (Operations)	<b>1,536.30</b>	<b>2,022.26</b>
Add : Extraordinary Income	806.70	-
<b>Value Added</b>	<b>2,343.00</b>	<b>2,022.26</b>
Application of Value Added		
To Employees	294.53	624.26
To Shareholders	400.08	135.84
To Government – Taxes	160.82	-
To Banks / F.I.	60.84	231.97
To Asset Replacement – Depreciation	418.01	599.09
Plough Back of Profit	1,008.72	431.10
	<b>2,343.00</b>	<b>2,022.26</b>

**Ratios**

Ratios are tools employed to analyse, test and measure

Solvency

Liquidity

Profitability and

Operational efficiency

Ratios are more meaningful if compared over a period, however last year audited figures are for Company and as such current year ratios are furnished:

**Performance Measure**

		Year 2000 Multimedia
Fixed Assets to Net worth	Fixed Asset / Net worth	0.13
Net Profit Margin	Net Profit / Sales	23%
Fixed Asset turnover	Sales / Net Fixed Assets	2.47
Interest cover	PBDIT / Interest	25.25
Debt Service Capacity	PBDIT / Repayment of Debt + Interest	7.13

**Measure of Financial Status**

Debt equity	Long term debt / Net worth	0.04
Current ratio	Current Assets / Current Liabilities	8.43

