



26th Annual Report - 2002

All things appear and disappear

because of the concurrence

of causes and conditions.

Nothing ever exists entirely alone;

everything is in relation

to everything else.

— Buddha

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## Corporate Mission

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

Chairman & CEO	Dr. V. Chandrasekaran
Board of Directors	Dr. S. Ramani Mr. S. Ranganathan Mr. T.V. Krishnamurthy Ms. Usha Ganesarajah
Director & COO	Mr. G. Venkatesh Babu
Company Secretary & GM Finance	S. Ramasamy
Auditors	M/s. S. Viswanathan Chartered Accountants, Chennai
Legal Advisors	Mr. T. K. Seshadri Mr. T.K. Baskar
Bankers	Bank of India Global Trust Bank Ltd HSBC Ltd UTI Bank Ltd
Registered Office	"Softowers", No.1, First Main Road, United India Colony, Kodambakkam, Chennai 600 024, Tamil Nadu, India
Development Centre / Studio	Software Development Park & Multimedia Center, 1/162, IT Super Highway, (Old Mahabalipuram Road), Thaiyur Sengammal Village, Kelambakkam, Kancheepuram District -603 103 Tamil Nadu, India

## Letter from the Chairman &amp; CEO's desk

Dearest Shareowners,

We meet again!

Entertainment and its myriad medium have established their influence into our world in a profound way. Print medium, radio, theater, television and cable and the internet of course, all have taken a respectable niche in the entertainment industry. Emerging mediums are getting a major boost from technological advances.

Today any industry adopts a three pronged approach – PRODUCTION, DISTRIBUTION and EXHIBITION. The supply and demand chemistry does not match this three pronged approach at all times, however the fundamental question lies in the approach...analog or digital. The answer to it is digital and digital all the way.

Your Company, for the last decade, has been originating its deliverables and quality output based on complete digital strategies. Using the computer as a camera we have been able to achieve 1 trillion tera bytes of data. And now we find the economy emerging with lingua franca' of grandeur in the likes of TMC (Technology, Media and Communication) and ICE (Infotech, Communication and Entertainment). This was the foolproof evidence for our strategy. In PRODUCTION we have Pentamedia, in Distribution we have Media Dreams and numtv and in EXHIBITION we have Mayajaal, the digital multiplex family entertainment center.

Just when we dealt away with the micro-environmental factors, the macro factors walked in. To some extent the geopolitical situations, the overall slow down of the fiscal economy impacted the expansion and diversification plans of the Company from graduating. In spite of this, we heaved a sigh of successful relief after ALIBABA hit the theaters in India. And we were given the National Award for the 'Best English Film' by the Govt. of India and our film (Pandavas) was placed in No 2 position at the Vancovuer Film Festival at Toronto, Canada.

Empirical knowledge is the ultimate teacher. And we don't differ in this view. Our experiences have now helped us to concentrate more on in-house products and Co-Productions.

With all this behind and with the essence of all this in our plans, we are confident of improving the quality of output rather than the quantity. We know that quality is definitely costlier, but we also know that costliest will be the cheapest in the long run.

After all,

**Turnover is Sanity**  
**Profit is Finity**  
**Cash is Reality...**

Not to forget the faith and wisdom you have all bestowed upon us, we thank you and continue yet another spectacular year of challenges, and competencies that will ultimately lead us to the crown.

**Dr. V. Chandrasekaran**  
Chairman & CEO

### PENTAMEDIA GRAPHICS – A Corporate Glimpse

Buddha, that is featured in the front cover of the annual report, is the eternal symbol of peace throughout the universe. Pentamedia Graphics in conjunction with EDP Singapore is all set to release a film "Buddha", for the viewers across the globe.

The need for content, and its consumption is ever expanding both inside the US and around the world. The Internet, DVD, Web TV, HDTV, Cable TV expansion, Satellite distribution and other technology-driven mediums as well as the international markets are all driving demand for content.

Available data proves that the entertainment industry is one of the few that can not only sustain, but also grow during the difficult times of recession and inflation. It is the sheer emotional need of human beings to always consume more, rather than less, forms of entertainment. Combine this with the growth in technology over the years, which has allowed us to view entertainment in not only new, but better mediums that make the experience all the more enjoyable. This has been observed over the years, first with the radio, then theater, then with the television and cable, and now more recently with the Internet.

With every emerging medium, this growing market seems to have an insatiable appetite.

For an industry that treasures quality driven products here's a Company that deserves a royal flourish of trumpets. Presenting, Pentamedia Graphics Limited. An entire Company dedicated with its heart, soul and imagination to the creation of innovative life-like computer animation and awe-inspiring graphics for the entertainment industry.

Pentamedia Graphics, is one of the entertainment graphics majors in the world, catering to the animation and visual effects industry worldwide. The Company is concentrating on all the three kinds of screens - **Big Screen, Small Screen and Personal Screen**. A 22 acre sprawling off-shore development center centralizes the studio activities at Kelambakkam, India. With its core expertise in films/broadcasting, video, CD/DVD and Internet entertainment, Pentamedia is in the forefront of graphics entertainment. The Roncarelli Report on the Computer Animation Industry has ranked the Company No. 1 factory in the world.

The horizons of the Company expanded itself into the various segments of the entertainment industry namely **Studio Entertainment, Media Entertainment, Web Entertainment, Themed Entertainment and Sports Entertainment**.

#### Big Screen:

The Big Screen segment comprising of 2D and 3D has been challenging during the year.

The country is abuzz with riots. War and terror reigns the land. The war of the human race vis-à-vis that of the mind is eternally parading the universe. Arrive on the Scene... Pentamedia's **Buddha**. A co-production with EDB, SINGAPORE, Buddha, is a 90-minute 2D/3D full-length feature film. Targeted at all age groups, the film depicts the life of Buddha. The sets in production are CGI and the characters are all 2D traditionally animated. Our production houses

in Singapore, Manila and USA are working to get the best quality at the right price and timeline. We have also training skills of Singapore as a part of this co-production to create a profile of the individual in the first feature animation project in their country.

Set on the locale of the ancient Arabian colonies, Pentamedia's hybrid movie "Alibaba", was released All-India this year attracting rave reviews. Alibaba is a 90-minute 3D animated motion capture film foot tapping music score and cut scenes to move the product to appeal to the entertainment thirst of today's audience. The movie had over 150 characters, over 50 sets and 1500 props to create the famous Arabian night to reality. Over 300 skilled team contributed to creation of the movie. Universal adopted the audio rights and sales in Mipcom and Napte have yielded favorable results to the product. "ALIBABA" is expecting its United States release during the following year.

"Pandavas" which was released All-India during the last financial year bagged the Best English Feature Film award from the Govt. of India awarded by the Prime Minister. The film was screened in the 2<sup>nd</sup> place at the Vancouver Film Festival held at Toronto, Canada.

Presales is a very significant part of the projects being completed at the studios. The presales for the movies "Buddha" for EDB Singapore, "Son of Aladdin" a co-production venture that has reached 70% of its completion mark and "Hanji" the first time blend film of live action and animation that has reached 55% of its completion mark, are on at **American Film Market** in Los Angeles. Finalization of distribution partners is on the anvil. PepperMint, the leading broadcasting distributor of Italy will be showcasing PANDAVAS for the international television market MIP TV 2002 at Cannes. Son of Aladdin is an action adventure with magic and fantasy to get yet another Arabian night story to reality.

**Hanji** is yet another CGI production feature length on Lord Hanuman as his powers to fight the bad and protect the good. The feature would get our first digital film exposure where in the sets are live shoots on real environment and CGI sets come in the fantasy island reminder of the movie. All characters are CGI and using performance animation to get legend to action.

The studio did the first 4 minutes stereo scopic large format for its Japanese client releasing this summer in a Japan's theme park.

In the domestic market as per last year FICCI report Pentamedia a market share of 17% with over 100 minutes of special effects. In the domestic segment, "Nayak" for S Films involving 9 minutes of dynamic Visual Effects including complex fight sequences, frozen movement with camera rotation etc., have been dealt with. A mythological perspective for the film "Kottaimari Amman" has also been executed with extensive special effects for more than 10 minutes. This project involved animated tree-dance, mind boggling monstrous scorpion man to name a few. "Gemini", "Bannari Amman", "Andham", "Tamizhan", "Tamizh", "Red", "Nanda", "Aadi" etc., are the other successfully completed projects. The division had increased its throughput to do over 150 minutes dominating the south market completely. CGI characters interacting with live action shots to get Hollywood effects to our producers' production budgets and taste of our directors were also successfully completed.

During the year the Company entered into an association with EROS Multimedia, a New York based distribution bigwig with offices in India and UK. EROS Multimedia is a major player in Mumbai producing movies, well positioned in the advertising market of Bollywood. The

association is to penetrate into the Bollywood with a strong partner with existing relationship with producers and directors and work the way industry and the market work. The studio will start function and marketing its capability this summer. Under the title of "Penta-Eros Studio" a hi-end postproduction and graphics facility with non-linear systems such as Smoke and Flint and linear machines such as Abekas 8150 will be set under one roof. It is by far the country's most well equipped digital post-production studio providing services to several media companies such as music channels, the advertising fraternity and the serial/programme producers. The nature of business of the Penta-Eros Studio will include film visual effects, film scanning, reverse telecine and other post-production projects.

#### **Small Screen:**

In the SMALL SCREEN segment, 26 episodes of 22 minutes each was successfully completed for Vasantham Central of Media Corp Singapore. Media Corp is airing the same titles "Panchantantra" in the Tamil language. The programme was well received by the NRIs and negotiations are on for dubbing the same in various languages.

Three animated features titled "Bible Stories", "Fairy Tale" and "Moral Stories" will be executed for Splash Channel. These features have 13 episodes of 22 minutes each. A blend of animation and live action is being explored. An exclusive science magazine and science fiction story is under production. Over 150 episodes of 5 minute 'knowledge know how's', 'skill development' and 'safety rules for schoolers' have been completed and soon the same will be live streamed on the websites. "Mouse Roars", "Safety Tips", "Bible Stories", "Fairy Tales", "VIKRA", and "Seawars" are key on-going projects. "Mr.Doonz", "White Elephant", "You Cheeky Monkey", "Three Little Pigs", have been successfully completed and "House of Wind", "Dr.Bango" have neared completion. A few key work-for-hire projects that are ongoing through the year. in the studios are "RX Car", "Sea wars", "Hybrid recorder", "Empress Chung" amidst others. 3 home videos of 45 minutes are complete and are being marketed at Miptv2002. These are U cheeky monkey, Mouse Roars, Doonz, House of wind, White Elephant targeting the preschoolers. Sea Wars is the first complete CGI 52 episodes of 22 minutes Sea Wars for a Korean client and is scheduled to air in summer 2003. Many cut scenes/models for clients on the gaming world, Electronic Arts, Infogramme and Qi media for their cricket and car racing games.

Amedus is a 2D series for a European client and the work is done at our studios in Mania and India.

#### **Personal Screen:**

In the PERSONAL SCREEN segment, www.numtv.com witnessed a slight slump in viewership owing to the scarcity in affordable bandwidth technology. However, numtv.com signed up with the US based web-casting portal IBLAST for airing 3 hours of content to be relayed into the cities of the United States of America. This tie-up helps us to seek broadband for the viewers of numtv.com at 1/4<sup>th</sup> of its original cost. This is undoubtedly an exclusive relationship for the Asian Contents to be promoted over 250 free-to-air television station programs across the country. This in turn also means that 90% of TV audience will be able to access www.numtv.com. Last quarter, numtv.com used its graphic expertise and its live streaming capabilities for Wisden 20:20 to live stream its cricket matches across the world. The relationship is on going for other matches that are on the anvil.

In the CBT division, over 120 titles were added during the year and out of them 75 titles are on concepts and school and college curriculum. Established channel distribution, direct marketing association, distribution through licensing for international markets based on product to product. The complete catalogue of titles is over and has over 240 titles and this is the largest in the domestic market.

The Multimedia Products division of the company included clients namely, American Power Corporation (APC), Eezeebiz, IGNOU, The Indian Army, Lal Bahadur Shastri Academy, Jamia Hum Dard University, National Securities Depository Limited, Confederation of Indian Industry and Madras University. Licensing and international distribution of products are being finalized and over 240 titles form the library of which 75 have arrived newly into the market.

#### **Education & Training:**

During the year 2001-2002, the Education & Training division of the company focused on imparting knowledge skill and career-oriented training in the latest areas of Multimedia Technology, focus on corporate Training. A corporate training on "Interactive Multimedia Designing" for Rajiv Gandhi Shiksha Mission, Bhopal was conducted during the year. A new curriculum has been designed, developed and implemented combining in a unique way the technology and functional and expertise in the areas of 2D/3D Animation, Visual Effects, Editing, Motion capture technologies. New courses on Motion Capture Technologies, Film Making, Animation etc have been introduced during the year.

#### **Human Resource Development:**

Pentamedia Graphics being a creative organization has technological and cultural heritage, built on creativity. Its key feature is observation, thought, visualization and expression. Using computer as a camera we express ideas / emotional feelings in new ways that will have an impact on viewers. The creativity, innovativeness and commitment of our people have played a significant role in the heights of excellence climbed. Human Resource practices are designed to provide a conducive environment. Employees require a certain degree of flexibility and freedom for innovative and independent thinking. Our approach is to synthesize creativity with reasoning; abstract thinking with sequential / logical thinking; freedom with discipline. The company provides one of the best working class facilities, leading edge technologies and an intensely creative environment to its employees. The training includes on the job training, functional training and cross-functional training and behavioral training.



**Directors' Report**

Your Directors are pleased to present their report on the working of your Company for the year ended 31<sup>st</sup> March 2002.

**Financial Highlights**

	Rs. 000s	
	2001-2002	2000-2001
Total Income	4,618,793	5,701,577
Profit before Interest, Depreciation & Tax	1,778,660	2,109,566
Net Profit after tax	987,494	1,535,498
Add : Surplus Brought forward	4,337,542	3,119,586
Profit available for appropriation	5,325,036	4,655,084
Proposed Dividend	37,479	163,992
Transfer to General Reserve	98,749	153,550
Transfer to contingent Reserve	4,250,000	-
Surplus carried to Balance Sheet	938,808	4,337,542

**Reserves and Surplus**

The aggregate Reserves and Surplus after appropriations, amounts to Rs. 9,056,735 thousands as on 31.03.2002 as against Rs. 11,928,726 thousands as on 31.03.2001.

**Dividend**

Your directors have pleasure in recommending payment of dividend on the Equity Share Capital at the rate of 50 paise per share (5% on par value of Rs.10) for the year ended 31<sup>st</sup> March 2002.

**Business Operations**

Your Company's revenue during the year was Rs. 4,417,175 thousands compared to Rs. 5,523,791 thousands during the previous year, as during the year the billings have been done from the subsidiary companies in respective countries in order to achieve greater efficiencies in billing, factoring and copyright protection for Multimedia products and projects. The turnover has shown a growth of 16% on a consolidated basis. Operating profit during the year was Rs 779,755 thousands (17.65% of total revenues) compared to Rs.1,389,237 thousands (25.15% of total revenues).

**Films (3D Animation, Visual Effects)**

Our Company has released yet another full length 3D animation Hybrid feature film ALIBABA during the year in the Indian Market. This film was executed in the studios located at Chennai apart from postproduction at United States and Canada.

Few components of the film that has scaled up its place in the field of animation technology are as follows:

- ▶ Stylized characters
- ▶ Advanced motion capture techniques
- ▶ Photo-realistic environment
- ▶ Re-purposable/re-usable digital contents

ALIBABA's music score has been enhanced by Mr.Pravin Mani. UNIVERSAL Music is marketing the music scores.

The Company has joined hands with EROS MULTIMEDIA during the year for doing film distribution. Under the title of Penta-Eros Studio, a hi-end post production and graphics facility, to provide services to several media companies including music channels, the advertising fraternity and the serial/ programme producers has been set up

The films (products) under active production are "The Monkey God" and "Sinbad & Collins". The products like "Gulliver's Travels", "Buddha" and "Legends of the Valiant" are on the Co-Production front. All these projects/products are expected to be released at appropriate intervals.

**TV (2D Animation, Special Effects)**

In the small screen, the company has completed 26 episodes for 22 minutes each successfully for Vasantham Central of Media Corp Singapore. Media Corp is airing the same titles Panchathantra in the Tamil Language. The programme was well received by the NRIs and negotiation is on for dubbing the same in various languages. Three animated episodes titled "Bible Stories", "Fairy Tale" and "Moral Stories" will be executed for Splash, a children's TV Channel.

MIPCOM 2001 at France, the television distribution show conducted for corporates worldwide helped us in exhibiting our distribution-products, in-production projects and to-produce projects for co-production as well as distribution. In all Company exhibited over 7 features; 4 home video and two 26 episodes TV series. These were viewed and received by many broadcasters and distributors during MIPCOM JUNIOR and has progressed itself into negotiating mutually beneficial terms of agreement for various markets.

**Interactive Multimedia (CD, CBT, Internet)**

In the PERSONAL SCREEN segment, www.numtv.com witnessed a slight slump due to the combination of factors such as Bandwidth, US slowdown and consequent return of NRI's back to their motherland. However, numtv.com signed up with a US based webcasting portal for airing content to be relayed into the cities of the United States of America. This tie-up helps us to seek broadband for the viewers of numtv.com at a lower cost. Last year, numtv.com used its graphic expertise and its live streaming capabilities for Wisden 20:20 to live stream its cricket matches across the world. The relationship is on going for other matches that are on the anvil.

**Future Focus**

Pentamedia's immediate majority concentration is in repositioning strategies towards 3D home productions and Co-productions to not only own the product but also aim at the long-term pay off for encashing on the digital assets. The Company proposes, by conserving cost and preserving cash, to claim back its debt free position and carefully plan for organic and inorganic expansion.

With the advent of digital projectors, digital broadcasting hubs, digital theatres, Hi-definition TV to name a few Pentamedia is confident of performing to its potential. Its presence in the various high technology areas is meant to provide quality entertainment at affordable prices for an ever-increasing global audience thirsty for entertainment.

**Subsidiaries:**

Your Company acquired three domestic companies viz., Media Dreams Limited, Mayajaal Entertainment Limited., and Kris Srikanth Sports Entertainment Limited, during last year by way of stock swap. These companies have started earning profits and the results of the companies are annexed.

**Media Dreams Limited**

M/s. Media Dreams Limited had a significant year to contemplate and march forward. Out of the 37 film awards that were distributed during the year by the Govt. of India, six of them were bagged by Media Dreams. They also foray into film distribution activity and distributed films like "12B", "Ashoka", "Pammal K Sambandam" and "Crocodile Dundee". Media Dreams has produced over 500 hours of TV software and six feature films have been successfully released. This company has also undertaken marketing of popular teleserials "Kodeeswaran", "Neelavaanam" "Thozhigal", "Kundakka Mandakka". Presently it is distributing "Metti Oli" and "Thandhira Bhoomi"

**Mayajaal Entertainment Limited**

This company had an impressive year. The digital entertainment family center located on the marine East Coast Road off Chennai has recorded impressive footfalls during the year. A plethora of events, campaigns, shooting valleys, corporate outings, games etc., have been the way of life for the center. The digiplex theatres are very popular. With an international Bowling Alley, variety-replete food court, and a thrilling gaming arcade, this place is becoming the most sought after destination in Chennai. Invitation from various Countries, States and Union Territories are pouring in for replicating the similar facility.

**Kris Srikanth Sports Entertainment Limited**

This company has done well during the year. The successful release of its first CD/VCD titled "WORLD CUP 83" – The greatest moment of Indian Cricket and the second CD titled "Cricket Encyclopedia" were well accepted in the market. The Internet division of the company successfully completed 150 hours of live web-cast of cricket content for Numtv.com. Kris Srikanth and Venkatapathy Raju anchored Road shows in U.S. during the year, which was well received by the market.

**Overseas Subsidiaries**

Also your Company has acquired Improvisation Corporation an U.S. based company last year by way of stock swap.

During the year the Company has obtained approval from Reserve Bank of India to consolidate all its overseas subsidiaries under Num TV Limited, Mauritius. The details regarding the functioning of the subsidiaries are mentioned in the Directors Report of each company.

**Subsidiary Company Accounts**

In compliance with the provisions of Section 212 of the Companies Act, 1956, the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2002 of the Subsidiary Companies and also the statement under the said section are attached along with the Balance Sheet of the Company.

**Share Capital**

The Company issued 12,700 thousand GDRs during July 2001 and further 14,500 thousand GDRs during February 2002.

The listing agents for the GDRs are M/S. Deutsche Bank Luxembourg SA.

Consequent to the above issues, the equity capital stands increased at Rs. 749,583 thousands and the Share Premium Account stands at Rs. 7,307,134 thousands.

As a reward to shareholder, the Board recommends issue of one bonus share for every ten shares held. For fractional entitlements, consolidation will be done by an independent agency to be appointed by the board.

**Employees Stock Option Plan**

The earlier ESOP scheme has been abolished during February 2001 itself due to changed capital market scenario and no ESOP is outstanding as on date.

The company has placed before the shareholders for passing the relevant resolution under section 81(1A) for issue of ESOS/ESPS under the prevailing guidelines of SEBI for approval

**Deposits**

Your company has not accepted any public deposits during the year.

**Quality**

The company has been certified with SEI CMM Level IV by KPMG. The company strives to deliver the products/projects and multimedia services at quality levels desired by customers.

**Corporate Governance**

Your Company follows principles of effective Corporate Governance. The endeavor of your company is not only to comply with regulatory requirements but also to practice Corporate Governance principles that lay a strong emphasis on integrity, transparency and overall accountability.

The report of the Directors on the practices of Corporate Governance is given as a separate section titled, "Corporate Governance", which forms part of this Annual Report.

**Secretarial Compliance Report**

As a reflection of your Company's commitment to transparency, the Board is pleased to enclose the Secretarial Compliance Report for the year 2001-2002 to Corporate Governance Report.

**Directors**

Mr.S.Ranganathan, Director retires by rotation in the forthcoming Annual General Meeting and is eligible for re-appointment.

During the year Mr.G.Venkatesh Babu, Mr.T.V.Krishnamurthy and Ms.Usha Ganesarajah were appointed as additional Directors. Mr.G.Venkatesh Babu was appointed a Whole Time Director at the Board Meeting held on 11<sup>th</sup> February 2002.