



28TH
ANNUAL REPORT
2004

PENTAMEDIA
GRAPHICS LIMITED 

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Chairman & CEO	Dr. V. Chandrasekaran
Board of Directors	Dr. S. Ramani Mr. T.V. Krishnamurthy Ms. Usha Ganesarajah (Resigned on 22.03.2004) Mr. S.D. Viswanathan
Company Secretary	Mrs. Padma Suresh
Auditors	M/s. CNGSN & Associates, Chartered Accountants, Chennai
Legal Advisors	Mr. T.K. Seshadri Mr. T.K. Baskar
Bankers	Bank of India Global Trust Bank Ltd (Amalgamated with Oriental Bank of Commerce) HSBC Ltd. UTI Bank Ltd.
Registered Office	"Taurus", No. 25, First Main Road, United India Colony, Kodambakkam, Chennai 600 024, Tamil Nadu, India.
Development Centre / Studio	Software Development Park & Multimedia Centre, 1/162, IT Super Highway, (Old Mahabalipuram Road), Thaiyur Sengammal Village, Kelambakkam, Kancheepuram District 603 103 Tamil Nadu, India

PENTAMEDIA GRAPHICS LIMITED
 Regd. Office. "Taurus", No.25, First Main Road
 United India Colony, Chennai - 600 024.

NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the 28th Annual General Meeting of the shareholders of the Company will be held on Wednesday, the 29th day of September 2004 at 10.00A.M. at Rani Seethai Hall, 603, Anna Salai, Chennai-600 006, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the financial year ended 31st March 2004, the Balance Sheet as at that date, together with the Reports of the Board of Directors and Auditors' thereon.
2. To elect a Director in the place of Mr. T.V. Krishnamurthy, who retires by rotation and being eligible offers himself for re-election.
3. To appoint statutory auditors of the company and fix their remuneration. M/s. CNGSN & Associates, Chartered Accountants, Chennai, are eligible for re-appointment.

SPECIAL BUSINESS

ISSUE OF GDRs/FCCBs

4. To consider and if thought fit, to pass with or without modification(s) the following Resolution as a **SPECIAL RESOLUTION**:

"RESOLVED THAT pursuant to Section 81 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approvals, consents, permissions and/or sanctions as may be necessary of the Government of India (GOI), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), the Listing Agreement entered by the Company with the Stock Exchanges and any other appropriate authorities, institutions or bodies and subject to such conditions as may be prescribed by any of them in granting any such approval, consent, permission or sanction, the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any committee of the Board exercising the powers conferred by the Board) be and is hereby authorised on behalf of the Company to issue/offer and allot Equity Shares / Preference Shares / Convertible Notes/ Securities with or without detachable warrants/ any Securities Convertible into Equity Shares whether optionally or otherwise/Euro Convertible Bonds (ECB's)/Foreign Currency Convertible Bonds (FCCB's) /Global Depository Receipts (GDR's) / American Depository Receipts (ADR's) / Secured Premium Notes (SPN), hereinafter referred to as "Securities") for an aggregate amount not exceeding USD 50 Million (with permissible green shoe option) or equivalent in Indian and/or in any other currency(ies) (inclusive of such premium, as may be fixed on such Equity Shares) or upto such limit as may be permitted by the Ministry of Finance or such other Authorities whichever is higher, directly to Indian or Foreign Investors (whether institutions, incorporated bodies, mutual funds and/or individuals or otherwise and whether or not such investors are members, promoters, directors or their associates of the Company) through public issue(s), Rights issue(s), Private placement(s), preferential allotment for cash or stock swap or acquisition of distribution rights / source codes / digital contents / business / companies/conversion of outstandings/loans due to creditors/lenders or a combination thereof at such time or times and 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 including security, rate of interest etc., as may be decided and deemed appropriate by the Board at the time of such issue or allotment considering the prevailing market conditions and other relevant factors wherever necessary in consultation with the Lead Managers and Underwriters or through the subsidiaries, so as to also enable the Company to get listed at Indian Stock

Exchanges and Overseas Stock Exchanges such as Singapore, Luxembourg, London, NASDAQ and/ or New York Stock Exchange and/ or any of the other Overseas Stock Exchanges."

"RESOLVED FURTHER THAT the Board be and is hereby authorised 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 including but not limited to conditions in relation to payment of interest, additional interest, premium on redemption, prepayment and any other debt service payment whatsoever and all such terms as are provided in International offering of this nature including terms for issue of additional Equity Shares or variation of the conversion price of the Securities during the duration of the Securities."

"RESOLVED FURTHER THAT the Board is also entitled to enter into and execute all such arrangement/agreement with any Lead Managers / Underwriters / Guarantors / Depositors / Custodians and all such agents as may be involved or concerned in such offering of securities and to remunerate all such agents 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 board be and is hereby also authorised subject to approval of the Reserve Bank of India and the concerned authorities to secure the entire or any part of the issue by creation of the mortgage/charge on the company's immovable and movable properties, present and future, such charge to rank either pari passu with or second, subsequent, subservient and subordinate to all the mortgages/charges created /to be created by the Company for all existing and future borrowings and facilities whatsoever."

"RESOLVED FURTHER THAT the company and/or any agency or body authorised 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 tradability 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, as the case may be."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot such number of Equity Shares as may be required to be issued and allotted upon conversion of any Securities referred to in paragraph(s) above as may be necessary in accordance with the terms of the offering and all such shares to rank pari passu with the existing Equity Shares of the Company in all respects, excepting such right as to dividend and voting as may be provided under the terms of the issue and in the Offer Document."

"RESOLVED FURTHER THAT for the purpose of giving effect to any issue of allotment of Equity Shares or Securities representing the same, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable and to settle any questions, difficulty or doubt that may arise in regard to the offering, issue, allotment and utilisation of the issue proceeds, as it may in its absolute discretion, deem fit and proper."

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"RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any Committee of Directors or Senior Executive(s) / Officer(s) of the Company to give effect to the resolution".

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 OR PROXIES NEED NOT BE A MEMBER OR MEMBERS. A PROXY SHOULD BE DULY STAMPED, COMPLETED AND SIGNED AND MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY, NOT LATER THAN 48 HOURS BEFORE THE MEETING.**
2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business under Item No.4 is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 23rd September 2004 to 29th September 2004 (both days inclusive)
4. All documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company between 10.00A.M. to 1.00 P.M. on all days, except Saturdays and Sundays, until the date of the Annual General Meeting or any adjournment thereof.
5. Members who wish to claim unclaimed dividends, are requested to correspond with Mrs. Padma Suresh, Company Secretary at the Company's Registered Office for further particulars. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's Unpaid Dividend Account will be transferred to the Investor Education and Protection Fund established by the Central Government as per the amendment to section 205A read with section 205C of the Companies Act, 1956. Thereafter, no claims would be entertained.
6. Members are requested to bring their copies of the Annual Report and Accounts to the meeting. Members are requested to bring the Attendance Slip duly filled in and handover the same at the entrance of the meeting hall. Members who hold shares in dematerialised form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
7. Members are requested to notify immediately any change in their address to the Company or its Share Transfer Agents and in case their shares are held in dematerialised form, this information should be passed on to their respective Depository Participants without any delay.
8. Members desirous of getting information about the accounts or operations of the Company are requested to address their queries to the Company Secretary at least seven days in advance of the meeting so that the information required can be made readily available at the meeting.
9. Members holding shares in physical form are requested to dematerialise the shares in electronic form to facilitate faster transfer and avoid rejections for bad deliveries. The share certificates may be sent directly to our share transfer agent: M/s. Cameo Corporate Services Ltd., No.1, Club House Road, 5th Floor, "Subramaniam Building", Anna Salai, Chennai-600 002.

By Order of the Board
For Pentamedia Graphics Limited
Padma Suresh
Company Secretary

Place : Chennai
Date : 28th August 2004

Additional information pursuant to Clause 49 of the Listing Agreement of the Stock Exchanges

Re-election of Mr. T.V. Krishnamurthy as Director:

ITEM NO.2

Mr. T. V. Krishnamurthy, aged about 55 years, has about 32 years of professional experience in corporate planning, commercial and investment banking. Prior to joining Pentamedia, Mr.T.V.Krishnamurthy held the position of Managing Director of Modandola Group, Nigeria from October 1999 to March 2000, Chief Executive of Al-Ahilia Portfolio Securities, Oman from July 1995 to January 1999; positions of Deputy Managing Director and President in financial sector in Times of India Group from May 1991 to May 1995; Chief Executive Officer in the financial sector in ESSAR Group from April 1989 to April 1991; and positions of Chief Manger in Canara Bank from July 1970 to 1989. Mr. T.V.Krishnamurthy is graduated from University of Madras with M.Sc. in Mathematics and Statistics and holds a postgraduate diploma in finance and marketing.

Mr.T.V.Krishnamurthy is a director in Pentasoft Technologies Limited, Media Dreams Limited, Kris Srikanth Sports Entertainment Limited, Mayajal Entertainment Limited, Barista Coffee Co. Private Limited and Victoria Consultants Private Limited.

Mr.T.V.Krishnamurthy is also a member in the audit committee, remuneration committee and shareholders investors grievance committee in Pentamedia Graphics Limited, Pentasoft Technologies Limited and Media Dreams Limited.

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

ITEM NO.4

The Company proposes to issue further securities by way of equity / equity linked instruments like American Depository Receipts (ADRs), Global Depository Receipts (GDRs), Convertible Debentures (whether fully convertible or not), Secured Premium Notes, and/or other type of securities for cash or stock swap or acquisition of digital contents/ business/conversion of outstandings/loans due to creditors/lenders or combination thereof through public offer / private placement, as mentioned in the resolution for an amount not exceeding US Dollars 50 Million (with permissible green shoe option) or equivalent in Indian or any other currency(ies) or upto such limit as may be permitted by the Ministry of Finance or such other Authorities. The purpose of the offer is to source the emerging opportunities for growth through acquisitions or otherwise, joint ventures and strategic alliances, both abroad and in India.

The Company will work out the mode of financing plans and also the utilisation plans in consultation with the Advisors, Lead Managers and/or other agencies, wherever applicable, subject to the approvals of Government of India, Reserve Bank of India, Securities and Exchange Board of India and other authorities concerned. Since the modalities and the terms of the issue will be decided by the Board, the issue price of such securities will be determined by the Board at the time of issue(s) depending on the prevailing market conditions and may be listed on Stock Exchange(s), whether in India or abroad, as may be deemed fit by the Board and may be represented by depositing receipts and/or such other securities. This resolution gives adequate flexibility in respect of working out the modalities of issue including size, timing and pricing and also issue such securities in such tranches, at such times and at such price and/or such other valuable consideration(s) as the Board may in its absolute discretion deem fit.

The special resolution, if passed, will have the effect of allowing the Board to issue and allot shares to Investors as detailed above, who may or may not be the existing shareholders of the Company.

The Board recommends the resolution for approval of the members.

Interest of Directors

None of the directors is in any way concerned or interested in this resolution.

Place : Chennai
Date : 28th August 2004

By Order of the Board
For Pentamedia Graphics Limited
Padma Suresh
Company Secretary

Chairman's letter

Dear friends,

I have great pleasure in writing this letter to share some of my thoughts and views. We traveled through another year - filled with excitement and achievements.

It is always said that Food & Entertainment industries will always be up every year compared to the previous years. The only question is what type of entertainment & what type of food!.

You are aware that we are in all major types of entertainment through Pentamedia & its subsidiaries viz., studio (Pentamedia), media (Media Dreams & Intelivision), web (Num TV), themed (Mayajaal), sports entertainment (Kris-Srikanth Sports Entertainment) and has been creating contents using digital technology which can be used across all platforms.

Our Studios completed two full-length animated features – "Son of Aladdin" and "Buddha". The production of Gullivers Travel is under progress. During the year, the opening of Sports Entertainment complex & acquisition of Intelivision, which broadcasts a children channel called "Splash" added to our entertainment bouquet. Our Web casting portal Numtv is continually adding new content for its viewers and is also gearing up to offer ASP services and E-Learning.

As we have been discussing for quite sometime, combining the production of all media & exhibiting the same under Mayajaal entertainment has been approved and shortly this will become functional as the formalities are nearing completion.

Pentamedia focussing on entertainment distribution, special effects for films & interactive multimedia and Mayajaal concentrating on Film, TV, Internet, content production & exhibition like the majors in USA, we are confident of achieving the right value addition to all our stakeholders.

I would like to thank all of you for your co-operation and support at all times.

Dr.V.Chandrasekaran
Chairman & CEO

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DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the twenty-eighth Annual Report together with the Audited Accounts of the Company for the financial year ended 31st March 2004.

Business Scenario

The fastest growing segment within the IT-enabled services market is digital content development. As per Nasscom, the computer graphics, character animation and data digitisation is dominating the Indian IT-enabled services industry. Globally the animation and computer graphics sector is billed to reach \$50 billion by 2005. Services worth \$300 million are already outsourced to India and other markets in South-East Asia by major Hollywood studios because of the cost advantage.

The Indian animation industry is valued at \$550 mn. It is also estimated that a growth rate of 30 per cent annually in the next three years. The current global animation market is worth \$45 bn.

Overseas markets, already impressed by the country's proven success in the IT industry, are increasingly looking at India to cut costs. Animation studios here offer services at lower costs due to the availability of skilled yet cheaper manpower. India also has a strong advantage in getting outsourcing work from the West because of the fast-growing consumer class and lack of a language barrier.

Your directors are glad to report that the company has made significant developments in the area of animation / special effects. The company is poised to take the challenges in the entertainment sector and is hopeful of encashing all its opportunities to sustain its growth momentum in domestic and international markets through marketing tie-ups.

Financial Highlights

	2003-2004	Rs. 000s 2002-2003
Total Income	1,508,239	2,489,671
Profit before Interest, Depreciation & Tax	620,108	1,164,465
Net Profit after tax	68,651	37,807
Add: Surplus Brought forward	626,615	938,808
Profit available for appropriation	695,266	976,615
Transfer to General Reserve	—	350,000
Surplus carried to Balance Sheet	695,266	626,615

Financial Review

Your Company achieved a turnover of Rs.143.34 Crores during the year as against Rs.243.22 Crores in the previous year. Reduction in turnover was mainly due to the focus on long term projects and pending release of "Buddha" project which is slated for release during September 2004.

Profit before Interest, Depreciation and Taxation was Rs. 62.01 crores during the current year as against Rs. 116.45 crores in the previous year. The PBIDT ratio dropped to 41% on sales from 47% on sales during the previous year which was mainly due to the exchange fluctuation on account of sharp appreciation of the Indian Rupees against US Dollar.

The Company's Reserves position is Rs.857.28 Crores as against Rs.845.84 Crores of the previous year. The book value per share is Rs.44.33 after considering the above Deferred Tax Liability.

Dividend

In the absence of adequate profit during the year, No dividend has been recommended for the year in order to conserve resources for the future.

Future Focus

Your company will be focusing mainly on production of 3D Animation feature films and distribution of films, multimedia and special effects to movies. The company has been orienting its digital assets for reusability in future productions and improving

cash flow position. The company will be working towards maximizing revenues by effective implementation of production management.

Increase in Paid up Share Capital

After obtaining the shareholders approval at the last Annual General Meeting, your Company issued 1,53,00,000 equity shares on stock swap basis for acquisition of Intelvision limited on 28th August 2003 and 95,00,000 equity shares on preferential basis to bodies corporate on 12th September 2003. The company also issued 2,00,00,000 warrants convertible into equity shares within 18 months from the date of issue to the promoters. This is in addition to 7,50,00,000 GDRs issued during June 2003.

Consequent to the above issues, the Issued, subscribed and paid-up the equity share capital and the share premium account of the company as on 31st March 2004 stands at Rs.2,449,541 thousands and Rs. 7,711,626 thousands respectively. The paid-up preference share capital as on 31st March 2004 was Rs.50,000 thousands.

Composite Scheme of Amalgamation

The company has made an application to the Hon'ble High Court of Madras for sanctioning a Composite Scheme of Amalgamation/Arrangement between the company and its wholly owned subsidiaries. The consent of the shareholders and secured creditors of the company was obtained at their meeting held on 3rd May 2004 as per the orders of the High Court of Madras.

The said Scheme of Arrangement would enable the company to focus on its remaining business and will considerably reduce the operational cost. It will also result in operational synergy and paves way for funding future growth of the company.

Segment wise highlights

Films (3D Studio, Visual effects)

The 3D studios opened their market this summer with Son of Aladdin, a CG animated feature film, the theatrical release was a limited release all over the USA covering major cities. Your company takes the credit for being the only company outside the United States, to have produced over 4 full length animated feature films.

TV (2D Animation, Special Effects)

The Company with its hi-tech studio is set with a mission to pioneer creatively superior photo-realistic, high-resolution, computer-generated character animation for the feature film, television and entertainment industries. Buddha the company's first full-length 2D animation feature and fifth animated feature, in collaboration with the EDB of Singapore, is complete and will be released shortly.

Visual Effects:

With decades of innovation and expertise come together, your Company is focusing on giving the projects, the visual and emotional firepower they deserve. The Company's Visual Effects divisions has been forging ahead, with more projects under its belt.

Interactive Multimedia, Internet

Video conferencing and interactive TV are slowly taking a back seat as the new hot technology sizzling on the Net-Webcasting takes the Net world by storm. NUM TV.com, the webcasting portal of the Company had inducted a number of Indian Satellite Channels into its fold to carry their programmes to the Indian Diaspora around the world with a bouquet of 15 channels. Num TV also started its own channels "Num Tamizh" and "Num Telugu" offering a number of entertaining programmes and locally produced contents.

Subsidiaries:

Media Dreams Limited

The movie "Whistle" was released in the first quarter and was well received. The Audio Division is also looking at releasing new audio titles by famous musicians.

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Krish Srikanth Sports Entertainment Limited

The company released an interactive CD titled "Bat Like a Master", which is a coaching CD targeted at aspiring cricketers. The website kris-srikanth.com received a very good response of around 2 million page viewers during the days on which matches were held.

Mayajaal Entertainment Limited

Mayajaal's "The Champ - Sports Village" was inaugurated by Mr.Kapil Dev offering Sportainment - cricket, golf, tennis, sauna, gym, swimming pool, indoor cricket, billiards and lots more. The company has opened up its membership packages to its target audience.

Intelivision Limited

The company's Children's channel "Splash" launched its Hindi feed from the 1st of December to enable the channel to reach more children. The channel launched a number of exciting events for Children's Day, Christmas and New Year's Day. The channel's reach and distribution have gone up during the last year to around 15 million homes.

Subsidiary Company Accounts

The Company has applied to the Central Government under Section 212 (8) of the Companies Act, 1956 seeking an exemption from attaching a copy of the Balance Sheet, Profit and Loss Account of the subsidiary companies along with the report of the Board of Directors and that of the auditors' thereon, required to be attached under Section 212(1) of the Act, with the Company's accounts and the said approval is awaited. Accordingly, the said documents are not being attached with the Balance Sheet of the Company, however, the statement required under Section 212 of the Companies Act, 1956 is attached. The Company will make available these documents/details upon request by any member of the Company or it's subsidiaries interested in obtaining the same.

Deposits

Your Company has not accepted any deposit from the public during the current year.

Particulars of Employees required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are as follows:

Rs. 000's

Name	DOB	Designation	Remuneration	Qualification	Exp. Years	Date of Commencement of Employment	Details of Last Employment
V. Chandrasekaran	03.05.51	Chairman & CEO	2688	M.E., M.I.E., CE	28	January 1992	Anjana Consultancy Services Pvt. Ltd., Chief Executive

Conservation of Energy, Technology absorption & Foreign Exchange Earnings/ outgo.

Particulars regarding technology absorption, conservation of energy and outgo required under section 217(1)(e) of the Companies Act, 1956 is annexed to this report.

Directors Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, the Directors to the best of their knowledge and belief confirm that:

- in the preparation of the annual accounts for the financial year ended 31st March, 2004, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- the directors had selected such accounting policies and applied them consistently and made judgments and estimates that were 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 or loss of the Company for the year under review;
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for

Corporate Governance

As per clause 49 of the Listing Agreement entered into with the Stock Exchanges, a report on corporate governance along with a certificate from the Company's Auditors confirming the compliance of corporate governance is attached and forms a part of the Directors Report.

Management Discussion and Analysis Report

The Management Discussion and Analysis Report highlighting the division wise details forms part of the Directors Report.

Directors

Ms.Usha Ganesarajah resigned from the Board with effect from 22nd March 2004 due to personal reasons. The Board places on record its appreciation of the valuable services rendered by her during her tenure.

Mr.T.V.Krishnamurthy retires by rotation at the ensuing Annual General Meeting and, being eligible, offers himself for re-appointment.

Auditors

M/s. CNGSN & Associates, Chartered Accountants, Chennai, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Regarding the observations made by the Auditors in their report, note no. 4, 7 and other notes of schedule 18 forming part of Accounts are self-explanatory.

Personnel

The Company continues to work for its development the development of Human Resources. Your Company has identified that its need personnel with broad capabilities, commitment to building enduring relationships, trusted reputation and culture of relentless improvement and constant innovation. The ongoing restructuring process of the organisation also focuses greatly on proper utilisation of human resource and its rightsizing to make the company healthy. Need based training was provided to employees to equip them to meet the challenges of the competitive environment. The details required to be furnish as per SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 is annexed to this report.

- safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the financial statements have been prepared on a 'going concern' basis.

Acknowledgement

Your Directors take this opportunity to express their appreciation to all the employees for their dedication and for the significant personal efforts and their collective contribution to enable the company to achieve good performance and maintain steady progress in a difficult year.

Your directors also take this opportunity to express their gratitude to Financial Institutions, Bankers, Central and State Government departments, Local Authorities, Stock Exchanges and also business partners and customers in India and abroad for their continued guidance and support.

Your directors wish to thank the Shareholders for their continued support, encouragement and the confidence reposed in the Management.

Place : Chennai
Date : 28th August 2004

For and on behalf of the Board
V.Chandrasekaran
Chairman

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Information under Section 217(1) (e) of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of Directors Report.

A. CONSERVATION OF ENERGY

The company is constantly involved in energy conservation activities. The Information on total energy consumption and energy consumption per unit is given in Form A

FORM - A
POWER AND FUEL CONSUMPTION

	2003-2004	2002-2003
Power Consumption in units	2175923	1858420
Electricity charges (Rs.)	11585598	9756705
Cost per Unit (in Rs.)	5.32	5.25
Self Generated Units	68625	104543
Fuel Cost (Rs.)	597736	705670
Cost per Unit (Rs.)	8.71	6.75

B. TECHNOLOGY ABSORPTION AND INNOVATION

The Company is in tune with the latest technological changes and absorbs technological changes that occur in the industry. The Particulars are given in form B

FORM - B
Research & Development

Pentamedia developed the expertise to produce Quality Animation & Visual Effects content with the Help of its in-house R & D Efforts. Some of the areas where Major thrust was given with regards to R & D were:

- To deploy the content in any medium – Film, Broadcast, CD and Internet.
- Data / Digital Asset Compression Algorithms to reduce requirement of Huge Storage Space and Medium for Storage thereby cutting down Great costs on Data Storage.
- Customized Digital Asset Back-up, Archive search / restore and Management Modules based on Asset Geometry, Nature and Complexity.

The Future R & D Plans focus greatly on:

- Specific Image Manipulation Plug-ins and logical utilities to Produce Hybrid entertainment content Production wherein Live Actions Characters / Actors will perform alongside 2D, 3D Characters in either 2D / 3D or Live footage Backgrounds.

Num TV is working on technologies to provide broadband internet content through various wireless mediums. There is also a lot of research happening to enhance the current audio and video compression techniques to offer high quality broadband content at very low bit rates. Work is also in progress for development of an in-house license rights management software for turnkey management of digital assets.

Intelivision Ltd, which runs the satellite channel "Splash" is researching into providing MPEG4 encoded broadcast solutions for optimizing the bandwidth requirement for uplinking and distribution of satellite channels.

EXPENDITURE ON R & D

	2003-2004 Rs. 000's	2002-2003 Rs. 000's
A. Capital	Nil	Nil
B. Recurring	1,976	3,260
C. Total	1,976	3,260

FOREIGN EXCHANGE EARNINGS AND OUTGO

	2003-2004 Rs. 000's	2002-2003 Rs. 000's
Foreign Exchange Earnings	1,385,217	2,392,145
Foreign Exchange outgo	570,991	1,276,644

Place : Chennai
Date : 28th August 2004

For and on behalf of the Board
V.Chandrasekaran
Chairman & CEO

Employees Stock Option Scheme (ESOS)

The details of Employee Stock Option Scheme are given below:

- | | | |
|---|---|--|
| (a) Options granted | : | 1,40,80,000 |
| (b) The pricing formula | : | In accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 |
| (c) Options vested | : | 1,23,30,000 |
| (d) Options exercised | : | Nil |
| (e) The total number of, shares arising as a result of exercise of option | : | Not applicable |
| (f) Options lapsed | : | 17,50,000 |
| (g) Variation of terms of options | : | None |
| (h) Money realized by exercise of options | : | Nil |
| (i) Total number of options in force | : | 1,23,30,000 |
| (j) Employee-wise details of options granted : | | |
| 1. Mr.T.V.Krishnamurthy | : | 6,00,000 |
| 2. Dr.S.Ramani | : | 6,00,000 |
| 3. Mrs. Sumanthi Sridharan | : | 7,00,000 |
| 4. Mr.S.Chandrasekaran | : | 6,80,000 |
| 5. Mrs.Viji Kannan | : | 7,00,000 |

There are no employees, who received a grant in any year amounting to 5% or more of total options granted during that year or who were granted option, during any one year, equal to or exceeding 1 % of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.

- | | | |
|---|---|----------|
| (k) Diluted Earning Per Share (EPS) (on par value of Rs.10 per share) pursuant to issue of shares on exercise of option calculated in accordance with international accounting standards (IAS 33) | : | Rs. 0.29 |
|---|---|----------|
- 17,50,000 options lapsed due to resignation of employees.
 - Allotment of shares under ESOS is also a part of the scheme of amalgamation/arrangement of the company which is pending before the High Court of Madras. As per Clause 3.22 of the said scheme the exercise period of the options shall extend for a period of 3 months from the date of order of the High Court.

**REPORT ON CORPORATE GOVERNANCE
COMPLIANCE WITH CLAUSE 49 OF
THE LISTING AGREEMENT WITH THE STOCK EXCHANGES**

In terms of Clause 49 of the Listing Agreement entered into with the Stock Exchanges, the Report on Corporate Governance, along with the Certificate of Statutory Auditors is given as under:

Corporate Governance policy:

Pentamedia Graphics Limited considers Corporate Governance to nurture the spirit of enterprise whilst ensuring transparency, accountability, probity, integrity, equity and responsibility. Pentamedia Graphics Limited looks at Corporate Governance as the cornerstone for all sustained superior financial performance, for serving all the shareholders and for instilling pride of association. The Company has a responsible and efficiently structured organization, value-driven and transparent management. Systematic attempt is made to eliminate informational asymmetry between executive and non-executive directors.

1. Company's philosophy on Code of Governance

- Company's focus on Corporate Governance is to attain highest level of transparency, accountability and equity in all facets of its operations and its dealing with shareholders, employees, clients, financial institutions, regulatory and government agencies.
- Company sincerely believes that all its activities must serve towards attaining optimum level of financial stability thereby enhancing the shareholders value, over sustained period of time.

- Achieve excellence in corporate governance by:
 - Adhering to prevalent mandatory guidelines on corporate governance in all respects
 - Review periodically the measures set in for conformity and improvement of corporate governance

2. Board of Directors

• Composition:

The Board comprises of 4 directors with an appropriate mix of both Executive and Non - Executive Directors. Dr. V.Chandrasekaran is the Executive Chairman. The remaining Directors are Non-Executive Directors.

• Board meetings:

The Board met nine times during the year 2003-2004. The dates of Board Meetings are 29.05.2003, 11.06.2003, 27.06.2003, 25.07.2003, 27.08.2003, 12.09.2003, 31.10.2003, 25.11.2003 and 30.01.2004.

• Details of Director seeking Re-election

Mr.T.V.Krishnamurthy retires at the ensuing annual general meeting and being eligible offer himself for re-election. Additional information relating to the retiring director as required under Clause 49 of the Listing Agreement has been included in the Notice.

The attendance of each Director at the Board Meetings, the last Annual General Meeting and number of other Directorships/Committees held by them as on 31st March 2004 are as follows:

Sl. No	Name of Director	Category	No. of Board Meetings attended	Attendance at the last AGM	No. of directorship in other Companies*	No. of Committee Membership***
1.	Dr. V. Chandrasekaran	ED	9	Present	2	-
2.	Dr. S. Ramani	NED/ID	8	Present	1	3
3.	Ms.Usha Ganesarajah (a)	NED	1	Absent	1	3
4.	Mr.T.V.Krishnamurthy	NED/ID	5	Present	6	9
5.	Mr.S.D.Viswanathan (b)	NED/ID	8	Present	-	3

• ED - Executive Director

• NED - Non Executive Director

• ID - Independent Director

* Excludes Foreign Companies, Private Limited Companies, Alternate Directorship and companies registered under Section 25 of the Companies Act 1956.

** Membership in Audit, Remuneration and Investors Grievance Committee are alone considered for this purpose.

(a) Ms.Usha Ganesarajah resigned from the Board with effect from 22nd March 2004.

(b) Mr.S.D.Viswanathan was appointed as an additional Director w.e.f. 29th May 2003 and his appointment was regularized at the AGM held on 22nd August 2003.

The Company did not have any material pecuniary relationship or transactions with the non-executive directors during the period under review. No remuneration other than sitting fees was paid to any of the non-executive directors of the company.

None of the directors are members in more than ten committees and they do not act as Chairman of more than five committees across all companies in which they are directors.

3. Audit Committee

• Composition:

The Company has an independent Audit Committee consisting of three members, all being Independent and Non-Executive Directors,

Dr. S. Ramani is the Chairman of the Audit Committee. The Composition of the Committee as on 31st March 2004 is as under:

1. Dr. S. Ramani, Chairman,
2. Mr.T.V.Krishnamurthy
3. Mr.S.D.Viswanathan.

• Role:

The role of the Audit Committee includes review of internal control systems, accounting policies, the scope of internal audit with internal auditors, the major findings of the internal, statutory audits, critical operating areas through management audit procedure and human resources development. The Committee recommends the appointment of statutory auditors and also reviews the quarterly, half-yearly and annual financial statements before submission to the Board, focusing primarily on changes in accounting policies, major accounting entries based on exercise of judgment by management, qualifications, if any, in draft auditors report, significant adjustments arising out of audit, the going concern basis, compliance with accounting standards, compliance with stock exchange and legal requirements, related party transaction, etc.

During the year the Audit Committee met four times on 27th June 2003, 25th July 2003, 31st October 2003 and 30th January