

PENTAMEDIA
GRAPHICS LIMITED



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31st
ANNUAL
REPORT
2006-07

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PENTAMEDIA GRAPHICS LIMITED

BOARD OF DIRECTORS

Dr.V.Chandrasekaran - Chairman & CEO
Mr.S.D.Viswanathan - Director
Mrs.Sumathi Sridharan - Director
Mr.R.Balaji - Director

COMPANY SECRETARY & COMPLIANCE OFFICER

Mr.G.Swaminathan

AUDITORS

M/s.Sudhindran & Company
Chartered Accountants
Chennai

BANKERS

HDFC Bank Ltd
ICICI Bank Ltd
State Bank of India
UTI Bank Ltd
Kotak Mahindra Bank Ltd

REGISTERED OFFICE

No.25, "Taurus", First Main Road
United India Colony, Kodambakkam
Chennai-600 024, Tamil Nadu
Tel: 044 - 24833067 Fax: 044 -24726042
E-Mail: shares@penta-media.com
Visit us at : www.penta-media.com

REGISTRAR & TRANSFER AGENT

Cameo Corporate Services Ltd.,
Unit "Pentamedia Graphics Limited",
"Subramaniam Building", No.1 Club House Road,
Anna Salai, Chennai – 600 002.
Tel: 044 - 28462700 Fax: 044 - 28460129
E- Mail: cameo@cameoindia.com

"Communication to Shareholders"

(This communication is being circulated to members as directed by BSE vide its "No-objection letter dated 31st October 2007)

Dear Shareholders,

At the outset we would like to thank all the shareholders for their co-operation and support extended to the Company and its management in all these years. Right from the IPO in 1992 the company has been declaring dividends till early the 2000. Though it is a history and you are all aware that the Dot-Com-Burst, 9/11 and various disturbances in International arena forced the management to restructure its entertainment business activities according to the trend. In order to service the shareholders in a better way and consolidate the net worth, your Company had prepared a Composite Scheme of Arrangement for restructuring its operations in production, distribution and exhibition of contents for Film, TV & Internet.

We move forward in the journey and place contents of the Scheme for the purview of the shareholders.

The company had filed the Composite Scheme of Arrangement to Madras Stock Exchange Limited (Regional), National Stock Exchange of India Limited and Bombay Stock Exchange Limited (Designated) on 20th February 2004. The Scheme, as per directions of the Honorable High Court of Madras was placed before the Shareholders and secured creditors in the meetings held on 3rd May 2004 and the scheme was approved. The Honorable High Court of Madras, sanctioned the scheme with effect from 1st January 2004, vide their order dated 12th October 2004 & amended order dated 08th November 2004.

The Salient features of the Scheme:

- a. Amalgamation of Media dreams Limited, Kris Srikanth Sport Entertainment Limited, Intelivision Limited with Mayajaal Entertainment Limited.
- b. Demerger and vesting of Animation and NUM TV Divisions of Pentamedia Graphics Limited in Mayajaal Entertainment Limited.
- c. Re-organisation of capital of PMGL.
- d. Compromise between Mayajaal Entertainment Limited and holders of advances against equity of Mayajaal.
- e. Compromise between Pentamedia graphics Limited and its secured creditors.
- f. The entire equity share capital of Mayajaal (including the existing paid-up equity share capital of Mayajaal and the equity shares issued pursuant to this Scheme) shall be listed at the Stock Exchanges at Madras Stock Exchange Limited, Chennai, National Stock Exchange of India, Mumbai and The Bombay Stock Exchange, Mumbai.

The Bombay Stock Exchange Limited, the designated stock exchange, had rejected the company's application as the company did not obtain 'No-objection' for the scheme prior to the High Court order in October 2004. The company appealed to Securities Appellate Tribunal (SAT) and the appeal was dismissed by SAT, vide its order dated 17th August 2007. The company in its AGM held on 21st September 2007 explained the status of the scheme to the shareholders and as per the suggestions of the shareholders and the board, the company once again took up the matter with BSE. The BSE has conveyed its "No Objection" for implementation of the Scheme, vide its letter dated 31st October 2007 with the following covenants:

1. To modify the Scheme in such a manner that wherever the Scheme had stipulated allotment of equity shares of Mayajaal Entertainment Limited to the equity shareholders of Pentamedia Graphics Limited for the demerger of Animation and NUM TV Division of the Pentamedia Graphics Limited in terms of Part III of the Scheme it shall be read as "allotment of equity shares of Mayajaal Entertainment Limited itself" in the same ratio as proposed in the scheme.
2. Upon allotment of equity shares of Mayajaal Entertainment Limited to Pentamedia Graphics Limited, the scheme shall also be read in such a manner and reference to listing of equity shares of Mayajaal Entertainment Limited by Bombay Stock Exchange Limited, National Stock Exchange Limited and the Madras Stock Exchange shall stand deleted wherever such a reference occurs.

The modified scheme was filed with High Court of Madras and the same has been sanctioned by the court on 17th December 2007, as below:

"That the Composite Scheme of Amalgamation, Arrangement and Compromise between Pentamedia Graphics Limited, Media Dreams Limited, Kris Srikanth Sports Entertainment Limited, Intelivision Limited and Mayajaal Entertainment Limited sanctioned by this Court on 12/10/2004 and 08/11/2004 in C.P.Nos.167 to 171 of 2004, now modified and morefully setout the Annexure herewith in compliance with the No Objection letter dated 31/10/2007 of the Bombay Stock Exchange Limited be and is hereby sanctioned with effect from 1st January 2004 as to be binding on all the share holders and creditors of the applicant companies herein, Viz., Pentamedia Graphics Limited, Media Dreams Limited, Kris Srikanth Sports Entertainment Limited, Intelivision Limited and Mayajaal Entertainment Limited."

PENTAMEDIA GRAPHICS LIMITED

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To adopt the accounts for the year 2006-07, the company proposes to have the Adjourned Annual General Meeting to be held on Friday, 11th February 2008. The full implementation of the scheme with necessary changes including write-off of Rs.690 Crores will be incorporated as per the court order with effect from 1st Jan 2004 and the necessary revised statutory returns will be filed.

We thank the shareholders for their continued support. With the restructuring scheme fully operational, the company is confident that the shareholders will benefit in the years to come

Dr. V Chandrasekaran
Chairman & CEO



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PENTAMEDIA GRAPHICS LIMITED**Registered Office : No 25, Taurus, 1st Main Road, United India Colony, Chennai – 600 024****NOTICE TO THE SHAREHOLDERS**

NOTICE is hereby given that the Adjourned Thirty First Annual General Meeting of the Shareholders of Pentamedia Graphics Limited will be held on Monday, the 11th day of February 2008 at 10.00 a.m. at Rani Seethai Hall, 603 – Anna Salai, Chennai – 600002 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March 2007, the Profit and Loss Account for the year ended on that date and the report of the Board of Directors' and the Auditors' thereon, which was adjourned at the Annual General Meeting held on 21st September 2007.

By Order of the Board of Directors

Place: Chennai
Date: 28th December 2007

G.Swaminathan
Company Secretary

NOTES

- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON POLL, VOTE INSTEAD OF HIM/HER. A PROXY NEED NOT BE A MEMBER. PROXIES IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY AT ITS REGISTERED OFFICE, NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
- The shareholders at their Annual General Meeting held on 21st September 2007, the following resolutions / items were passed unanimously:
 1. Appointment of Mr.S.D.Viswanathan, Director retires by rotation
 2. Appointment of Auditor's and fixing of their Remuneration
- Consequent to the approval of Hon'ble High Court of Madras to the Modified of Composite Scheme of Arrangement of the Company vide its order dated 17th December 2007, the company is placing the accounts for the year 2006-07 before the shareholders for adoption / approval.
- Shareholders holding shares in physical form are requested to advise any change of address immediately to the Company's Registrar and Share Transfer Agents, Cameo Corporate Services Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository Participants and not to the Company.
- Members are requested to hand over the enclosed Attendance Slip, duly signed in accordance with their specimen signatures registered with the Company for admission to the meeting hall.

By Order of the Board of Directors

Place: Chennai
Date: 28th December 2007

G.Swaminathan
Company Secretary

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DIRECTORS' REPORT

Your Directors have pleasure in presenting the thirty first Annual Report to the shareholders along with the Audited Accounts of the Company for the financial year ended March 31, 2007.

Financial highlights

The summary of operating results for the year is given below:

Particulars	Rs. 000s	
	31 st March 2007	31 st March 2006
Total Income	831,669	252,810
Profit before Interest, Depreciation & Tax	751,841	83,337
Net Profit after Tax	9,866	11,602
Add: Surplus Brought Forward	736,186	724,584
Profit available for appropriation	745,930	735,185
Surplus carried to Balance Sheet	745,930	735,185

Financial Review

Your company achieved a turnover of Rs.83.17 Crores (including sale of asset) as against Rs.25.28 Crores in the previous year. The net profit after tax for the year ended 31st March 2007 was Rs. 0.99 Crores against the previous year figure of Rs.1.16 Crores.

Your company is a 100% EOU under STPI scheme (Ref.STPIC/EHTP-013/2005-06/496 Dt.:15/06/2005), which is valid till 17th May 2010

Status of borrowings

The Company's property at Kelambakkam had been mortgaged to Bank of India (First Charge) and Oriental Bank of Commerce (Second Charge) and both the banks have filed case at DRT (Debt Recovery Tribunal) towards recovery of loans sanctioned to the company. Kotak Mahindra Bank has got assigned the entire contractual dues of Bank of India & Oriental Bank of Commerce through M/s. Pegasus Assets Reconstruction Pvt. Ltd., Mumbai, taken over the said property through Sarfaesi act, and settled the loan amount of Bank of India & Oriental Bank of Commerce to an extent of Rs.77.25 Crores. The company is discussing with all the institutions for a settlement scheme.

Status of Composite Scheme Of Arrangement

The company received the "No-objection" letter dated 31st October 2007 from Bombay Stock Exchange Limited (Designated Stock Exchange) and accordingly filed the Modified Scheme of Arrangement excluding listing of the shares of Mayajaal Entertainment Limited and issue of "Mayajaal" Shares to the company itself instead of shareholders of the company before the High Court of Madras. The Court has approved the same vide its order dated 17th December 2007 to implement the modified Composite Scheme of Arrangement

The Salient features of the Modified Scheme with effect from 01.01.2004:

1. Amalgamation of Media dreams Limited, Kris Srikanth Sport Entertainment Limited, and Intelivision Limited with Mayajaal Entertainment Limited.
2. Demerger and vesting of Animation and NUM TV Divisions of Pentamedia Graphics Limited in Mayajaal Entertainment Limited and the consideration shall be in the form of shares being allotted to Pentamedia itself as per the modified scheme.
3. Re-organisation of capital of PMGL
4. Compromise between Mayajaal Entertainment Limited and holders of advances against equity of Mayajaal.
5. Compromise between Pentamedia graphics Limited and its secured creditors

Consequent to the above said order of High Court of Madras, the appropriate changes including write-off of Rs.690 Crores with respect to clause.4.8 & 7.2 of the said scheme will be incorporated accordingly

31ST ANNUAL REPORT 2006-2007**Business review**

Your company is one of the few animation companies in the world that has produced and distributed five feature films in 3D and one feature film in 2D animation in last seven years. Also produced many numbers of animated series and features for Television, Home Videos and Games. The 3D / 2D animation feature films are:

- (1) Sinbad - Beyond the veil of mists
- (2) Pandavas (Govt. of India award)
- (3) Alibaba & 40 thieves (Oscar entry)
- (4) Son of Aladdin
- (5) Buddha (Oscar entry)
- (6) Gulliver Travels (Oscar entry)

"Main Business Focus"

The Company has been focusing and growing by leveraging its brand name in the global market through Marketing and Distribution of content for Film, TV & Internet. This will provide Pentamedia the opportunity to tap into International and Domestic distribution deals for all content across the world, the company has planned its business model in line with the global entertainment conglomerates in the Production and Distribution interests of Film, TV & Internet are vested in different entities in order to minimize the risk and increase the opportunities in the respective areas. Further The Company has huge potential to attract business partners and investors who are interested in the distribution business and grow to a greater scale

Gulliver's Travels - 3D Animation feature film, was nominated to the Oscars 2006. The distribution deals had been completed with ECHELON Entertainment limited USA for theatrical, television home video and DVD rights

"Co-Production" Proposals on Co-Production Joint Venture with the French and Canadian studios have progressed to the next level. Exploring the Possibilities of Co-Production in the same lines as already done with Economic Development Board, Singapore are also underway. Many more promising Co-production responses that came out of our participation in world media events & markets from studios worldwide are being processed for film, TV & games to be taken-up in the coming years. Co-production of "Jai Vigneswara" - Animation film in flash is in progress.

"Pre-Production"

The division has successfully completed the Pre-Production work for 'Sinbad & the Secret of Colonis' - which is a sequel to the company's first animated feature 'Sinbad: Beyond the Veil of Mists' and 'Hanji' while the Pre-production for 'Laika in Space' is nearing Completion. The scripts for 'Tarzan & the Aliens' are undergoing stylizing treatment at Hollywood. Pre-production of "Jai Vigneswara" - Animation film is completed.

"Post Production"

'Jai Vigneswara' - Animation film is nearing completion.

"Parallel Business Focus"**"Consultancy services"**

Consultancy of Creative & Professional services on works relating to Animation, Multimedia & Visual Effects software such as Maya, Softimage, 3D Max, Flash, Flint etc., for various assignment including Overseas consultancy projects.

"Special Effects"

The company has provided visual effects for over 550 Indian Films and 52 Television Serials in the last seven years. Some of the Premium / Blockbuster hits in Tamil, Telugu, Malayalam, Kannada and Hindi are the movies "Jeans" (A Tamil movie with 22 minutes of visual effects), "Ghilli", "Gajini", "Varalaru", "Arjun", "Okkadu", "Little John", "Pagalpooram" & "Hindustan Ki Kasam" etc. Work in progress includes "Dasavatharam", "Lemon" and "Jai Vigneswara". The division is also planning to introduce latest Hardware and Software towards digital thro' for live action films.

"Game development"

Taking into account of various animated characters available in our animated feature films library and game development activities are being planned for targeting the young and adults. The games are today mainly on action where as production will concentrate more on strategy and intelligent games using existing film characters for online and gaming platforms.

Statutory Dues

The company is a 100% EOU under STPI scheme till 2010. The company has obtained relief on its Income-tax appeal cases for the Assessment Years 02-03, 03-04. Since the company is a 100% EOU, expects substantial relief for all the years.

PENTAMEDIA GRAPHICS LIMITED**Dividend**

Your Directors have not recommended any dividend as the cash is conserved for the future activities.

Subsidiary Company Accounts

The members may refer to the Statement under Section 212 of the Companies Act, 1956 and information on the financials of subsidiaries appended to the above statement under Section 212 of the Companies Act, 1956 in this Annual Report for further information on subsidiaries.

Particulars of Employees

Information under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975, is appended herewith.

Audit Committee

The Audit Committee which was constituted pursuant to the provisions of Section 292A of the Companies Act, 1956 and the listing agreement, has reviewed the Accounts for the year ended March 31, 2007. The members of the Audit Committee are Mr. S.D. Viswanathan, Chairman, Mrs. Sumathi Sridharan, Member & Mr. R. Balaji, Member

Directors' Responsibility Statement

In terms of Section 217 (2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In the preparation of the Profit & Loss Account for the financial year ended March 31, 2007 and the Balance sheet as at that date ("financial statement"), applicable accounting standards have been followed;
2. We have selected such accounting policies and applied consistently and such judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the company as at the end of the financial year and of the Profit of the company for that period.
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
4. We have prepared the accounts on a going concern basis.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

The Particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out in the Annexure-A to this Directors Report.

Fixed Deposits

Your company has not accepted any public deposits.

Directors

In accordance with the provisions of the Section 256 of Companies Act, 1956, Mr. S D Viswanathan, Director was appointed as he retired by rotation at Annual General Meeting held on 21st September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956. The discussion and analysis of the Group's financial condition and results of operations are based upon the Group's Audited Consolidated Financial Statements, which have been prepared in accordance with the accounting standards pronounced by the Institute of Chartered Accountants of India.

The management of Pentamedia accepts responsibility for the integrity and objectivity of these financial statements as well as for various estimates and judgments used therein. In addition to the historical information contained herein, the following discussion includes forward-looking statements which involve risks and uncertainties, including, but not limited to, risks inherent in the Company's growth strategy, dependence on certain clients, dependence on availability of qualified technical consultants and other factors discussed in this report

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Industry Overview

Industry experts believe the Indian animation industry is largely influenced by global trends. The global animation industry is expected to grow at a compound annual growth rate of 8.6 per cent in the next four years, according to a PWC report. At present, the domestic animation industry comprises around 300 studios.

Indian Animation and Gaming industry: An insight

The rise of the Animation and Gaming industry in India has been nothing short of meteoric. The segment, driven by significant outsourcing by global customers and a fast growing global market, is offering immense employment potential to India's Gen Z. At the same time, there is a huge talent shortage within this market, which could impact its future growth. In this issue of Communique, we look at the Animation and Gaming industry, the business opportunity it throws up and the challenges it faces in terms of requisite, skilled talent.

The global and Indian market: The global animation market was estimated to have touched US\$ 59 billion in 2006, with an expected CAGR of around eight per cent over the 2006-2010 period. The market will grow to around US\$ 80 billion in 2010. Of this revenue, around 40-50 per cent is attributed to the cost of development, which means that the market for content and related services is estimated at US\$ 25-26 billion and forecast to touch US\$ 34 billion by 2010.

A 2007 study by NASSCOM on the Animation and Gaming market has indicated the following:

- The worldwide gaming market stood at US\$ 21 billion in 2006 and was expected to grow to US\$ 42 billion by 2010 (a CAGR) of 18 per cent over 2006-2010
- The gaming content market (developer's perspective) touched nearly US\$ 7 billion in 2006 and was estimated to cross US\$ 13 billion in 2010 (a CAGR of 17 per cent over the 2006-2010 period)
- Within the gaming market, mobile and online gaming were expected to grow the fastest at CAGR of around 30 and 25 per cent respectively
- The US and Europe are the biggest market for outsourcing animation and gaming functions.
- The Indian animation and gaming industry touched US\$ 354 million in 2006, a growth of 24 per cent over the previous year
- The sector is expected to touch revenues of US\$ 869 million by 2010, at a CAGR of 25 per cent over the 2006-2010 period
- As of now, there are around 300 animation companies in India, employing around 12,000 professionals and 3,000 freelancers
- Despite the existing focus on exports, the animation and gaming companies are now focusing on the high growth domestic market
- The Indian gaming industry touched around US\$ 48 million in 2006 and was expected to touch US\$ 424 million by 2010. Currently, the mobile and console gaming market account for almost 77 per cent of the total gaming market in India.
- The number of animated feature films released annually has grown from just one a decade ago to over 20 between 2004-06.

Source from Naascom

Segmental Performance

Particulars	Rs. 000s
Sales & Services	
Consultancy, Pre-post Production & Distribution of Contents For Big, Small & Personal Screens	124283
	124283
Profit Before Interest & Tax	
Consultancy, Pre-post Production & Distribution of Contents For Big, Small & Personal Screens	8720
	8720
Interest	203
Profit before tax & extraordinary item	8517

Corporate Governance

As per Clause 49 of the Listing Agreement with the stock exchanges, a detailed report on Corporate Governance is included in this Annual Report. A Certificate from M/s. Sudhindran & Co, compliance of the requirements of Corporate Governance in terms of Clause 49 of the Listing Agreement is attached with this report.

Health, Safety And Environment Protection

The Company has substantially complied the applicable Environmental Laws and Labour Laws. It has expended substantial resources, both financial and managerial, in complying with the relevant laws and has taken all reasonable measures to protect the environment, to ensure safety and healthy of the workers.