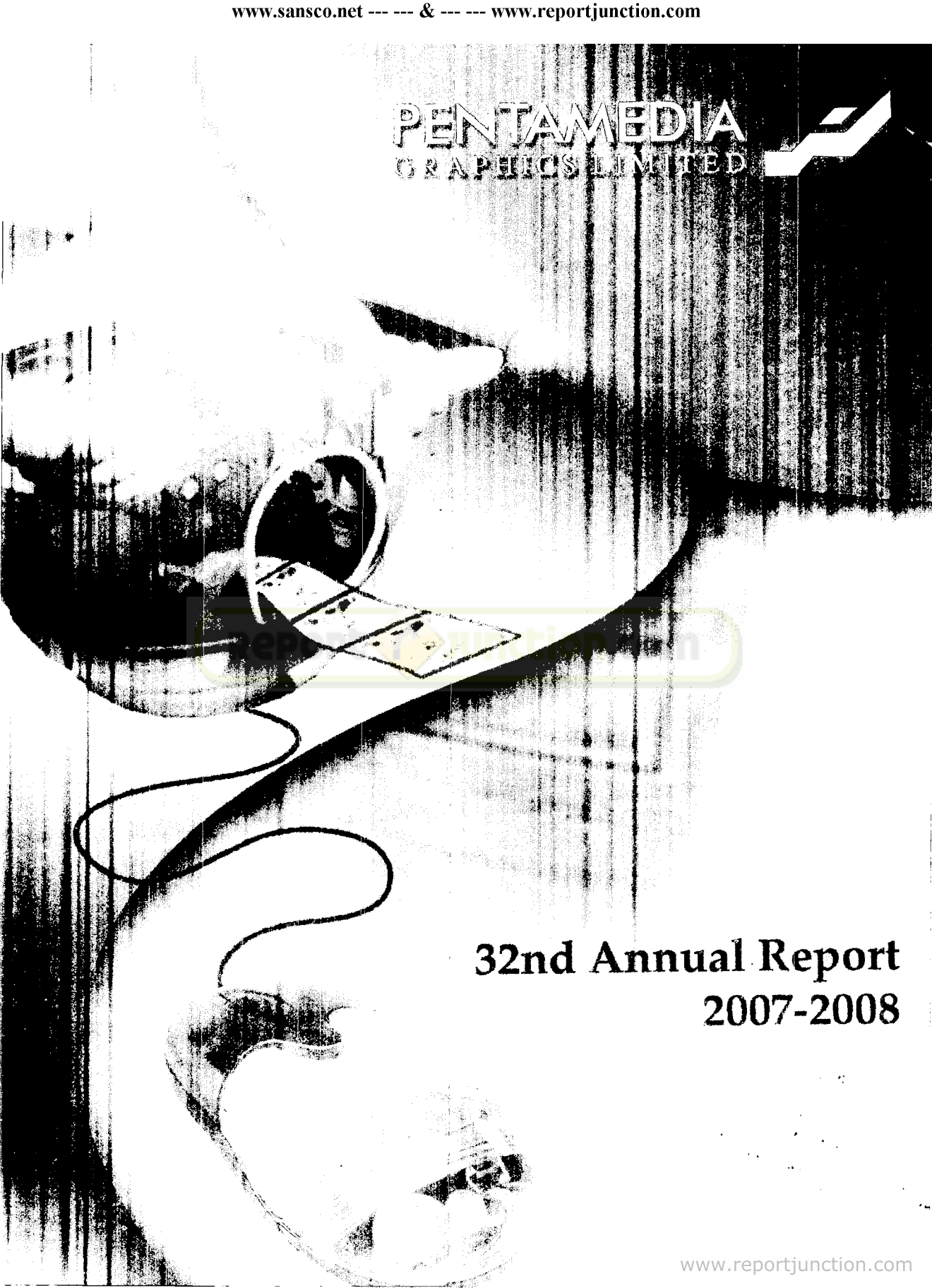


PENTAMEDIA
GRAPHICS LIMITED



32nd Annual Report 2007-2008

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 & Co.,
Chartered Accountants,
G-1, Kesari Kuteeram,
22, West Cott Road,
Royapettah,
Chennai-600 014.

BANKERS

HDFC Bank Ltd
ICICI Bank Ltd
State Bank of India
Axis 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

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Dear Friends,

"Best Wishes"

The year 2008-09 will be practically full year for the restructured operations. As per the scheme and plans, we will be concentrating on Co-production, Pre-production & Post-production of Animation, Special effects and Distribution of contents.

The coming years will be the decade of merger, demerger and acquisition of various activities and entities which will reduce cost and increase in value addition. There has always been a debate on centralized or distributed systems, vertical or horizontal growth, but all this depends on the environment, groups comfort and market moods. But whatever happens, yours truly believes that except eating & sleeping everything will be in digital right from black boards in schools to large screen in theatres. It means education, enterprise and entertainment will have digital inputs and outputs. Since this has to reach common man audio and video will be a necessity. Your company with a history of having vast digital experience in Software & Entertainment will have to play an important role. This can only be achieved by creatively thinking, thinking creatively and doing passionately. This will require youngsters who should be groomed to deliver the appropriate results. This will necessitate new look & approaches to the structure of the corporates in all aspects of management including assets, investments and R & D efforts. I am sure that as usual we will have your support in achieving this.

Let us hope for a bright edutainment, infotainment and entertainment future.

V. Chandrasekaran
Chairman & CEO

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 Thirty Second Annual General Meeting of the Shareholders of Pentamedia Graphics Limited will be held on Friday, the 29th day of August 2008 at 10.00 a.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 Balance Sheet of the Company as at 31st March 2008, the Profit and Loss Account for the year ended on that date and the report of the Board of Directors' and the Auditors' thereon.
2. To appoint Mrs.Sumathi Sridharan, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint and to fix the remuneration of M/s. Sudhindran & Co., Chartered Accountants, Chennai, Statutory Auditors, retiring at the conclusion of this Annual General Meeting and being eligible offer themselves for re-appointment.

SPECIAL BUSINESS

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

SPECIAL RESOLUTION

RESOLVED THAT subject to the provisions of section 61 of the Companies Act, 1956, the Securities Contracts (Regulations) Act, 1956, the Securities and Exchange Board of India (SEBI) the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 or any amendment thereof, and subject to such approvals, permissions, sanctions as may be necessary and subject to such conditions and modifications as may be prescribed by any authority, while granting such approvals, which may agreed to by the Board of Directors, consent of the Company be and is hereby accorded to the Board of Directors (which term shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board of Directors by this resolution) to delist the equity shares of the Company from the Madras Stock Exchange Limited and the National Stock Exchange of India Limited.

RESOLVED FURTHER that the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise with respect to the aforesaid voluntary delisting of shares as it may in its absolute discretion deem fit without being required to seek any further approval of the members otherwise to the end and intent that the members shall be deemed to have given their approval expressly by the authority of this resolution.

RESOLVED FURTHER that the board be and is hereby authorised to take all necessary steps in this regard in order to comply with all the legal and procedural formalities and further to authorise any of its committees or any of the directors of the company to do all such acts, deeds or things to give effect to the aforesaid resolution.

On Behalf of the Board

Place: Chennai
Date: 31st July, 2008

V.CHANDRASEKARAN
CHAIRMAN & CEO

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.
- Explanatory Statement relating to Special Business is annexed to this Notice as required under Section 173(2) of the Companies Act, 1956.
- The Register of Members and Share Transfer Books of the Company will remain closed from Thursday, the 21st August, 2008 to Wednesday, the 27th August, 2008 (both days inclusive).
- 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.
- For the security reasons, no article/baggage will be allowed at the venue of the meeting. The Members or attendees are strictly requested to not to bring any article/baggage, etc., at the venue of the meeting.

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

A. As per requirement of Clause 49 IV (G) of the Listing Agreement with Stock Exchanges, particulars of the Directors seeking appointment and reappointment are given hereunder.

Item No 2

Mrs. Sumathi Sridharan aged about 46 year and has joined Pentasoft Group In the year 1993. She has 23 years of professional corporate experience in various fields such as software development (Penta Bank & CBT/CD Titles), education and training (IBM AS/400, ES/9000 & E-Business solution)

Mrs. Sumathi Sridharan is a M.E. Computer Engineer and before joining Pentasoft Technologies Limited she was with REC, Trichy as a faculty in Department of Computer Science.

The details of her directorship in other Companies and membership of Committees as on date are as follows:

COMPANY	POSITION	COMMITTEE MEMBERSHIP
Pentasoft Technologies Limited	Non-Executive Independent Director	<ul style="list-style-type: none"> • Audit Committee - Member - Member • Remuneration Committee - Member • Shareholder's/Investor's Grievances - Member
Mayajaal Entertainment Limited	Whole-time Director
Num TV Limited, Mauritius	Director
Pentafour Software Employees Welfare Foundation	Director

Item No 4

The Company is listed at Bombay Stock Exchange Limited, Mumbai (BSE), The National Stock Exchange of India Limited, Mumbai(NSE) and Madras Stock Exchange Limited (MSE). In view of thin volume of trading at Madras Stock exchange Limited and the National Stock Exchange of India Limited, the Company proposes to delist its securities from the said Stock Exchanges (NSE & MSE). However the Company will continue to list on the Bombay Stock Exchange Limited, Mumbai.

Accordingly, Members' approval is sought by a Special Resolution in accordance with the Securities & Exchange Board of India (Delisting of Securities) Guidelines, 2003 to enable voluntary delisting of the Company's equity shares from the Madras Stock exchange Limited and the National Stock Exchange of India Limited, Mumbai.

In view of the continued listing of the Company's equity shares at the Bombay Stock Exchange Limited, Mumbai and the Company is not required to provide any exit option to those shareholders of the region where the aforesaid Stock Exchange from which the Company proposes to delist its equity shares, are stipulated.

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

Place: Chennai
Date: 31st July, 2008

On Behalf of the Board

V.CHANDRASEKARAN
CHAIRMAN & CEO

DIRECTORS' REPORT

Your Directors are happy to present their Thirty Second Annual Report to the shareholders along with the Audited Accounts of the Company for the financial year ended March 31, 2008.

Financial highlights

The financial performance of your Company for the year ended March 31, 2008 is summarized below :

Rs. 000's

Particulars	Current Year	Previous Year
Total Income	87,810	831,669
Profit before Interest, Depreciation & Tax	38,713	751,841
Net Profit after Tax	16,730	9,866
Add: Surplus Brought Forward	746,052	736,186
Profit available for appropriation	762,782	746,052
Surplus carried to Balance Sheet	762,782	746,052

Financial Review

Your company achieved a turnover of Rs.8.78 Crores as against Rs.83.17 Crores which includes sale of assets in the previous year. The net profit after tax for the year ended 31st March 2008 was Rs.1.67 Crores against the previous year figure of Rs.0.99 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 2009 having income tax benefit as applicable.

Financial figures have been modified/regrouped as per the modified composite scheme of arrangement sanctioned by the Hon'ble High Court of Madras on 17th December 2007.

Share Capital

Consequent to the Modified Composite Scheme of Arrangement of the company sanctioned by the Hon'ble High Court of Madras on 17th December 2007: this was placed at adjourned AGM held on 11th February 2008. As detailed in the Annual Report 2006-07, i) The company has reduced the paid-up share capital from Rs.250 Crores to Rs.25 Crores and the face of value of each share was reduced from Rs.10/- to Re.1 and the re-listing of shares commenced from April 24, 2008* in BSE. ii) The company had issued 30 Lacs equity shares to promoters on 28th April 2008 against conversion of 2 crores convertible warrants which were issued in September 2003, pursuant to the Scheme of Arrangement.

*The market capitalization stood around Rs.147 Crores as of April 24, 2008 as compared to around Rs.120 Crores as of March 31, 2007 registering an increase of over 23% during the year.

Status of borrowings

The Company has paid to KSIIDC towards part payment of Rs. 43.75 lacs against one time settlement (OTS) vide their letter dated 12th May 2008. The company is discussing with other banks / institutions for OTS. During the year company also cleared loans and creditors by way of Dis-investment. Also the company wishes to bring changes in the organic / in-organic structure of the Company by bringing into the Company New Business Partners, Joint Ventures and to repay high-cost loans / to remove the long term creditors, the company has decided to dispose by sale/lease the whole or part of the asset(s) investments in subsidiary companies of the Company and to make the Company near debt free.

Business Review

Your Company is focusing and growing by leveraging its brand name in the global market through Marketing and Distribution of content for Film, TV & Internet.

'Jai Vigneswara'

Co-production flash animated 70 minutes movie "Jai Vigneswara" is completed and the worldwide distribution theatrical, satellite and DVD is under progress. This animation movie is a mythological presentation of the first GOD and its significance, a representation of Ganesh's love for his father and his people.

Pre-production work of 'Sinbad & the Secret of Colonis', 'Hanji', 'Laika in Space' and 'Tarzan & the Aliens' are in the pipeline.

Statutory Dues

The company is a 100% EOU under STPI scheme till 2009, recently the government has extended it till 2010. As informed earlier the company has obtained relief on its Income-tax appeal cases for the Assessment Years 02-03, 03-04. The company expects substantial relief in income tax demands.

Dividend

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

Subsidiary Company Accounts

Your company has two subsidiaries viz, Mayajaal Entertainment Limited and NumTV Limited, Mauritius.

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, 2008. 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, 2008 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

We have not accepted any deposits from public and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

Directors

In accordance with the provisions of the Section 256 of Companies Act, 1956, Mrs.Sumathi Sridharan, Director is retire by rotation at the ensuing Annual General Meeting and is eligible for re-appointment.

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.

This discussion contains forward looking statements that involve risks and uncertainties including, but not limited to, risks inherent in the Company's growth strategy, merger & acquisition plans, dependence on certain businesses, dependence on availability of qualified and trained manpower and other factors. The Management discussion and analysis should be read in conjunction with Company's financial statements included herein and the notes thereto.

Industry Overview

The industry has been growing at a phenomenal rate of over 100 percent in the last few years. However there are a number of challenges and roadblocks which could severely hamper the industry and dampen the over enthusiasm prevailing now.

The industry is currently in an aggressive growth phase. The NASSCOM projections are quite flattering and the domestic industry is also picking up, with over 70 feature projects announced or in production. The challenge faced by the animation industry has been to build and spread awareness about itself, among the youth. There is an acute shortage of skilled labour in the sector, so it is in everyone's interest to pursue grassroots measures. The aggressive growth will no doubt lead to a shake out which will leave the industry consolidated and strengthened. It is important for the industry to ensure that the image of animation and the reality behind it are aligned in such a way that growth can continue for decades to come.

There is virtually no organized financing available for animation production, while bank and financial institutions do not even give a consideration for the requirements of this industry, the equity and venture capital route has its own limitations. There is an urgent need to start an animation finance institution to finance and fund animation projects. There is urgent need of any industry specific association to take up the industry cause.

The animation and Visual FX segment was pegged at Rs.13 billion in 2007, growing by 24% over 2006. Going by the speed at which the industry is expanding, India will need 25,000 more professionals by the close of next year. The industry currently has only a little over 10,000 professionals working in this techno-creative field.

But this is no cause of alarm. Thanks to many institutions that have come up of late to provide animation education, there are now about 100,000 students who are undergoing training in animation, VFX and gaming in different parts of the country. The first batch of these will fill the gap by turning professionals by next year.

The animation industry has a potential in excess of \$1 billion and is poised to reach \$869 million by 2010, with a compounded annual growth rate of 25% over 2006-2010. This is according to a study by NASSCOM on the animation industry.

Indian Animation Industry

The future of animation content in India is extremely bright. The industry will get a boost after the release of big animation films. Animation companies need to devise smart and fast ways of producing TV content in order for them to make profits.

The Indian animation industry today stands at Rs. 12 billion, and is projected to grow to Rs 42 billion by 2009. Animation in India is currently riding on two key factors - a large base of highly skilled labour, and low cost of production. While the industry is gaining prominence steadily, several important factors such as the government's role in supporting the animation industry, producing original content locally, and the importance of training, will steer the industry to greater heights. India definitely has some advantages and potential to develop the animation industry. Training, investing heavily in the industry, and providing original and compelling content, will be critical to its growth. The encouraging news is that while the primary work coming to India is through animation outsourcing, the industry is moving up to the next level, with some co-production assignments also trickling in - slowly, but surely. As of today, India has about 200 animation, 40 VFX and 35 game development studios, but the country needs more workstations to make optimal use of the potential that the industry has.

Mobile Entertainment

Studios are broadened the reach of its content to more than 200 million potential mobile users worldwide through several key partnerships with top mobile entertainment distributors across the globe. Their content is now available through MobiTV's service in the U.S., Canada and Latin America, through Thumbplay in the United States, and through Buongiorno SpA, Cellfish, Jamster, and Player X in Europe. To meet the needs of huge mobile network, they simultaneously launch an effort to reach out to the creator community and enable them to succeed with their development of mobile content. On the community site, studios now arms creators with necessary guidelines to develop and monetize animated mobile content. Through these guidelines for successfully mobile creation, studios are providing creators with direct market feedback coming from both mobile carrier customers

.....Source by NASSCOM and Broadcast & Cable sat journal

Particulars	Rs. 000s
Sales & Services	
Consultancy, Pre-post Production & Distribution of Contents For Big, Small & Personal Screens	82218
Profit Before Interest & Tax	
Consultancy, Pre-post Production & Distribution of Contents For Big, Small & Personal Screens	16518
Interest	1600
Profit before tax & extraordinary item	14918

Corporate Governance

As to compliance of Clause 49 of the Listing Agreement, the company is also benchmarking itself with well-established Corporate Governance practices. Given the emerging pivotal role of Independent Directors in bringing about good governance, the Company continues its efforts in optimum utilization of their expertise and involving them in all critical decision making process. A certificate from the statutory auditor's on compliance is attached to this Annual 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.

Auditors

In accordance with the provisions of Section 224(1B) of the Companies Act, 1956, M/s. Sudhindran & Co., Chartered Accountants, Chennai, retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment.

Acknowledgement

Your directors take this opportunity to thank all the members and investors of the Company for their continued support.

We also thank all Government bodies and Regulatory authorities, Bankers, Financial institutions, Employees, Customers and Service providers for their continued support to your company's growth and the co-operation received.

On Behalf of the Board

Place: Chennai
Date: 31st July, 2008

V.CHANDRASEKARAN
CHAIRMAN & CEO

Annexure - A

Information u/s 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988
Conservation of Energy

	2007-2008	2006-2007
Power consumption in Units	68353	540006
Electricity Charges (Rs.)	444292	2991635
Cost per Unit (in Rs.)	6.50	5.54
Self generated Units	18360	7450
Fuel Costs (Rs.)	362623	106161
Cost Per Unit (Rs.)	19.75	14.25

Research & Development and Technology Absorption

The Company has initiated the process of R&D to develop new sets of skills, enhance existing ones, and improve production facilities and various processes of productions in flash animation. In future, the emphasis will continue to be on quality to identify ways to optimize cost and develop new skills on human movements using motion capture techniques and photo realistic images.

FOREIGN EXCHANGE EARNINGS AND OUTGO

Rs.000s

	2008	2007
Foreign Exchange Earnings	77,633	115,927
Foreign Exchange outgo	25,439	586,00

Information u/s 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975 and forming part of the directors' report for the year ended 31st March 2008.

Name	DOB	Designation	Remuneration (Rs.'000s)	Original Appointment	Date Latest of Reappointment
Dr.V.Chandrasekaran	03.05.51	Chairman & CEO	2688	January, 1992	1 st August 2006

On Behalf of the Board

Place: Chennai
Date: 31st July, 2008

V.CHANDRASEKARAN
CHAIRMAN & CEO

REPORT ON CORPORATE GOVERNANCE

1. CORPORATE GOVERNANCE PHILOSOPHY

Pentamedia Graphics is committed to the highest standards of Corporate Governance in all its activities and processes.

Corporate Governance refers to the manner in which a Company is directed, and laws and customs affecting that direction. The Corporate Governance structure specifies the relationship, and the distribution of rights and responsibilities, among primarily three group of participants, viz., the board of directors, managers and shareholders. This system spells out the rules and procedures for making decisions on corporate affairs; it also provides the structure through which the Company objectives are set, as well as the means of attaining and monitoring the performance of those objectives.

Key elements in corporate governance are transparency, internal control, risk management, internal and external communications and high standards of safety and health. The Board has empowered responsible persons to implement broad policies and guidelines and has set up adequate review processes.

2. BOARD OF DIRECTORS

Composition:

The Board consists of 4 members comprising eminent persons with knowledge and experience in different fields like Finance, Engineering, Legal, Technical and Business Management.

The Board has 3 independent directors and Chairman and CEO to ensure good governance and management. Dr. V Chandrasekaran is an Executive Director on the Board.

Meetings:

The Board of Directors met nine times during the period ended 31.03.2008. The dates of the Board Meetings were 6th April, 2007, 29th June, 2007, 31st July, 2007, 23rd August, 2007, 28th September, 2007, 31st October, 2007, 28th December, 2007, 30th January, 2008 and 13th February, 2008.

The attendance of each Director at the Board Meeting, the last annual general meeting and number of other directorships held by them as on 31.03.2008 are as under

Sl. No.	Name of the Director	Category	Status	No. of meetings held	No. of Board Meetings attended	No. of Directorship (a) (out of which as Chairman) \$	Attendance at the Last AGM
1.	Mr. V.Chandrasekaran	Chairman & CEO	ED	9	9	2	Present
2.	Mr. S.D.Viswanathan	Director	NEID	9	9	-	Present
3.	Mr.R.Balaji	Director	NEID	9	9	2	Present
4.	Mrs.Sumathi Sridharan	Director	NEID	9	9	5	Present

✓ ED - Executive Director.

✓ NEID - Non Executive Independent Director.

\$ Directorship in private limited companies, foreign companies and companies under Section 25 of the Companies Act are excluded.

Only Membership in Audit Committee, Share transfer Committee and Remuneration Committee are considered for this purpose.

Board Procedure

The dates of the Board meeting for the calendar year are decided in advance. The Board meets at least once in a quarter and the interval between two meetings is not more than four months. Apart from the statutory requirements, the role of the Board includes periodic review of operations and considering proposals for business re-organization., etc. The Board has complete access to any information within the company. The information periodically placed before the Board includes proceedings/ minutes of all committee meetings, significant developments etc.

Code of Conduct

The Board has adopted a Code of Conduct which serves as a guide for your company and its employees on the standards of values, ethics and business principles, which should govern their conduct. The Company operates within accepted standards of propriety, fair play and justice and aims at creating a culture of openness in relationships between itself and its stakeholders. It has set up a system, which enables all its employees to voice their concerns openly and without any fear or inhibition. A certificate of code of conduct by Chairman & CEO is attached to this report.