



Saregama India Limited
Annual Report 2004-05



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► Congress President

Smt. Sonia Gandhi releases
Anita Singhvi's first Ghazal Album,
Naqsh - E - Noor in New Delhi.

► Seen in the picture from L to R :

Congress President Smt. Sonia
Gandhi, Smt. Anita Singhvi,
Shri Sanjiv Goenka (Vice Chairman,
Saregama India Ltd.), Shri Jaipal
Reddy, Hon'ble Minister of Information
& Broadcasting and Shri R. P. Goenka
(Chairman, Saregama India Ltd.).



SAREGAMA INDIA LIMITED

Board of Directors

Mr. R. P. Goenka, *Chairman*

Mr. S. Goenka, *Vice Chairman*

Mrs. S. Goenka

Mr. S. Banerjee

Mr. P. K. Mohapatra

Mr. H. Neotia

Mr. J. N. Sapru

Mr. D. Basu

Mr. T. K. Maji (*Nominee of UTI*)

Mr. D. R. Mehta, *Managing Director*

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Secretary

Mr. T. K. Banerjee

Auditors

Price Waterhouse
Chartered Accountants

Legal Advisors

Khaitan & Company

Registrars and Share Transfer Agents

MCS Limited
77/2A, Hazra Road
Kolkata - 700 029

Bankers

United Bank of India
State Bank of India
Canara Bank

Registered Office

33, Jessore Road
Dum Dum
Kolkata - 700 028

Notice

NOTICE is hereby given that the Fifty-eighth Annual General Meeting of the Members of Saregama India Limited will be held at Williamson Magor Hall (1st Floor) of The Bengal Chamber of Commerce and Industry, 6, Netaji Subhas Road, Kolkata-700 001 on Tuesday, the 30th day of August, 2005 at 11.00 A.M. to transact the following:

AS ORDINARY BUSINESS

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2005, the Balance Sheet as at that date and the Auditors' Report thereon and the Directors' Report.
2. To appoint a Director in place of Mr. S. Banerjee who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. P. K. Mohapatra who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. H. Neotia who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.

AS SPECIAL BUSINESS

To consider, and if thought fit, to pass with or without modifications, the following :

6. (As a Special Resolution)

"RESOLVED that, in modification of the Special Resolution passed by the Members on 24th September, 2001 and in accordance with the applicable provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, or any amendment or modification thereof ('the Guidelines'), and subject to such approvals and sanctions as may be necessary, ('the Board', which term shall be deemed to include the Compensation Committee thereof), the Company's Employee Stock Option Scheme be modified on and from the date of this Meeting i.e. 30th August, 2005, so as to empower the Compensation Committee to determine the price at which the eligible employees as described in the Explanatory Statement, shall be authorised to exercise their Options, provided however that such price is not detrimental to employees' interest and is in accordance with the provisions of Clause 8.1 read with Schedule I of the Guidelines."

7. (As an Ordinary Resolution)

"RESOLVED that, in accordance with the applicable provisions of the Companies Act, 1956 and the Listing Agreement with Stock Exchanges, or any amendment or re-enactment thereof, consent be and is hereby accorded for payment of fees to the Non-Executive Directors, including Independent Directors of the Company, for attending meetings of the Board of Directors ('the Board') or Committees thereof, of amount(s), as may be determined by the Board but not exceeding such sum as presently prescribed by the Central Government or such other limit as may be prescribed by the Central Government from time to time in that behalf."

Registered Office :
33, Jessore Road, Dum Dum
Kolkata-700 028, India
Dated: 24th June, 2005

By Order of the Board
T. K. Banerjee
Secretary

Notes :

1. **MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING THE PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY OR AT THE OFFICE OF THE COMPANY'S SECRETARIAL DEPARTMENT AT 31, NETAJI SUBHAS ROAD, KOLKATA-700 001 NOT LESS THAN 48 HOURS BEFORE THE MEETING.**
2. In accordance with Clause 49 VI (A) of the Listing Agreement, the brief profile regarding each of the Director seeking re-appointments according to items 2, 3 and 4 of this Notice for the forthcoming Annual General Meeting are provided in the Notes annexed hereto.
3. The Register of Members and Share Transfer Books shall remain closed from 25th July, 2005 to 3rd August, 2005 (both days inclusive).
4. Pursuant to the provision of Section 205A of the Companies Act, 1956, dividend for the Financial Year ended 31st March, 1997 and thereafter which remain unpaid or unclaimed for a period of 7 years will be transferred to the Investor Education and Protection Fund (IEPF) established under Section 205C of the Companies Act, 1956. The Company has transferred Rs.69,299 towards unpaid and unclaimed dividend for the period ended 31.3.1997 to IEPF on 6th November, 2004. Shareholders who have not encashed their Dividend Warrant(s) so far for the Financial Year ended 31st March, 1998, or any subsequent Financial Years, are requested to make their claims at the earliest to the office of the Registrar and Transfer Agents Messrs. MCS Limited, 77/2A, Hazra Road, Kolkata-700 029. It may also be noted that once the unclaimed dividend is transferred to IEPF, as above, no claim shall lie in respect thereof. The Dividend for the Financial Year ended 31st March, 1998 is due to be transferred to the aforesaid account on or before 16th November, 2005.
5. Members can avail the nomination facilities under Section 109A of the Companies Act, 1956 by filing Form No. 2B with the Registrars and Transfer Agents, MCS Limited, 77/2A, Hazra Road, Kolkata-700 029 (in the case of physical shares) or to the Depository Participants (in the case of dematerialised shares). Blank forms will be supplied on request.
6. Members are requested to notify immediately any change of address
 - a. To the Depository Participants in respect of electronic share accounts and
 - b. To Registrars and Transfer Agents, MCS Limited, 77/2A, Hazra Road, Kolkata-700 029 in respect of physical share accounts.
7. In case the mailing address mentioned in the Annual Report is without the Pin Code, members are requested to inform their Pin Code immediately
8. Consequent to the reduction of the share capital of the Company, pursuant to the Order of the Hon'ble High Court, Calcutta dated 24th July, 1996, the old shares of the Company stands cancelled. As per the Court Order, two new shares were issued to the shareholders in lieu of five old shares held by them in the Company. Accordingly, circulars were sent to shareholders from time to time, requesting them to send their old share certificates to the Company and to obtain their new share certificates in lieu thereof. The Company once again requests to those shareholders, who are yet to send their old share certificates held prior to reduction to capital, to send the same to its Registrars, MCS Limited at the aforesaid address, and get their old share certificates exchanged for new share certificates. Shareholders may note that the old share certificates are neither tradeable in the stock market nor will they be acceptable for dematerialisation.
9. Members, holding shares in identical order of names in more than one folio and which have the same addresses, are requested to send their share certificates to the Registrars of the Company,

Messrs. MCS Limited, to enable them to consolidate the holdings into one folio.

10. Members who are still holding their share certificates in physical form are requested to get their shares dematerialised. Shareholders may note that SEBI, vide its Circular No. SMDRP/POLICY/CIR-23/2000 dated 29th May, 2000, has decided to include the Company for compulsory dematerialised trading of securities.
11. Members/Proxies should bring the Attendance Slip sent herewith, duly filled in, for attending the Meeting.
12. 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.
13. Members having queries relating to Accounts may send their queries at least 7 days before the date of the Meeting, i.e., it should reach the Company's Secretarial Department at 31, Netaji Subhas Road, Kolkata-700 001 by 23rd August, 2005.

Annexure to the Notice

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956

In terms of Section 173(2) of the Companies Act, 1956, the following Explanatory Statement sets out all material facts relating to items 6 and 7 of the accompanying Notice dated 24th June, 2005.

Item No. 6

The Members, at the Fifty-fourth Annual General Meeting held on 24th September, 2001, approved formulation of the 'Employee Stock Option Scheme' ('the said Scheme') for the eligible employees of the Company and its Directors, and also for the eligible employees including Managing/Wholetime Directors of subsidiary companies of the Company ("employees"), in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 as was in force at that time. The salient features of the said Scheme were provided in the Explanatory Statement to the Notice convening the said Meeting.

Under the said Scheme, Options were vested on eligible "employees" of the Company as defined under the said Scheme. None of the employees of the Company exercised any Options during the year 2002. During the years 2003 and 2004, no Options were granted to any of the employees of the Company.

The Compensation Committee, at its meeting held on 18th June, 2004, noted that in order to make the Scheme lucrative, it was necessary that the Price at which the Options can be exercised be determined by the Compensation Committee, depending on market fluctuations, subject however to the condition that the same is not detrimental to "employees" of the Company and is in accordance with the provisions of Schedule I of the Guidelines.

The Board of Directors, at its meeting held on 24th June, 2005, in accordance with the said recommendation of Compensation Committee, decided to modify the said Scheme as per the suggestions of the Compensation Committee.

The modifications proposed in the said Scheme and the rationale behind such modifications are as follows:-

As per the said Scheme, the market price as on the date of Grant shall be Exercise Price. Clause 8.1 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ('the Guideline') grants freedom to determine the Exercise Price provided that the same conforms to the accounting policies specified in Schedule I of the Guidelines. In as much as the concept of "Market Price" as provided in the said Scheme did not provide requisite flexibility to make the said Scheme attractive, the Board of Directors have thought it prudent to give flexibility to the Compensation Committee to determine the Exercise Price which shall not be detrimental to "employees" interest subject to compliance of the provisions of Schedule I of the Guidelines. All the eligible "employees" of the said Scheme shall be beneficiaries of the proposed variation.

In terms of the Guidelines, consent of the Members by a Special Resolution is required for any variation in the said Scheme. Special Resolution is accordingly proposed under Item No. 6.

A copy of the said Scheme, along with the proposed modification, as stated above, will be made available for inspection by the Members at the Registered Office or Secretarial Department of the Company between 11.00 a.m and 1.00 p.m. on working days up to the date of this Annual General Meeting.

The Directors of the Company are interested in the Special Resolution to the extent of the Options that may be granted to them.

The Board recommends the Special Resolution for your approval.

Item No. 7

The Securities and Exchange Board of India has revised Clause No. 49 of the Listing Agreement relating to Corporate Governance requirements to be fulfilled by the listed companies. Companies have to ensure compliance with the revised Clause No. 49 of the Listing Agreement by 31st December, 2005. One of the requirements stipulated under the revised Clause is that all the fees and compensation payable to the Non-Executive Directors, including the Independent Directors, shall be fixed by the Board of Directors and shall require previous approval of the Members in General Meeting.

At present, the Company is paying sitting fees of Rs. 5,000 (Rupees Five thousand only) to each of the Non-Executive Directors, including Independent Directors of the Company, for attending each Meeting of the Board of Directors and the Committees thereof.

In terms of the revised Clause No. 49 of the Listing Agreement, the approval of the Members is requested for payment of sitting fees to the Non-Executive Directors, including Independent Directors of the Company.

The Directors recommend the passing of the Resolution at Item No. 7 as an Ordinary Resolution.

All the Directors excepting Mr. D. R. Mehta are concerned and interested in the Resolution.

Brief profile of Directors seeking re-appointments at the Annual General Meeting**Sumantra Banerjee**

Date of Birth	31st December, 1949
Expertise in specific Functional areas	Mr. S. Banerjee has 32 years of experience in India and abroad in manufacturing, engineering, finance, marketing and general management functions. Mr. Banerjee, President and Chief Executive of RPG Power Group, is Managing Director of CESC Limited and is on the Boards of other companies mentioned below.
Qualification	B. Tech, MS-USA and MBA-USA
Directorship including position held in other companies (excluding foreign companies)	Spencer International Hotels Limited, G.F. Kellner & Co. Limited, Hilltop Holdings India Limited, Dakshin Bharat Petrochem Limited, CESC Limited, Ghaziabad Power Co. Limited, Alpha Carbon Limited, Carniwal Investment Limited, Noida Power Co. Limited, Jubilee Investments & Industries Limited.
Committee position	Member of Shareholders/Investors Grievance Committees of Saregama India Limited and CESC Limited and Member of Audit Committee of Saregama India Limited.

Pradipta Kumar Mohapatra

Date of Birth	19th February, 1950
Expertise in specific Functional areas	Mr. P. K. Mohapatra is the President and Chief Executive, IT and Telecom Business and Member of the Management Board of RPG Enterprises. He oversees the management of all IT and telecom companies in the RPG Group. Mr. Mohapatra is a Chemical Engineer, a Management Graduate and AMP from Harvard Business School. In his prior assignment in the RPG Group, Mr. Mohapatra managed Group's foray as pioneers in organized retailing business in India. He also holds the position of Chairman, Education Sub-committee of Confederation of Indian Industries, of which he was the Chairman of Tamil Nadu Council for the year 2002-2003. He is also President of the Madras Management Association.
Qualification	B.Sc. (Eng.), FCMI (UK), AMP
Directorship including position held in other companies (excluding foreign companies)	Spencer International Hotels Limited, Foodworld Supermarkets Limited, Music World Limited, Zensar Technologies Limited, RPG Telephone Limited, Basic Tele Services Limited, RPG Satellite Communication Limited, RPG Guardian Pvt. Limited.
Committee position	Chairman of Audit Committee of Foodworld Supermarkets Limited, Member of Audit Committees of RPG Satellite Communication Limited and RPG Telephone Limited, Member of Compensation Committee of Saregama India Limited, Member of Shareholders Grievance Committees of Saregama India Limited. Chairman of the Compensation Committee of Zensar Technologies Limited.

Harshavardhan Neotia

Date of Birth	19th July, 1961
Expertise in specific Functional areas	Member on the Board of Governor of Indian Institute of Management, Kolkata. Chairman of National Housing Committee of CII. Member of National Council of CII. Member on the Board of Trade, Ministry of Commerce & Industry, Government of India. Honorary Consul of Israel.
Qualification	B.Com. (Hons), OPM Harvard Business School, USA
Directorship including position held in other companies (excluding foreign companies)	Gujarat Ambuja Cements Limited, Ambuja Cement Eastern Limited, Ganapati Parks Limited, GGL Hotel And Resort Company Limited, Bengal Ambuja Housing Development Limited, Bengal Ambuja Metro Development Limited, Energy Development Company Limited, Choicest Enterprises Limited.
Committee position	Chairman of Audit and Remuneration Committees of GGL Hotel And Resort Co. Limited, Member of Audit Committees of Energy Development Co. Limited. and Saregama India Limited, Member of Investors Grievance Committee of Ambuja Cement Eastern Limited.

Report of the Directors & Management Discussion and Analysis

Your Directors present the Fifty-eighth Annual Report of Saregama India Limited along with the audited statement of accounts for the year ended 31st March, 2005.

Financial Results

The Company's broad financial results are summarised below :

	(Rs. in lakhs)	
	Year ended 31st March '05	9 Months ended 31st March '04
Total income	10087	7106
Profit/(Loss) from operations	551	(1510)
Extraordinary item	Nil	Nil
Provision for Contingencies	Nil	600
Profit/(Loss) before tax	551	(2110)
Provision for Taxation	30	—
Net profit/(Loss) (after tax and extraordinary items)	521	(2110)
Dividend (including tax thereon)	—	—
Transfer to general reserve	—	—
Reserves (excluding revaluation reserves)	4691	4901

Dividend

In view of loss carried forward from the previous period, your Directors regret their inability to recommend any dividend for the year ended 31st March, 2005.

Rights Issue

The Company offered 53,38,628 Equity shares on Rights basis to the existing Members of the Company in the ratio of 4 Equity shares of Rs. 10/- each for every 7 Equity shares of Rs. 10/- each held on Record Date (14th March, 2005) at a premium of Rs. 35/- per Equity share aggregating Rs. 2402 lakhs. The Issue opened on 24th March, 2005 and closed on 23rd April, 2005. The Issue was oversubscribed by 1.42 times. With the approval of the National Stock Exchange of India Limited (designated Stock Exchange), the Company allotted 53,18,392 Equity shares on 11th May, 2005 and kept in abeyance 20,236 Equity shares pending litigation and submission of name of beneficiaries from the clearing members of NSDL and CDSL. The allotted Equity shares (53,18,392 Nos.) ranking *pari passu* with the existing Equity shares of the Company are listed and traded with National Stock Exchange of India Limited, Mumbai, Stock Exchange, Mumbai and Calcutta Stock Exchange Association Limited.

Domestic Operations

The year 2004-05 was a major turnaround year for the company, wherein the company posted profit before tax of Rs. 551 lakh as against loss of Rs.2110 lakh for the nine months ended 31st March, 2004; representing positive swing of Rs.2661 lakh in the profitability of the company. This turnaround was achieved following a well articulated business strategy where on one hand the company achieved profitability of core music business and on the other hand gave thrust to new avenues of revenues :

Initiatives, which made core business profitable, were :-

- Derisking of new Hindi film acquisition: As against the model of NHF acquisitions against payment of large MGs, acquisitions were made on either revenue sharing model or by agreeing for a smaller MG but higher royalty.
- Optimisation of costs: All round economies were achieved in various items of costs. Advertising cost was brought down by 56%. Despite jump in plastic prices, material cost was controlled through innovative ideas of packing and substitution. Operating expenditure was brought down by 10% observing austerity in all possible items of expenditure.
- Repositioning of distribution: With advent of organized retail, focus has been given to increase sales to large format retail stores in addition to company's traditional selling channels through distributors.
- Focus on catalogue exploitation: Many premium higher margin products with focus on audio CDs and innovative catalogue releases duly supported by media advertising breathed new life in company's catalogue.
- Corporate Sales: Special focus was given to obtain and service bulk orders from the corporates by assigning dedicated team to this business segment.

Alongside making core physical music business a positive contributor, the company also focused on strengthening following growing avenues of revenues :

Home Video

This segment witnessed a topline growth of 64% alongwith commensurate contribution to the company's profitability. Saregama is now a number one company in English Home Video in India after addition of two large overseas studios - Paramount and MGM to its existing bouquet of studios of Warner, Universal, BBC etc. The company has also pioneered English home video dubs at popular prices.

Publishing

This stream of revenue showed increase of 48 % in 2004-05. Major focus has been given to expand publishing revenue through domestic collecting societies and through pro-active marketing of SIL's content for synchronization, sampling, ringtones etc. Role of the UK based subsidiary has been redefined leading to an increase in the revenue from the overseas collecting societies as well.

TV Business

Loss making TV software division turned around showing a substantial improvement in top line and posting a positive bottom line. This was achieved by creating content in all four South Indian languages viz. Tamil, Telugu, Malayalam, Kannada and pro-active use of available copyright for making VCDs for international markets.

Film Business

Saregama India Limited through its wholly owned subsidiary Saregama Films Limited has entered into high potential film making business in 2004-05. The maiden venture "Tumsa Nahin Dekha - a Love Story" released in September, 2004 did reasonably well, helping the company to recover largely its direct investment. The loss posted by the subsidiary for the year ended 31st March, 2005 was largely on account of unrecovered fixed costs for which release of multiple Hindi and Bengali film projects are planned in coming years.

International Operations

International operations are handled by Saregama's two subsidiaries – Saregama Plc. (SPLC) and RPG Global Music Limited (RPGG).

SPLC demonstrated a commendable turnaround by drastically bringing down losses to a small figure of GBP 14787 against the loss of GBP 301388 of previous year. This subsidiary in fact, posted a cash profit of GBP 122532. This became possible due to repositioning of the subsidiary's business model where large physical music sales in US market were drawn from profitable corporate tie ups and focusing of UK Office on the publishing activities in UK and Europe. The subsidiary was also successful in slashing down its fixed costs by 35% over previous year. The other subsidiary RPPG also reduced its loss to Rs.114 lakh for the year ending 31st March, 2005 from the loss of Rs. 154 lakh in the previous year. The loss is largely on account of non-cash charges like amortisation, depreciation etc. In fact, the subsidiary has made a cash profit of Rs. 12 lakh in the current year. International operations are now focused on new business opportunities in the areas of publishing, which is helping international subsidiaries as well as parent company to improve their profitability.

Outlook

The physical music business is expected to continue to remain challenging because of sliding music cassettes volumes. The company however should be in position to consolidate and strengthen its profitability through de-risking of Hindi film music acquisition, economy/optimization of various operating expenditure and giving thrust to sales to organised retail segment and corporates. The company is also confident of building on the gains in the home video segment by accelerating conversion from VCD to DVD and focusing on the sales of the product of the new studios acquired last year. The revenues from publishing activities will also receive even greater attention wherein a substantial further improvement is expected to come through strengthening of collection societies and tapping potential of overseas markets.

Saregama India Limited has become the first music company to put its music on leading digital download stores like iTunes, MSN, Sony Connect, Real Networks, Crimsom Bay etc. and has associated with renowned music aggregators. While the initial response from the US market is quite encouraging, the domestic Indian market will significantly take-off only after major broadband penetration in India happens.

Corporate Governance

Certificate of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, is enclosed.

Your Company has been practicing the principles of good corporate governance over the years.

The Board of Directors supports the broad principles of corporate governance. In addition to the basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity.

Management Discussion and Analysis (MD & A)

This Report includes MD & A as appropriate so that duplication and overlap between Directors' Report and a separate MD & A is avoided and the entire material is provided in a composite and comprehensive manner.

Industry Structure and Developments

Traditionally, Indian music industry has been dominated by film music in cassette format, although non-film music like ghazals, devotionals, pop etc. is also significant. Also, audio CDs are gradually taking the place of cassettes. The music business has always been adversely affected by piracy; but of late sophisticated forms of piracy like MP3, illegal file sharing etc. has had a major negative impact. The music

industry consists of 7-8 national players and a large number of local regional companies who primarily cater to regional music market.

After 3-4 very difficult years due to a combination of factors like piracy, FM Channels, shift to VCD/DVD etc., the year 2004-05 saw a beginning of recovery, thanks to bouncing back of Hindi film industry, reduction in cost of music acquisition, better collection of publishing revenues by collection societies, music companies leveraging their distribution network for marketing of home video, tighter cost management, etc. Internationally, music business got a boost through a success of hand held devices like ipod and legitimate digital download stores like I-tunes, Real Rhapsody etc.

Opportunities and Threats

Opportunities

A continuing implementation and focus on strategies which have worked well in 2004-05 present an opportunity to further strengthen the turnaround. The key elements of this will include continuing positive contribution by the physical music business through cost control and innovative exploitation of catalogue, and, expansion of new revenue streams particularly home video, publishing and international digital downloads. There is also an opportunity to ride the trend of large format music stores to promote premium products and studio CDs. There is also scope for a fuller exploitation of the opportunity in the corporate segment for gifting and tie-ups.

Threats

The music industry will continue to face multiple challenges in the areas of sophisticated piracy, shrinking music cassette volumes, increasing popularity of VCD/DVD, alternative means of entertainment like FM and TV etc. In view of growing entertainment industry, the retention of key people would also be a challenge.

Productwise Performance

Saregama is present across all genres of music viz. new Hindi film, old Hindi film, regional music (Bengali, Tamil, Telugu, Kannada, Malayalam, Marathi, Gujarati, Bhojpuri and Punjabi), classical, devotional, ghazals, indipop and new age music. Sales of traded catalogue were luklustre in 2004-05. The company however witnessed success in new Hindi film segment where music of films like 'Murder', 'Dhoom' and 'Hum Tum' did good business. While music cassette volume continued to decline, there was a significant growth in audio CD volume although it was not sufficient to cover the entire cassette deficit. The business segments i.e. home video and publishing achieved excellent growth at 64% and 48% respectively.

Outlook

The year 2004-05 was a major turnaround year for the company, when the company's well articulated business strategy of keeping core music business profitable through cost management and focusing on growing avenues of home video and publishing paid rich dividends. In 2005-06, the company would consolidate its gains by strengthening the initiatives of 2004-05, including international publishing and digital downloads, which are expected to make a significant bottomline contribution. Sales to organized music retailing including large format retail stores and sales to corporates will act as major drivers to achieve the targeted music sales. The home video segment is expected to substantially grow further with additional sales coming from conversion to DVDs, Indian language dubs and the products of the new overseas studios signed by the company last year. Company's foray into film business through its subsidiary Saregama Films Limited is expected to provide a healthy synergy to the company's music business.

Risk and Concerns

The continuing challenges from hi-tech forms of piracy like MP3, illegal file sharing, preference for VCD/DVD, spread of FM channels, delay in necessary copyright law amendments, inherent high risk – reward nature of film industry etc will remain matters of risk and concern for the industry.

Internal Control System and Adequacy

The Company has laid down policies, guidelines and procedures, which form part of its internal control system. The Company's internal systems are periodically tested and supplemented by an extensive programme of internal audit by the Internal Auditors of the Company. Audits are finalized and conducted based on internal risk assessment. Significant findings are brought to the notice of the Audit Committee of the Board and corrective measures recommended for implementation.

Financial Performance with Respect to Operational performance

Total budgetary control on all key operational performance indicators and review of working capital is being exercised for improvement of performance. The funds have been judiciously deployed to support higher control of operations without resorting to additional borrowings. The debts are regularly restructured to reflect the present cost of funds.

Material Development in Human Resources/Industrial relations front

Your Company believes that the competence and commitment of its people are key drivers of competitive advantage enabling your Company deliver unique customer value and compete successfully in the market place. Your Company endeavors to strengthen organizational culture in order to attract and retain the best talent and bring out the best in people. Employees are rewarded with opportunities for learning and value addition, competitive remuneration and rapid career advancement.

Your Company's human resource management systems and processes aim to create a responsive, market-focused, customer-centric culture and enhance organizational vitality, so that each business is internationally competitive and equipped to seize emerging market opportunities.

Creating and fostering a culture of distributed leadership has been a cornerstone of your Company's human resource strategy. It is your Company's belief that the competitive capability of an enterprise depends largely on the organization's ability to learn continuously and manage knowledge effectively. An enabling environment that fosters continuous learning and innovation, therefore, remains a key focus area.

Your Company believes that the aspiration to create enduring value for society and the nation provides the motive force to employees to enhance value creation for the shareholder on a sustainable basis. Your Company acknowledges the contribution of its dedicated employees and the spirit of commitment, collaboration and partnership demonstrated by them in realising the Company's vision.

Forward-looking Statements

This Report contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words "anticipate", "believe", "estimate", "expect", "intend", "will" and other similar expressions as they relate to your Company and/or its businesses are intended to identify such forward-looking statements. Your Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-

looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

Directors' Responsibility Statement

In terms of the provisions of Section 217(2AA) of the Companies Act, 1956, your Directors states:

- That, in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed along with proper explanations relating to material departures;
- That your Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are 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 that period;
- That your Directors have taken proper and sufficient care of 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
- That your Directors have prepared the Annual Accounts on a going concern basis.

Employee Stock Option Plan

The Members of the Company, at its A.G.M held on 24th September, 2001, approved the introduction of the Employee Stock Option Scheme for eligible employees of the Company and its subsidiaries. During the period under review, no options were granted to the employees. 34222 number of options have lapsed during the period, due to resignation of the concerned employees. The disclosure required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, is set out in the annexure to this Directors' Report.

Fixed Deposits

Your Company had accepted two Fixed Deposits on 27th March, 2003 aggregating to Rs. 55 lakhs from Directors of the Company and the same were repaid along with interest on 27th March, 2005.

Particulars of Employees

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forms part of this report and is annexed hereto.

Directors

Mr. C. Ancliff resigned on 14th April, 2005. Your Directors place on record their appreciation for the services rendered by Mr. C. Ancliff during the tenure of his Directorship with the Company.

Mr. S. Banerjee, Mr. H. Neotia and Mr. P. K. Mohapatra retire by rotation under Article 102 of the Articles of Association of the Company and, being eligible, offer themselves for re-appointment.

Auditors

M/s Price Waterhouse, the Auditors of the Company, retire at the A.G.M. and, being eligible, offer themselves for re-appointment.

Subsidiary Companies

In compliance with the requirements of Section 212(2) of the Companies Act, 1956 the Directors' Report along with the Balance Sheet and Profit & Loss Account of Saregama Plc., RPG Global Music Limited and Saregama Films Limited, are annexed to this Report.

Consolidated Financial Statements

The Consolidated Financial Statements as stipulated by Clause 32 of the Listing Agreement with the Stock Exchanges, have been prepared by your Company in accordance with the requirements of Accounting Standard 21 "Consolidated Financial Statements" issued by The Institute of Chartered Accountants of India. The audited Consolidated Financial Statements together with Auditor's Report thereon form part of the Annual Report.

Conservation of Energy and Technology Absorption

The Company regularly conducts an energy audit in the factory to ensure energy conservation. The technology for the manufacture of audio cassettes has not undergone any major change.

Foreign Exchange Earnings and outgo

- (a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans :

Continuing efforts are made by your Company to increase the exports by exploring, creating and developing new markets.

- (b) Total foreign exchange used and earned :

	(Rs. in lakhs)	
	Current year	Previous Period (9 months)
Foreign exchange used	413.81	216.00
Foreign exchange earned	331.82	28.00

Acknowledgement

Your Directors express their sincere thanks to artistes, composers, musicians, film producers, suppliers, dealers, bankers, financial institutions and shareholders for their continued support. Your Directors also thank the Central and State Government for their cooperation.

Information as per Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2005

Name	Age	Qualification	Date of Commencement of Employment	Designation/ Nature of Duties	Remuneration (Rs.)	Experience (Years)	Last Employment
D. R. Mehta	62	B.Sc., LLB, MBA	03.09.2003	Managing Director	35,44,641	38	Managing Director RPG Cellular Services Ltd.
Harish Dayani	51	B.Sc. (Hons.)	18.01.1996	Chief Executive Film Business	32,18,633	28	Business Manager - ML Exports, Hindustan Lever Ltd.

- Notes :**
- Gross remuneration includes salaries, allowances, bonus, leave travel assistance and house rent and Company's contribution to retiral funds on actuals and all other taxable value of perquisites.
 - Nature of employment is contractual for the employees referred to above. Other terms and conditions are as per the Company's rules.
 - None of the above employees is related to any Director of the Company.

By Order of the Board

Kolkata
24th June, 2005

R. P. Goenka
Chairman