

BOARD OF DIRECTORS

Mr. Naresh Malhotra, Chairman & Whole Time Director

Mr. Namit Malhotra, Managing Director

Mr. Vardarajan Ananthanarayan

Mr. Kodi Raghavan Srinivasan

Ms. Pooja Shetty

Mr. Rakesh Radheshyam Jhunjhunwala

Mr. Somasekhar Sundaresan

Mr. Rivkaran Chadha

Chief Financial Officer & Compliance Officer

Mr. Nishant Fadia

Company Secretary

Ms. Parina Sanghavi

Auditors

M/s. V. Shivkumar & Associates

Chartered Accountants

Bankers

Shamrao Vithal Co-operative Bank Limited

Kotak Mahindra Bank Limited

Registrar & Transfer Agents

Intime Spectrum Registry Limited

C-13, Pannalal Silk Mills Compound, L.B.S. Marg
Bhandup (W), Mumbai 400 078

Registered Office

Anand Kunj, North Avenue,
Linking Road, Santacruz (West),
Mumbai 400054;

Subsidiary Company

VTR plc (Acquired in April, 2006)
64, Dean Street,
London, W1D 4QQ.

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NOTICE

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF PRIME FOCUS LIMITED WILL BE HELD ON FRIDAY, THE 29TH DAY OF SEPTEMBER, 2006 AT HOTEL RANGSHARDA, K.C. MARG, BANDRA RECLAMATION, BANDRA WEST, MUMBAI – 400 050 AT 3.00 P.M TO TRANSACT THE FOLLOWING BUSINESS :

ORDINARY BUSINESS:

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2006, and the Profit & Loss Account for the year ended on that date and the Reports of the Directors and Auditors.
2. To appoint a Director in place of **Ms. Pooja Shetty** who retires by rotation and being eligible, offers herself for re-appointment.
3. To appoint a Director in place of **Mr. Somasekhar Sundaresan** who retires by rotation and being eligible, offers himself for re-appointment.
4. To consider and if thought fit to pass with or without modification, the following resolution as an Ordinary Resolution :
“RESOLVED that pursuant to the provisions of Section 224, 225 and other applicable provisions if any, of the Companies Act, 1956, M/s. V. Shivkumar & Associates Chartered Accountants, Mumbai, the retiring Auditors be and are hereby re-appointed as Auditors of the company to hold the office from the conclusion of this meeting until conclusion of the next Annual General Meeting of the company on remuneration to be decided by the Board of Directors at a later date in consultation with Auditors apart from reimbursement of actual out of pocket expenses incurred by them”

SPECIAL BUSINESS:

5. To consider and if thought fit to pass with or without modification, the following resolution as an Ordinary Resolution :
“RESOLVED THAT Mr. Rivkaran Chadha, who was appointed as an Additional Director in the meeting of the Board of Directors of the Company held on 27th May, 2005, who holds office upto the date of the Annual General Meeting, and in respect of whom notice under Section 257 of the Companies Act, 1956 has been received from one of the members, signifying his intention to propose Mr. Rivkaran Chadha as a candidate for the office of the Director of the Company, be and is hereby appointed as a Director of the Company

By order of the Board of Directors

Place : Mumbai
Date : 27th July 2006

Parina Sanghavi
Company Secretary

Registered Office :-

Anand Kunj, North Avenue,
Linking Road, Santacruz West,
Mumbai – 400 054

NOTES FOR MEMBERS' ATTENTION:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.**
THE PROXY, IN ORDER TO BE EFFECTIVE, MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 (FORTY EIGHT) HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. An Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business to be transacted at the meeting is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from **Monday, 25th September, 2006 to Friday, 29th September, 2006** (both days inclusive).

4. Members are requested to:
 - i) Immediately intimate change of address, if any, either to the company or to the Share Transfer Agent quoting reference of their Registered Folio Number.
 - ii) Send their queries if any, regarding accounts of the company at least 10 (Ten) days before the Annual General Meeting at the Registered Office of the Company. Replies to such written queries received, will be provided only at the meeting.
5. Members / Proxies are requested to bring the copy of their Annual Report along with them to produce the attendance slip at the entrance of the Meeting Hall.
6. In all correspondence with the Company or with its Registrar and Share Transfer Agents, Members are requested to quote their Client ID Number and DP ID Number.

By order of the Board of Directors

Place : Mumbai
Date : 27th July 2006

Parina Sanghavi
Company Secretary

Registered Office :-
Anand Kunj, North Avenue,
Linking Road, Santacruz West,
Mumbai – 400 054

ANNEXURE TO NOTICE

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

Item No. 5:

To consider and if thought fit to pass an Ordinary Resolution for appointment of Mr. Rivkaran Chadha as director:

In the meeting of the Board of Directors held on 27th May, 2005, the Board of Directors appointed Mr. Rivkaran Chadha the Additional Director of the Company under Section 260 of the Companies Act, 1956. Mr. Rivkaran Chadha vacates his office at the conclusion of the ensuing Annual General Meeting and being eligible offers himself for reappointment. Notice in writing under Section 257 of the Act of the Act has been received from one of the members, proposing the candidature of Mr. Rivkaran Chadha for appointment as Director of the Company

Therefore, the above resolution is recommended for your approval.

None of the Directors other than Mr. Rivkaran Chadha is interested in the resolution

Additional Information:

Details of Directors seeking re- appointment at the forthcoming Annual General Meeting of the Company

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges.

NAME OF DIRECTOR	Ms. Pooja Shetty	Mr. Somasekhar Sundaresan
Date of Birth	21 st July, 1978.	23 rd December, 1972
Date of Appointment	1 st January, 2005	12 th April, 2005
Expertise in specific functional areas	She has considerable experience and knowledge of the exhibition business	He has an extensive experience and expertise in Securities Laws, Seaport Infrastructure, Banking and Non-banking Financial Services, Mergers and Acquisitions and Information Technology.
Qualifications	BBA	B.COM., LL.B
Directorship held in other public companies (excluding foreign and private companies) as on 31st March, 2006.	Adlabs Films Limited Entertainment One (India) Ltd. Gemini Exhibitors Ltd.	NIL
Memberships / Chairmanships of *Committees across public companies as on 31st March, 2006	Nil	N.A

* The Committee include the Audit Committee, the Remuneration/ Compensation Committee and Shareholders/Investors Grievance Committee.

By order of the Board of Directors

Place : Mumbai
Date : 27th July 2006

Parina Sanghavi
Company Secretary

DIRECTORS' REPORT

To,

The Members,

Your directors have pleasure in placing before you the Annual Report of the Company along with the Audited Accounts for the year ended 31st March, 2006:

1. Financial Results:

Financial Results for the Year ending 31st March 2006

(Rs. In lacs)

	2005-2006	2004-2005
INCOME	4638.01	3218.60
PROFIT/(LOSS) BEFORE INTEREST, DEPRECIATION AND TAX	2826.67	1840.83
LESS: INTEREST	193.23	145.22
PROFIT/(LOSS) AFTER INTEREST, BEFORE DEPRECIATION AND TAX	2633.44	1695.61
LESS: DEPRECIATION	540.67	395.33
PROFIT BEFORE TAX (PBT)	2092.77	1300.28
LESS: PROVISION FOR TAX		
CURRENT TAX	517.76	244.12
DEFERRED TAX	172.74	231.68
PROFIT AFTER TAX	1402.27	824.48
ADD: BALANCE BROUGHT FORWARD	1653.62	829.14
BALANCE CARRIED TO BALANCE SHEET	3055.89	1653.62

2. Initial Public Offering:

The listing of the Company with the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) on the 20th June, 2006 was a glorious moment in the history of the Company. This has laid the foundation for taking the Company to greater heights.

The object of the Issue was to raise capital for financing the expansion by enhancing the equipment in Indian operations and by setting up high end digital studios at Los Angeles, London and Dubai to further strengthen the equipment rental division of the company. The objects of the Issue also included creating a public trading market for the Equity Shares of our Company by listing them on the Stock Exchanges. The company believes that the listing of the Equity Shares will enhance its visibility and brand name and enable the company to use the company's Equity Shares for future growth opportunities.

The offer constituted 18.85% of the Post issue Paid up Capital of the Company. The Face Value of the Equity Shares is Rs. 10/- and the issue price is 41.7 times of the Face value. The offering was over subscribed reflecting the faith of the investor community in the Company.

3. Dividend:

In view of the requirement of funds for the companies activities, the directors have not recommended any distribution of dividend.

4. Appropriations:

No appropriations are proposed to be made for the year under consideration.

5. Operational Review:

Gross Income of the company increased by Rs 1419.41 lakhs in Financial Year 2005 -2006, which is 44.10 % increase over Financial Year 2004 - 2005. Operating Cost increased by Rs. 433.57 lakhs in Financial Year 2005 – 2006, which is 31.47 % increase over Financial Year 2004 – 2005.

Depreciation was up by 36.76 % from Rs. 395.33 lakhs in Financial Year 2004-2005 to Rs. 540.67 Lakhs in Financial Year 2005-2006. The addition of extensive capital assets to the film services division accounted for the major increase in depreciation.

During the period under review, PAT increased by 70.08% from Rs. 824.48 lakhs in Financial Year 2004-2005 to Rs. 1402.27 Lakhs in 2005-2006. Increased asset utilization by the growing film services division accounted for the bulk of the increase in profits.

During the Year, on June 28, 2005 there was a fire at our Studio situated at Adlabs Premises. There was a fair amount of damage done to the studio but fortunately the Company's equipment was safe due to the timely firefighting efforts of the personnel of the company and the fire brigade. On the day of the fire, since the Company was under delivery pressure for certain movies, we shifted some equipment to Santacruz Studio to meet Company's delivery deadlines. The studio has since been renovated and is back to normal working capacity.

6. New Initiatives:

- a. To provide the commercials industry with a boutique facility, with infrastructure and interiors at par with international studios, the company has setup a **studio at Raghuvanshi Mills** situated at 2, Raghuvanshi Mansion, 1st floor, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013, which has started functioning from February, 2006.
- b. A **facility in Chennai** has been commissioned in July, 2006 to cater to the South Indian Film market and also to provide a quality player to the fast growing local advertising community.
- c. The Company has during the year applied for registration of **Trademark** for 'Prime Focus Limited' with Trademark Registration Authorities, Mumbai. The Company has received the permission to use the words 'TM' for 'Prime Focus Limited', however the Registration Certificate is awaited.
- d. The Company has during the year purchase property at **Royal Palms** situated at Unit No. 1A Stilt Floor, Building "B", Master Mind (B E& F), Survey No. 169, Near Unit No. 26, Aarey Milk Colony, Goregaon (East), Mumbai - 400 065 measuring 8925 sq.feet

This property has been purchased to set up a visual effects and animation facility. The facility will be state of the art comparable to the VFX houses worldwide, with high speed network and storage solutions equipped with cutting – edge industry leading software's such as Maya, 3ds Max, Shake, After Effects, Combustion, FX plug-ins, etc. The Company believes that, when commissioned, it would be one of its kind Visual Effects facility in Mumbai ensuring every project is delivered to the creative satisfaction of the clients.

Royal Palms is very close proximity to the film processing laboratory of Adlabs Films Ltd., Mumbai where the company has its existing Digital Film Lab, therefore ensuring workflow efficiencies.

- e. **Acquisition** of 55% of the share capital of **VTR plc** in April, 2006, having its registered office at 64, Dean Street, London, W1D 4QQ.
- f. The directors of Clear (Post Production) Limited, London **are in discussions regarding a potential acquisition** by Prime Focus Limited and the VTR Group plc.

7. Awards and Achievements:

The Company has received the following awards in the Special Effects Category:

1. Zee Cine Award 2005 - Film "Musafir".
2. Best Visual Effects Award in the Screen Awards 2005 for the film "Vaah-Life Ho to Aisi" and also our Editors got the Best Editor Award for 'Yahaan'.
3. BAFF Award for 'The Rising'.
4. Honoured with four awards in the first offerings by ABBYS: one Gold Trophy to Mr. Prakash Kurup for Toyoto Innova Ad ('Best Commercial' for the year) and three Silver Trophies to Mr. Hufeza Lokhandwala for Editing - Tata Safari Ad, Regional - Sunflower Ad and Health & Hygiene - Surf Excel Ad (puddle ad).

8. Share Capital:

During the year, the Company has allotted 15,00,000 shares to Sonata Investments Limited on 20th June, 2005 of Rs. 10/- at a Premium of Rs. 156.66 per equity Shares as Preferential Allotment as per Unlisted Public Companies (Preferential Allotment) Rules, 2003. These Shares were later transferred to Reliance Capital Limited in December, 2005

The Company has also issued 23,98,088 equity shares of Rs. 10/- each at premium of Rs. 407/- each, on 12th June, 2006 pursuant to the Initial Public Offer, due to the which, the paid up capital of the Company now stands increased from Rs. 10,32,45,000 as on 31st March, 2006 to Rs. 12,72,25,880/- as on date of this Report.

9. Subsidiary Company:

- The Company has acquired 55% of the share capital of VTR plc in April, 2006 being 13,491,561 ordinary shares of 5 pence each. VTR PLC (VTR) is having its registered office at 64, Dean Street, London, W1D 4QQ.

VTR was incorporated on January 26, 1983 with Company number 1694613. It is listed on the London Stock Exchange. Its ordinary shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

VTR plc provides services to the media industry with 20 years of post production experience and is involved in post production and graphic design for broad cast, commercials and promos sectors.

- The directors of Clear (Post Production) Limited, the award-winning, high-end visual effects and CG animation boutique responsible for many ground-breaking sequences in international TV advertising, music videos and feature films, **are in discussions regarding a potential acquisition** by Prime Focus Limited and the VTR Group plc. Based in London's Soho district, Clear is a creatively-driven digital studio, recognised for its collaborative approach to delivering innovative digital VFX and CG animation to clients in advertising, broadcast, feature film and music video production. The company has recently completed effects-based TV commercials for Samsung, Pantene, Smirnoff and Philips, as well as idents for BBC HD Trial, BBC News 24 and Disney's Cinemagic Channel launch.

10. Directors:

Ms. Pooja Shetty and Mr. Somasekhar Sundaresan shall retire from the Board under the Articles of Association and they are eligible for reappointment.

11. Listing on the Stock Exchanges:

The Company's shares are listed on the following Stock Exchange:

1. The Stock Exchange, Mumbai
Phiroze Jeejobhoy Towers.
Dalal Street, Fort, Mumbai – 400 001.
2. The National Stock Exchange
Bandra Kurla Complex
Mumbai – 400 051

The Company has been complying with the listing agreement stipulations from time to time. The Company has made the payment of Annual Listing Fees for F.Y. 2006-07 to Mumbai Stock Exchange and the National Stock Exchange

12. Corporate Governance:

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

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

13. Audit Committee:

As per Section 292A of the Companies Amendment Act, 2000 and in accordance with Clause 49 of the Listing Agreement, an Audit Committee under the Chairmanship of Mr. A. Vardarajan was set up constituting of 3 independent directors including the Chairman. The Audit Committee met 7 times during the financial year of which one meeting was held before the approval of accounts by the Board of Directors. The recommendations of the audit committee were considered and adopted by the Board of Directors.

14. Fixed Deposits:

The Company has not accepted or renewed any Fixed Deposits within the meaning of Section 58-A of the Companies Act, 1956.

15. Particulars of employees:

As required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, the requisite particulars in respect of the employees of the company, who are in receipt of remuneration in excess of the limits specified under the said section are set out in the annexure herewith and form part of this report.

16. Directors' Responsibility statement u/s 217 (2AA) of the Companies Act, 1956:

The Directors confirm that in the preparation of the annual accounts for the year ended 31st March 2006 –

1. The applicable accounting standards have been followed along with proper explanations relating to material departures, if any.
2. That the directors had 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 the period ended 31st March, 2006.
3. That the directors had 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.
4. That the directors had prepared the annual accounts on a going concern basis.

17. Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:

i. Conservation of Energy and Technology Absorption:

The Company is not engaged in manufacturing activities and as such the particulars relating conservation of energy and technology absorption are not applicable. The Company makes every effort to conserve energy as far as possible in its post production facilities, Studios, Offices, etc.

ii. Foreign Exchange Earnings and Outgo:

Foreign Exchange Earnings and Outgo:

(Rs. In lacs)

Particulars	2005-2006	2004-2005
Foreign Exchange Earned:		
Technical Service receipts	36.10	148.71
Foreign Exchange Outgo:		
Professional fees	24.04	26.18
Payment on other accounts	40.81	26.00

18. Auditors:

M/s. V. Shivkumar & Associates, Chartered Accountants, retire at the end of Annual General meeting and being Eligible, offer themselves for re-appointment.

19. Acknowledgements:

The Board wishes to place on record its appreciation to the contribution made by the employees of the company. The Directors also acknowledges the cooperation and assistance received from our bankers, auditors, shareholders and employees during the period under review.

By Order of the Board,

Place : Mumbai
Date : 27th July, 2006

(Naresh Malhotra)
(CHAIRMAN AND WHOLE TIME DIRECTOR)

ANNEXURE TO THE DIRECTORS' REPORT

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Report of the Board of Directors for the year ended on March 31, 2006.

Employed throughout the financial year and in receipt of remuneration exceeding Rs. 24 lacs per annum

Sr. No	Name	Age	Designation	Qualification	Date of joining	Total Experience	Remuneration Received Rs.	Particulars of previous employment
1.	Mr. Naresh Malhotra	61	Chairman and Whole time Director	B.COM	Since Inception of Company	35	30,00,000/-	N.A
2.	Mr. Namit Malhotra	29	Managing Director	B.COM	Since Inception of Company	11	30,00,000/-	N.A

Auditors Certificate on Compliance with the condition of Corporate Governance under clause 49 of the Listing Agreement of the Stock Exchange of India.

To,
The Members of
Prime Focus Limited.

We have examined the compliance of conditions of Corporate Governance by **Prime Focus Limited** for the year ended 31st March, 2006 as stipulated in clause 49 of the Listing Agreement entered into with stock exchanges. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedure and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, and the representations made by the directors and the management, we certify that the Company has complied with conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders / Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

**For V Shivkumar & Associates
Chartered Accountants**

**V. Shivkumar
Proprietor
(Membership No.: 42673)**

Place : Mumbai
Date : 27th July, 2006

CORPORATE GOVERNANCE REPORT

1. Company's Philosophy on Code of Governance:

1. **PRIME FOCUS LIMITED** is committed to good Corporate Governance. It believes that best board practices, transparent disclosures and empowerment of shareholders are necessary for creating shareholders value. We firmly believe that good corporate governance is critical in sustaining corporate development, increasing productivity and competitiveness. The governance process should ensure that the available resources are utilized in a manner that meets aspirations of all its stakeholders. The Company's essential charter is shaped by the objectives of transparency, professionalism and accountability. The Company continuously endeavors to improve on these aspects on an on going basis.

2. Board of Directors:

a) Composition of Board of Directors and details of other directorships held

The Chairman of the board of Prime Focus Limited is also its whole time director. All Directors including non executive directors are suitably qualified, experienced and competent. At present, the board consists of eight members, the list of executive and non executive directors is as given below:

Name of Director	Status of Director	No. of outside Directorship held in Public Limited Companies*	Membership held in Committee of Directorship #	Chairmanship held in Committee of Directors #
Mr. Naresh Malhotra	Executive Director	Nil	Nil	Nil
Mr. Namit Malhotra	Executive Director	Nil	Nil	Nil
Mr. Varadarajan Ananthanarayan	Independent Director	1	Nil	Nil
Mr. Kodi Raghavan Srinivasan	Independent Director	Nil	Nil	Nil
Ms. Pooja Shetty	Non-Executive Director	3	Nil	Nil
Mr. Rakesh Radheyshyam Jhunjunwalla	Non-Executive Director	12	2	2
Mr. Somasekhar Sundaresan	Independent Director	Nil	Nil	Nil
Mr. Rivkaran Chadha	Independent Director	Nil	Nil	Nil

* This excludes directorship held in Private Companies, Foreign Companies, Companies formed under section 25 of the Companies Act, 1956 and directorship held as an alternate director.

Committee of Director includes Audit Committee, Shareholders/Investors Grievance Committee and Remuneration Committee of Directors only.

This does not include Membership/Chairmanship in Committee of Directors of Prime Focus Limited.

b) Board Meetings:

The Board meets at least once a quarter to review the quarterly results and other items on agenda. The Board Meetings are generally held at the registered office of the company.

During the year 2005-2006, 19 Board Meetings were held on 1st April, 2005, 12th April, 2005, 16th April, 2005, 27th May, 2005, 13th June, 2005, 20th June, 2005, 18th July, 2005, 8th August, 2005, 26th September, 2005, 23rd November, 2005, 28th November, 2005, 1st December, 2005, 26th December, 2005, 28th December, 2005, 11th January, 2006, 9th February, 2006, 16th February, 2006 24th March, 2006 and 31st March, 2006.

The last Annual General Meeting of the company was held on 3rd May, 2005.

Attendance of each Director at Board Meetings for the year 2005-2006 and last Annual General Meeting:

Name of the Director	No. of Meetings held	No. of Meetings Attended	Attendance at last Annual General Meeting
Mr. Naresh Malhotra	19	19	Present
Mr. Namit Malhotra	19	19	Present
Mr. Varadarajan Ananthanarayan	19	19	Present
Mr. Kodi Raghavan Srinivasan	19	19	Present
Ms. Pooja Shetty	19	3	Absent
Mr. Rakesh Radheyshyam Jhunhunwalla	19	4	Present
Mr. Somasekhar Sundaresan	19	Nil	Absent
Mr. Rivkaran Chadha	19	12	Present

3. Board Committees:

A. Audit Committee :

The Audit Committee of the Company, inter-alia, provides assurance to the Board on the adequacy of the internal control systems and financial disclosures. The terms of reference are in accordance with paragraphs C and D of Clause 49 (1) of the Listing Agreement and as specified by the Board of Directors of the Company and inter-alia and includes :

- To review financial statements and pre publication announcements before submission to the Board.
- To ensure compliance of internal control systems and action taken on internal audit reports.
- To appraise the Board on the impact of accounting policies, accounting standards and legislation.
- To hold periodical discussions with statutory auditors on the scope and content of the audit.
- To review the Company's financial and risk management policies.

The audit committee while reviewing the Annual Financial Statements also reviewed the applicability of various Accounting Standards (AS) issued by the Institute of Chartered Accountants of India during the year. Compliance of the Accounting Standards as applicable to the company has been ensured in the financial statements for the year ended 31st March, 2006.

Composition:

- The Audit Committee comprises of the following non executive independent members of the Board:
 - Mr. A. Vardarajan– Chairman
 - Mr. K.R. Srinivasan
 - Mr. Rivkaran Chadha
- During the year 2005-06 the audit Committee met seven times on the following dates:
 - 16th April, 2005
 - 28th May, 2005,
 - 25th July, 2005
 - 10th October, 2005
 - 2nd November, 2005
 - 18th January, 2006
 - 21st February, 2006

iii) Attendance of the Directors in the Audit Committee Meeting:

Name of the Director	No. of Meeting Attended
Mr. A. Vardarajan	7 out of 7
Mr. K.R. Srinivasan	7 out of 7
Mr. Rivkaran Chadha	7 out of 7

Overall Attendance: 100%

B. Remuneration Committee:

The Board of Directors had constituted a Remuneration Committee comprising of Non Executive, Independent Directors viz. Mr. K.R. Srinivasan, Mr. Namit Malhotra and Mr. Rivkaran Chadha. Mr. Rivkaran Chadha is the Chairman of the Committee. The committee will ensure appropriate disclosure on the remuneration of Directors and will deal with remuneration Package of Directors, service contract, notice period, severance fee and stock option, if any. Detail of Directors Remuneration paid for the year ended **31.03.2006** is as below;

Name of Director	Remuneration Paid (Rs.)	Sitting Fees(Rs.)	Total (Rs.)
Mr. Naresh Malhotra	30,00,000/-	Nil	30,00,000/-
Mr. Namit Malhotra	30,00,000/-	Nil	30,00,000/-

C. Shareholders'/Investors' Grievance Committee:

The Board of Directors had constituted, Shareholders'/Investors' Grievance Committee which functions with the objective of looking into redressal of Shareholders'/Investors' grievances relating to non receipt of balance sheet, etc . The Committee consists of :-

Chairman Mr. Rivkaran Chadha

Members Mr. Kodi Raghavan Srinivasan

Mr. Varadarajan Ananthanarayan

4). Management Analysis and Review Report:

1. INDUSTRY STRUCTURE

The Indian Entertainment Industry is one of the fastest growing sectors of the Indian economy riding on the economic growth and rising income levels that India has been experiencing in the past few years. The Entertainment Industry is expected to grow faster than GDP growth and consequently more spend is expected on leisure and entertainment. Convergence is the mantra for Indian Entertainment Industry for the next five years. With the economy is doing very well and poised for a leap in the next five years the Indian Entertainment Industry is expected to outperform the growth in economy by a significant margin in the coming years.

Technology will drive the Entertainment Industry into the next decade. In the new converged paradigm, its boundaries will be merged with those of the Telecommunications & Information Technology segments. Digitalisation is the future of television and film industry and will also revolutionalise the same by bringing out faster and cheaper modes of delivering films to consumers.

The post-production industry is currently estimated at Rs.500 crore and is expected to grow to Rs.1,000 crore by 2007. International outsourced work and mainstream films, currently accounting for Rs.65 crore of the total market is estimated to grow to Rs.400 crore. The increase in multiplexes has led to a demand for more visually appealing films, leading to an increased allocation for visual effects. The average budget for post production and visual effects is expected to rise to 25% (up from 15%).

Source – FICCI PwC

2. OPPORTUNITIES AND OUTLOOK

Opportunities;

- Due to decreasing margins and increasing public demand for entertainment content, international production houses are looking for maximum cost benefits.

- Outsourcing has become viable option given increased pressure on margins
- Additionally, the rapidly escalating costs of production action movies is pushing studios towards animation
- International media and entertainment majors such as News Corporation and Sony have established themselves in India and are now looking at entering production. Columbia Tristar Pictures has already announced plans to produce movies in India. Also Indian majors such as Zee, Tatas and Birlas are entering the production. With this the market for post production and visual effects is pitched to grow with much work required to be executed in India. Other international majors including Walt Disney Corporation and AOL Time Warner have shown interest to commence production in India.
- Presence of world majors will open vast opportunity for the Indian services sector to capitalize on and grow into a major international services studio.

Outlook

We are one of India's leading integrated end to end post production and visual effects services house. We offer a comprehensive spectrum of services ranging from visual effects, digital film lab (digital intermediate, high-resolution film scanning and film recording), telecine, editing, and motion control to High Definition production.

We have consistently adapted in the face of evolving client needs. Our full service capabilities empower filmmakers, ad film makers and television producers with the newest tools and techniques to refine their work in the post production & production environment. We have provided the entertainment industry with a superlative creative experience.

Our corporate vision is “to be one of the leading internationally recognized end-to-end quality service providers in the area of post production and visual effects services”. The following are our key growth strategies:

- Geographical expansion. With spiraling labor costs and with greater expectations & reduced timelines, international production houses/VFX houses are looking to outsource part of the work to other studios to be able to sustain the demand variants of their local industry. Prime Focus has drawn up plans to setup the latest technology kit, to service the local markets in London, Los Angeles and Dubai, and to take advantage of its backend visual effects and animation facility in India. Given the high degree of integration between the two facilities, it would create a unique position for Prime Focus at a global level.
- Building forward and backward integration to provide comprehensive bundled services to our clients. This bundling ensures overall margin protection and locks in clients for higher volumes of work at a single place.
- Building scale in each business to ensure that we always have the capability to service our time sensitive client base and ensuring that we retain top of the mind recall for (bundled) facilities with clients.

Consistently investing in relevant technologies to provide new services to clients and consistently upgrading client demands by providing clients with new technologies and capabilities at relevant price points.

3. THREATS, RISKS AND CONCERNS

- There is a shortage of skilled manpower for visual effects. Lack of domestic training institutes has led to manpower resource shortage for the animation studios.
- There is competition from Korea and China.
 - Korea and China have been organized in regards to attracting overseas animation projects
 - Support from their Governments in terms of finance and infrastructure has aided in growth of the industry
- Perception of quality
 - Although India offers better cost advantages, it is a very small player in the global visual effects and animation area primarily because of the perception that other countries offer better quality and service
 - For Indian Companies to survive in the global arena, ramping up of quality output and reliability of the service is a requirement.

4. INTERNAL CONTROL SYSTEMS AND ADEQUACY;

Prime Focus Limited has established internal control system to commensurate with the size of its operations, with a view to ensure that all assets are safeguarded and protected against losses and that all transactions are appropriately authorized, correctly recorded and disclosed in the financial statements. Based on these duly authorized documentations, the financial statements are prepared.

5. HUMAN RESOURCES

Our company has employed and retained a dynamic, creative and talented team of professionals with first hand industry experience. We follow the international business model and encourage freelancers to work out of its premises giving it access to more jobs. We have in all 273 personnel, who can be classified as creative and non-creative. The creative personnel are specialist in their respective fields of special effects, offline/ online telecine, graphics, etc. They form the backbone of our Company. This team includes two experienced colorists from major international post production studios. Continuous on-the-job training provided by them further nurtures talent amongst the employees. The non-creative staff can further be classified as administrative and marketing, which includes accounts, marketing, collection, etc. The team of personnel provides our Company a cutting edge vis-a-vis competition enabling it to charge premium for similar service profile.

5. General Body Meetings:

Location and time, where last three Annual General meetings were held is given below:

Financial Year	Date	Location	Time
2002-2003	30 th September, 2003	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	4.00P.M.
2003-2004	30 th September, 2004	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	4.00 P.M
2004-2005	3 rd May, 2005	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	4.00 P.M

The Company also held 4 Extra Ordinary General Meetings in the Financial Year 2005-2006 as follows;

Date	Location	Time
30 th April, 2005	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	5.00 P.M.
16 th June, 2005	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	10.00 A.M.
26 th December, 2005	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	10.00 A.M.
7 th March, 2006	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	11.30 A.M.

The Resolutions set out in the respective Notices were passed by the Shareholders with requisite majority

No resolutions were proposed to be voted on through Postal Ballot this year.

6) Disclosures:

- There were no transactions of a material nature undertaken by your Company with its promoters, directors or the management, their subsidiaries or relatives that may have a potential conflict with the interests of the Company.
- There are no instances of non - compliance by your Company, penalties, strictures imposed by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

7. Means of Communication:

- Quarterly results are taken on record by the Board of Directors and submitted to the Stock Exchanges in terms of the requirements of Clause 41 of the Listing Agreement.
- Quarterly results were published in the Free Press Journal and Navshakti
- The Company has its own website and all the vital information relating to the Company is displayed on the said website. The address of the website is www.primefocus.co.in

8. General Shareholder Information:

- a) **Annual General Meeting:** Date, time and venue –
On 29th September, 2006 at 3.00P.M. at
**HOTEL RANGSHARDA,
K.C. MARG, BANDRA RECLAMATION,
BANDRA WEST, MUMBAI – 400 050**
- b) **Financial Calendar :** 1st April, 2005 to 31st March, 2006
- c) **Date of Book Closure :** 25TH September 2006 to 29th September,2006 (both days inclusive)
- d) **Dividend payment Date :** Not Applicable
- e) **Your Company's shares are listed on the following;**
1. The Stock Exchange, Mumbai
Phiroze Jeejobhoy Towers
Dalal Street, Fort, Mumbai – 400 001.
Tel: + 91-22-226 5581
Fax: +91 – 22- 22723719/2272 2039
 2. The National Stock Exchange
Exchange Plaza, Bandra Kurla Complex,
Bandra East, Mumbai – 400 051
Tel: +91-22- 26598100-8114
Fax:+91-22- 26598237/38

The Listing Fees for the year 2006-2007 have already been paid to all the Stock Exchanges where the Company's Shares are listed

- f) **Market Price Data:** The price of the Company's Share-High, Low during each month in the last financial year on the Stock Exchanges: - Not Applicable, since the company was listed with the stock exchanges on 20th June, 2006

g) **Registrar and Share Transfer Agent:**

INTIME SPECTRUM REGISTRY PRIVATE.LIMITED
C-13, Pannalal Silk Mills Compound, L.B.S Marg,
Bhandup West, Mumbai -400 078.

Demat Connectivity Agent:

The company has connectivity with the NSDL and CDSL through M/s **INTIME SPECTRUM REGISTRY PRIVATE.LIMITED**

Dematerialization of Shares and Liquidity:

The Company's shares are activated under ISIN- INE367G01020 with both depositories namely National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL).

The total number of shares dematerialized as on 31st March, 2006 are 1,03,24,500 shares representing 100 % of Paid -up Share Capital.

- i) **Outstanding GDR'S/ADR'S OR Warrants or any Convertible Instrument, conversion dates and likely impact on equity;**

There are no outstanding warrants to be converted into equity shares as at end March,2006.

h) **Address for Investors Correspondence:**

Registered Office:

Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai - 400 054

i) Company's Studio Locations

- a. Anand Kunj, North Avenue,
Linking Road, Santacruz West,
Mumbai – 400 054
- b. Adlabs,
Film City Complex,
1st Floor, Goregaon East,
Mumbai – 400 065
- c. Unit No. 5, Raghuvanshi Mansion,
Raghuvanshi Mills Compound,
Senapati Bapat Marg,
Lower Parel, Mumbai – 400 013
- d. Vijaya Labs
9- A ,Kumaran Colony,
Main Road, Vadapalani
Chennai – 600 026
- e. Royal Palms (upcoming)
Unit 1-A, Master Mind I,
Survey No 169, Aarey Milk Colony,
Goregaon (E), Mumbai – 400 065.

j) Distribution of Shareholding as on 31st March, 2006

Sr. No.	Name	No. of Equity Shares held (Rs 10 each)	Percentage %
1	Naresh Malhotra	55,25,000	53.51
2	Reliance Capital Ltd	15,00,000	14.53
3	Namit Malhotra	12,40,000	12.01
4	Rekha Jhunhunwalla	6,32,500	6.13
5	Rakesh Jhunhunwalla	2,50,000	2.42
6	Adlabs Films Ltd	4,82,000	4.67
7	Manmohan Shetty	3,20,000	3.10
8	Neeta Malhotra	3,00,000	2.91
9	Anuj Joshi	75,000	0.72
	TOTAL	1,03,24,500	100.00

For and on behalf of the Board of Directors

Place : Mumbai.
Date : 27th Day of July, 2006

(Naresh Malhotra)
Chairman and Whole Time Director

AUDITORS' REPORT

TO THE MEMBERS OF
PRIME FOCUS LIMITED
MUMBAI.

We have audited the attached Balance Sheet of PRIME FOCUS LIMITED, as at 31st March, 2006, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in Paragraphs 4 and 5 of the said Order, to the extent applicable to the Company.
3. Further to our comments in the Annexure referred to above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (ii) in our opinion, proper books of account as required by law have been kept by the Company, so far as it appears from our examination of those books;
 - (iii) the Balance Sheet, Profit and Loss Account and Cash Flow statement dealt with by this report are in agreement with the books of account;
 - (iv) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - (v) on the basis of the written representations received from the directors, as on 31st March, 2006, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2006, from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereto, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006;
 - (b) in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date; and
 - (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

FOR V. SHIVKUMAR & ASSOCIATES
Chartered Accountants

V.SHIVKUMAR
Proprietor
(Membership No. 42673)

Place : MUMBAI,
Date : July 27, 2006

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in paragraph 2 of the Auditors' Report of even date to the members of Prime Focus Limited on the Accounts for the year ended 31st March, 2006.

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
(b) As explained to us, physical verification of major portion of the fixed assets as at 31st March, 2006 was conducted by the Management during the year. In our opinion, the frequency of physical verification is reasonable having regard to the size of the operations of the Company and nature of its fixed assets.
(c) During the year, the Company has not disposed off any substantial or major part of fixed assets.
2. The Company's nature of operations as on date does not require it to hold inventories. Consequently, clauses 4(ii)(a) to 4(ii)(c) of the Companies (Auditor's Report) Order, 2003 are not applicable.
3. The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. Consequently, clauses 4(iii)(a) to 4(iii)(g) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
5. In respect of transaction entered in the register maintained in pursuance of Section 301 of the Companies Act, 1956,
 - (a) Based on audit procedures applied by us, to the best of our knowledge and belief and according to the information and explanations given to us, we are of the opinion that the contracts or arrangements that needed to be entered into the register maintained under Section 301 have been so entered.
 - (b) According to the information and explanations given to us and excluding certain transactions of sale of services for which alternate quotations are not available, in our opinion, the contracts or arrangements have been made at price which are prima facie reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. The Central Government has not prescribed the maintenance of cost records under Section 209 (1)(d) of the Companies Act, 1956 for any of the services rendered by the Company.
9. (a) According to the records of the Company and information and explanations given to us, the Company has generally been regular in depositing undisputed statutory dues including Income-tax, Service Tax, Custom Duty, Cess and other statutory dues with the appropriate authorities during the year.
(b) According to the information and explanations given to us there are no dues in respect of Service Tax, Custom Duty and Cess etc., which have not been deposited with the appropriate authorities on account of any dispute. The Company has disputed the Income-Tax and interest demands under the Income - Tax Act, 1961, aggregating to Rs.3,81,42,272/- pertaining to the assessment years 2001- 2002 to 2004 – 2005 and has preferred an appeal with the Commissioner of Income Tax (Appeals). The Company has paid an amount of Rs.55,22,686/- under protest as on date against the said demand
10. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
11. The Company does not have any outstanding dues to any financial institution, banks or debenture holders during the year.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi fund or a nidhi / mutual benefit fund / society.

14. The Company has maintained proper records of the transactions and contracts of dealings in investments during the year and timely entries have been made therein. All the investments were held in the name of the Company.
15. According to the information and explanations given to us, the Company has given guarantees for loans aggregating to Rs. 1,05,11,000 taken by others from banks. The terms and conditions for such guarantees are not prima facie prejudicial to the interests of the Company.
16. In our Opinion, the term loans were applied for the purposes for which they were raised.
17. According to the information and explanations given to us and on an overall examination of Balance Sheet of the Company we report that no funds raised on short term basis have been used for long term investment.
18. As the Company made no preferential allotment of shares to any parties and Companies covered in the register maintained under section 301 of the Companies Act, 1956, the provisions of the clause 4(xviii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
19. As the Company has not issued any debentures, the provision of clause 4 (xix) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
20. As the Company has not raised any money by public issue, the provision relating to end use thereof as per clause 4(xx) Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
21. Based upon the audit procedures performed by us for expressing our opinion on these financial statements and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For V.SHIVKUMAR & ASSOCIATES
Chartered Accountants

V. SHIVKUMAR
Proprietor
(Membership No. 42673)

Place : MUMBAI
Date : July 27, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

	Sch No.	As at 31.03.2006 Rupees	As at 31.3.2005 Rupees
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	103,245,000	88,245,000
Reserves and Surplus	2	597,361,547	222,144,916
		<u>700,606,547</u>	<u>310,389,916</u>
LOAN FUNDS			
Secured Loans	3	209,015,497	162,582,378
DEFERRED TAX	4	85,460,343	68,186,835
TOTAL		<u>995,082,387</u>	<u>541,159,129</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	5	801,472,107	490,008,352
Less: Depreciation		172,089,293	132,799,908
Net Block		<u>629,382,814</u>	<u>357,208,444</u>
INVESTMENTS	6	100,000	100,000
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry Debtors	7	207,747,888	141,963,170
Cash and Bank Balances	8	391,845,439	110,428,854
Loans and Advances	9	132,146,704	55,232,171
		<u>731,740,031</u>	<u>307,624,195</u>
Less:			
Current Liabilities			
Liabilities	10	299,246,911	83,771,453
Provisions	11	76,188,124	40,212,057
		<u>375,435,035</u>	<u>123,983,510</u>
NET CURRENT ASSETS		<u>356,304,996</u>	<u>183,640,685</u>
MISCELLANEOUS EXPENDITURE	12	9,294,577	210,000
(To the extent not written off or adjusted)			
TOTAL		<u>995,082,387</u>	<u>541,159,129</u>
NOTES ON ACCOUNTS	16		

Per our report of even date

For **V. Shivkumar & Associates**

Chartered Accountants

V. Shivkumar
(Proprietor)

Parina Sanghavi
(Company Secretary)

Naresh Malhotra
(Chairman)

Namit Malhotra
(Managing Director)

Place : Mumbai
Date : July 27, 2006

Place : Mumbai
Date : July 27, 2006

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31ST MARCH, 2006

	Sch No.	As at 31.03.2006 Rupees	As at 31.3.2005 Rupees
Technical Services Receipts		398,847,047	312,808,505
Film Distribution		25,030,696	—
Other Income	13	39,923,474	9,051,655
		463,801,217	321,860,160
EXPENDITURE			
Operating Costs	14	181,134,461	137,777,270
Interest	15	19,323,379	14,522,098
Depreciation		54,067,172	39,533,369
		254,525,012	191,832,737
PROFIT BEFORE TAX		209,276,205	130,027,423
Provision for Taxation			
Current Tax		51,776,067	24,412,057
Deferred Tax		17,273,507	23,167,577
		69,049,574	47,579,634
PROFIT AFTER TAX		140,226,631	82,447,789
Balance brought forward		165,362,116	82,914,327
BALANCE CARRIED TO BALANCE SHEET		305,588,747	165,362,116
NOTES ON ACCOUNTS	16		

Per our report of even date

For **V. Shivkumar & Associates**
Chartered Accountants

V. Shivkumar
(Proprietor)

Parina Sanghavi
(Company Secretary)

Naresh Malhotra
(Chairman)

Namit Malhotra
(Managing Director)

Place : Mumbai
Date : July 27, 2006

Place : Mumbai
Date : July 27, 2006

SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH, 2006

	As at 31.03.2006	As at 31.3.2005
	Rupees	Rupees
Schedule 1		
SHARE CAPITAL		
Authorised :		
1,50,00,000 Shares of Rs 10 each(1,30,00,000 Shares of Rs 10 each)	150,000,000	130,000,000
Issued, Subscribed and Paid up:		
103,24,500 Shares of Rs 10 each(88,24,500 of Rs 10 each)	103,245,000	88,245,000
	103,245,000	88,245,000
Schedule 2		
RESERVES AND SURPLUS		
Profit and Loss Account	305,588,747	165,362,116
Share Premium	291,772,800	56,782,800
	597,361,547	222,144,916
Schedule 3		
SECURED LOANS		
Shamrao Vithal Co-operative Bank Limited- Term Loans	17,230,926	77,146,125
Shamrao Vithal Co-operative Bank Limited- Cash Credit	9,894,450	-
Shamrao Vithal Co-operative Bank Limited- Letters of credit	169,011,117	41,518,297
Kotak Mahindra Bank Limited- Term Loans	-	22,692,516
Kotak Mahindra Bank Limited- Letters of credit	-	15,468,368
Kotak Mahindra Primus Limited	5,527,304	5,757,072
ICICI Bank Loan	7,351,700	
	209,015,497	162,582,378
Notes :		
a. The Term loan,Cash Credit and Letter of Credit facility of the ShamraoVithal Co-operative Bank Limited are secured by hypothecation of present and future business equipment,book debts, equitable mortgage of personal properties of the Directors and their		
b. The credit facilities of Kotak Mahindra Primus Limited and ICICI Bank are secured by exclusive hypothecation of vehicles.		
Schedule 4		
DEFERRED TAX		
Deferred tax liability		
Pertaining to earlier years	68,186,835	45,019,257
Current Year	17,273,507	23,167,577
	85,460,342	68,186,835

SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH, 2006

**Schedule 5
FIXED ASSETS** (Rupees)

Description of asset	Gross Block		As on 31.03.2006	Depreciation		Net Block	
	As on 1.4.2005	Additions		Deductions	As on 1.4.2005	For the Year	As on 31.03.2006
Office premises	50,144,442	32,812,500	82,956,942	-	2,674,910	7,607,638	45,211,715
Editing Equipment - Computer based	318,542,485	137,578,212	430,508,407	25,612,290	14,158,206	111,901,416	229,608,960
Editing Equipment - Recorder based	67,459,036	30,308,641	97,767,677	-	5,962,227	29,110,334	44,310,929
Editing Equipment - Others	17,505,581	31,783,113	49,288,694	-	3,528,817	7,302,581	13,731,817
Airconditioners	2,418,259	445,280	2,863,539	-	234,689	1,162,554	1,490,394
Office equipments	404,000	964,432	1,318,432	50,000	22,622	178,927	288,152
Electrical fittings	503,070	847,113	1,350,183	-	156,974	339,417	320,627
Furniture and fixtures	6,466,769	4,760,690	11,227,459	-	531,260	4,422,500	2,575,529
Vehicles	12,944,710	11,231,369	23,346,079	830,000	596,959	6,138,532	9,627,064
Goodwill	5,320,000	-	5,320,000	-	348,652	3,925,394	1,743,258
Capital WIP	8,300,000	95,524,696	95,524,696	8,300,000	-	-	8,300,000
	490,008,352	346,256,045	801,472,107	34,792,290	14,777,787	172,089,293	357,208,444

SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH, 2006

	As at 31.03.2006 Rupees	As at 31.3.2005 Rupees
Schedule 6		
INVESTMENTS		
The Shamrao Vithal Co-operative Bank Limited(unquoted) 4000(Previous year: 4000) shares of Rs 25 each,fully paid up(at cost)	100,000	100,000
	<u>100,000</u>	<u>100,000</u>
Schedule 7		
SUNDRY DEBTORS		
TRADE DEBTORS		
Over six months old(unsecured)		
Considered good	101,069,013	40,045,365
Others(unsecured)		
Considered good	129,672,887	116,998,030
	<u>230,741,900</u>	<u>157,043,395</u>
Service tax included above	(22,994,012)	(15,080,225)
	<u>207,747,888</u>	<u>141,963,170</u>
Schedule 8		
CASH AND BANK BALANCES		
Cash balance on hand	385,810	178,991
Bank balances		
With scheduled banks		
In current accounts	58,414,010	7,372,034
In fixed deposit accounts(Refer note 11)	333,045,619	102,877,829
	<u>391,845,439</u>	<u>110,428,854</u>
Schedule 9		
LOANS AND ADVANCES		
Unsecured -considered good		
Advance payment of tax	29,000,700	30,575,590
Advances recoverable in cash or in kind or for value to be received	63,786,087	14,416,579
Deposits	10,633,715	10,240,002
Other Current Assets	28,726,202	-
	<u>132,146,704</u>	<u>55,232,171</u>

SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH, 2006

	As at 31.03.2006 Rupees	As at 31.3.2005 Rupees
Schedule 10		
CURRENT LIABILITIES		
Sundry creditors		
for goods and services	18,984,007	10,912,091
for equipment	2,895,501	3,445,859
others	–	5,500,000
[Rs.Nil Due to Small Scale Industrial Undertakings]		
Margin Money-Letters of credit	48,848,617	14,462,699
Bank Over Draft	227,691,560	49,205,958
(The Overdraft facility is secured against Fixed Deposits kept with The Shamrao Vithal Co-op Bank Limited and.)		
Taxes payable	634,892	244,846
Advances from customers	192,334	–
	<u>299,246,911</u>	<u>83,771,453</u>
Schedule 11		
PROVISIONS		
For taxation	76,188,124	40,212,057
	<u>76,188,124</u>	<u>40,212,057</u>
Schedule 12		
MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
Preliminary expenses		
Balance per last balance sheet	210,000	262,500
Add: incurred during the year	9,294,577	–
	<u>9,504,577</u>	262,500
Less: written off during the year	210,000	52,500
	<u>9,294,577</u>	<u>210,000</u>

SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31ST MARCH,2006.

	As at 31.03.2006 Rupees	As at 31.3.2005 Rupees
Schedule 13		
OTHER INCOME		
Dividend	18,000	16,662
Interest	20,465,849	4,977,541
Profit on sale of asset(net)	2,932,997	-
Sundry credit balances appropriated	1,785,850	1,073,476
Profit on sale of investments(net)	6,547,554	-
Cenvat Credit Available	1,143,619	-
Bad debts recovered	7,029,605	2,983,976
	<u>39,923,474</u>	<u>9,051,655</u>
Schedule 14		
OPERATING COSTS		
Salaries	4,087,770	3,769,360
Bonus	207,750	1,386,499
Staff welfare	1,831,305	638,110
Retainer fees/remuneration	19,498,375	10,977,952
Editors' charges/commision	35,510,159	24,188,702
Technical services payments	13,696,203	24,071,877
Consumables and consumable stores	13,390,281	9,794,987
Electricity expenses	5,795,710	4,250,750
Repairs and maintenance-equipment	936,551	1,536,423
Repairs and maintenance-studio/office premises	2,211,404	3,665,378
Rent	2,396,213	1,114,800
Rates and taxes	607,821	475,119
Insurance	4,808,883	4,065,112
Travelling and conveyance	6,949,057	5,561,513
Advertisement and publicity	565,860	172,317
Sales promotion expenses	1,253,052	742,305
Rebates and discount	10,490,497	12,741,814
Bank charges	878,917	2,032,915
Exchange Gain / Loss	854,240	-
Bad debts	11,818,976	8,931,129
Charity and donations	35,202	123,700
Legal and professional fees	10,750,294	8,967,387
Vehicle expenses	1,142,526	771,209
Office expenses and maintenance	4,531,352	2,702,327

SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31ST MARCH,2006.

	As at 31.03.2006 Rupees	As at 31.3.2005 Rupees
Telephone expenses	3,767,619	2,977,583
Postage and telegram	255,453	236,888
Printing and stationery	933,949	427,804
<u>Auditor's remuneration</u>		
Audit fees	66,120	66,120
in other capacity	240,000	240,000
Miscellaneous Expenses	3,203,780	760,666
Preliminary expenses written off	210,000	52,500
Distribution expenses	18,209,142	-
Loss on Sale of Assets (net)	-	334,024
	181,134,461	137,777,270
Schedule 15		
INTEREST		
on bank overdraft	11,710,537	3,819,092
on term loan	1,840,507	9,620,923
on others	5,772,335	1,082,083
	19,323,379	14,522,098

Schedule 16

Statement of Significant Accounting Policies and Notes forming Part of Accounts

1. Significant Accounting Policies

a. Basis of Accounting

The Financial Statements are prepared in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards specified by the Institute of Chartered Accountants of India under section 211(3C) of the Companies Act, 1956.

b. Fixed Assets

(i) Fixed Assets

- a. Fixed Assets are stated at their original cost of acquisition, including incidental expenses related to acquisition, installation and other attributable costs to bring the assets to their working condition. The Fixed Assets are stated at cost of acquisition less accumulated depreciation.
- b. Borrowing costs that are directly attributable to the acquisition of a qualifying asset are capitalized as part of the cost of that asset.

(ii) Depreciation

Depreciation on fixed assets is provided on Written Down Value Method as per the provisions of Companies Act, 1956 and at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956.

c. Impairment of Assets

The company has not recognized any loss on impairment in respect of assets of the company as is required in terms of Accounting Standard 28 on "Impairment of Assets" issued by The Institute of Chartered Accountants of India, since in the opinion of the Management the reduction in value of any asset, to the extent required, has already been provided for in the books.

d. Revenue Recognition

Technical service receipts are recognized on the basis of services rendered and is recorded net of service tax.

e. Foreign Currency Transactions

Transactions in Foreign Currencies are recorded at the exchange rate prevailing on the date of transaction or at the exchange rates under related forward exchange contracts if any. Current Assets and Current Liabilities in foreign currencies are restated at the exchange rates prevailing on the date of Balance Sheet. Any gain / loss arising on such restatement or on realization is charged to the Profit and Loss Account.

f. Investments

- (i) Long term investments are stated at cost.
- (ii) Current Investments, if any, are carried at lower of cost and fair value on a category wise basis.

g. Taxation

Income Tax expense comprises both current and deferred tax.

- (i) **Current Tax** represents the Provision for Income Tax payable on the estimated taxable income in accordance with the provisions of Income-tax Act, 1961 for the reporting period.
- (ii) **Deferred Tax** – Deferred tax liability is calculated in accordance with the Accounting Standard (AS-22) – Accounting for taxes on income, issued by the Institute of Chartered Accountants of India. Deferred tax represents the effect of timing differences between taxable income and accounting income for the reporting period and is capable of reversal in one or more subsequent periods.

2. Contingent liabilities

i. Estimated amount of contracts remaining to be executed on capital account and not provided for:	Nil (Nil)
ii. Claims against the Company not acknowledged as debts:	Nil (Nil)
iii. On account of guarantees executed by the Company's bankers:	Rs.2,00,000 (Nil)
iv. On account of undertakings given by the Company in favour of Customs authorities	Rs. 16,18,05,553 (Rs. 3,38,09,847)
v. On account of Corporate guarantee	Rs.1,05,11,000 (Rs.1,05,11,000)
vi. On account of Unexpired letters of credit	Rs.2,80,04,190 (Rs.9,34,44,945)

(Of the amount of Rs 2,80,04,190 (Rs. 9,34,44,945) an amount of Rs. 99,74,458 (Rs. 2,41,07,000) has been kept in fixed deposit as margin money with The Shamrao Vithal Co-operative Bank Limited and ICICI Bank Ltd.)

- 3. a. The Company was subject to a search operation conducted by the Income-tax authorities on 25th June, 2003. Pursuant to the said search and subsequent assessments under Section 156 of the Income-tax Act, 1961, the Income tax authorities have raised demand amounting to Rs.3,75,60,468. An amount of Rs.84,03,932, being prepaid taxes has not been considered while raising this demand. The company has disputed the demand and has preferred appeals against the same. Based on the favourable decisions in similar cases, legal opinion taken by the company, discussions with legal experts etc., the company believes that there is a good chance of decision going in its favour in respect of the above demands and hence no provision is considered necessary against the same.

- b. The company was subject to a survey operation u/s. 133 A of the Income-tax Act, 1961, with reference to deduction of tax at source on February 10, 2006. On completion of verification and assessment, the income tax authorities raised a demand for Rs.5,81,804. The company has disputed the demand and has preferred appeal against the same. The company believes that there is a good chance of the decision going in its favour and hence no provision is considered necessary against the same.
4. The Company has written off Preliminary Expenses of Rs.2,10,000 as there is no future benefit accruing on this account. Preliminary Expenses of Rs.92,94,577 (Rs.2,10,000) includes an amount of Rs.57,48,547 towards fresh issue of capital and expenses related to the company's proposed Initial Public Offer (IPO) in May 2006 and Rs.35,46,030 towards the expenses related to the acquisition of VTR plc, a listed company at the London Stock Exchange in United Kingdom. These expenses shall be amortised over a period of ten years.
 5. The balance in current account with scheduled banks include an amount of Rs.3,28,44,000 being interest free deposit held in an escrow account opened with Kotak Mahindra Bank Ltd. towards acquisition of 1,34,91,561 ordinary shares (face value of 5 pence each) being 55% of the share capital of VTR plc, United Kingdom.
 6. Loans and advances Rs.13,21,46,704 (Rs. 5,52,32,171) include deposits of Rs. 60,00,000 (Rs. 60,00,000) kept with the directors of the Company for use of their premises.
 7. Managerial remuneration under section 198 of the Companies Act, 1956 for the Chairman / Managing Director was Rs. 39,00,000 (Rs. 30,00,000).
 8. The company is presently operating an integrated post production and distribution business at different locations in Mumbai. The entire operations are governed by the same set of risks and returns and hence have been considered as representing a single segment. The said treatment is in accordance with the guiding principles enunciated in the Accounting Standard on Segment Reporting (AS-17).
 9. As per the information available and explanation provided to us and as certified by the Management there are no dues outstanding to any Small Scale Industrial Undertaking as defined under clause (i) of Section 3 of Industries Development and Regulation Act, 1951.
 10. Letters for confirmation of balances sent to parties have been received back in a few cases and discrepancies, if any, pointed out by the parties are being investigated for necessary adjustments to be carried out.
 11. Fixed Deposits with scheduled banks include interest accrued upto 31st March, 2006 – Rs.33,30,45,619 (Rs.10,28,77,829). The amount shown in fixed deposit accounts represent the following:

Fixed Deposit (against which overdraft facilities availed)	Rs.25,80,82,905 (Rs.5,50,32,876)
Fixed Deposit (as margin money)	Rs.5,94,53,702 (Rs.4,22,88,420)
Fixed Deposit (as 100 % deposit against Bank guarantee availed)	Rs.1,55,09,012 (Rs.55,56,533)
 12. The operations of the Company represent only service activity with reference to post-production facilities offered like editing and hence there is no purchase or sale of raw materials, which implies the absence of any opening or closing stock.

13. Related party disclosures :

List of Related Parties and description of relationship :

- i) Key Management Personnel
 - Mr. Naresh Malhotra - Chairman
 - Mr. Namit Malhotra – Managing Director
- ii) Relatives of Key Management Personnel
 - Mrs. Neeta Malhotra – Wife of Mr. Naresh Malhotra
 - Ms. Neha Malhotra – Daughter of Mr. Naresh Malhotra

Mr. Premnath Malhotra – Brother of Mr. Naresh Malhotra

Ms. Devika Saigal – Niece of Mr. Naresh Malhotra

iii) Associates :

Adlabs Limited

iv) Transaction with Related Parties :

Nature of Transaction	2005-06			Balance as on 31.03.06	Balance as 31.03.05
	Key Management Personnel	Relatives of Key Management Personnel	Associates		
	Rupees	Rupees	Rupees	Rupees	Rupees
Salary	39,00,000	–	–	39,00,000	33,00,000
Contractual Services	–	8,87,875	–	8,87,875	10,70,000
Rent	2,40,000	1,20,000	12,80,000	16,40,000	3,60,000
Total	41,40,000	10,07,875	12,80,000	64,27,875	47,30,000

14 C I F Value of imports

Capital Goods

Rs.20,83,16,320
(Rs.12,18,49,230)

15. Expenditure in Foreign Currency – On payment basis:

Professional Fees

Rs. 24,03,931
(Rs.26,18,163)

Payment on other accounts

Rs.40,80,518
(Rs.26,00,136)

16. Earnings in foreign exchange – On receipt basis:

Technical Service receipts

Rs.36,09,775
(Rs.1,48,71,208)

17. Prior year figures have been re-grouped and re-arranged wherever to make them comparable.

Schedules 1 to 16 form an integral part of the Balance Sheet as at 31st March, 2006 and Profit & Loss Account for the year ended on that date

For **V. Shivkumar & Associates**

Chartered Accountants

For and on behalf of the Board

V. Shivkumar
(Proprietor)

Parina Sanghavi
(Company Secretary)

Naresh Malhotra
(Chairman)

Namit Malhotra
(Managing Director)

Place : Mumbai
Date : July 27, 2006

Place : Mumbai
Date : July 27, 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE:

1. Registration Details	
Registration Details	: 11-108981
State Code	: 11
Balance Sheet Date	: 31 st Mar., 06
2. Capital Raised during the year	(Rs.in Lacs)
Public Issue	: Nil
Rights Issue	: Nil
Bonus Issue	: Nil
Private Placement	: 150.00
3. Position of Mobilisation and Deployment of Funds	(Rs.in Lacs)
Total Liabilities	: 9950.82
Total Assets	: 9950.82
Sources of funds	
Paid up Capital	: 1032.45
Secured Loans	: 2090.15
Reserves and Surplus	: 5973.62
Unsecured Loans	: Nil
Deferred Tax Liability	: 854.60
Application of Funds	
Net Fixed Assets	: 6293.83
Investments	: 1.00
Net Current Assets	: 3563.04
Miscellaneous Expenditure	: 92.95
Accumulated Losses	: Nil
4. Performance of the Company	(Rs.in Lacs)
Turnover	: 4638.01
Total Expenditure	: 2545.25
Profit Before Tax	: 2092.76
Profit After Tax	: 1402.27
Earning Per Share (Annualised)	: Rs.13.58
Dividend Rate	: Nil
5. Generic Names of Principal Products of the Company	
Item Code No.	: N. A.
Product / Description	:
DIGITAL & POST PRODUCTION SERVICES	

For and on behalf of the Board

Place : Mumbai
Date : July 27, 2006

Parina Sanghavi
(Company Secretary)

Naresh Malhotra
(Chairman)

Namit Malhotra
(Managing Director)

2005-2006

CASH FLOW STATEMENT

	Current Year 31st-Mar-2006 (Rupees)	Previous Year 31st-Mar-2005 (Rupees)
A. CASH FROM OPERATING ACTIVITIES		
Net Profit before tax	209,276,205	130,027,423
Adjustments for :		
Depreciation	54,067,172	39,533,369
Interest Expense	19,323,379	14,522,098
Interest Income	(20,483,849)	(4,994,203)
Miscellaneous Expense written off	210,000	52,500
(Profit)/ Loss on sale of Fixed Assets	(2,932,997)	334,024
(Profit)/ Loss on sale of Investments	(6,547,554)	-
Operating profit before working capital changes	252,912,356	179,475,211
Adjustments for:		
(Increase)/ Decrease in Receivables	(65,784,718)	(61,727,398)
(Increase)/ Decrease in Loans & Advances	(76,640,696)	(28,882,508)
(Increase)/ Decrease in Miscellaneous Expenditure not w/off	(9,084,577)	-
Increase/(Decrease) in Trade Creditors and Other payables	215,475,458	65,804,524
Cash generated from / (used in) operating activities - A	316,877,823	154,669,829
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(346,256,045)	(187,608,833)
Sale or Disposal of Fixed Assets	6,663,664	2,618,548
Profit on Sale of Investment	6,547,554	-
Interest, Dividend, etc., received	20,483,849	4,994,203
Net Cash generated from/(used in) investing activities - B	(312,560,978)	(179,996,082)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of shares		
Equity	15,000,000	4,825,000
Premium	234,990,000	27,097,200
Loans Borrowed (net)	46,433,119	76,246,122
Interest Expense	(19,323,379)	(14,522,098)
Net Cash Recovered from /(used in) Financing Activities - C	277,099,740	93,646,224
Net increase/(decrease) in cash and cash equivalents	281,416,585	68,319,971
(A+B+C)		
Cash and cash equivalents (opening)	110,428,853	42,108,882
Cash and cash equivalents (closing)	391,845,438	110,428,853
	281,416,585	68,319,971

PRIME FOCUS LIMITED

Registered Office: Anand Kunj, North Avenue, Linking Road, Santacruz (West), Mumbai - 400 054

DP ID No.	L. F. No.
Client ID No.	No. of Shares held

ATTENDANCE SLIP

I/We hereby record my/our presence at the Annual General Meeting of the Company held at Hotel Rangsharda, K. C. Marg, Bandra Reclamation, Bandra (West), Mumbai - 400 050 on Friday, 29th September, 2006 at 3 p.m

Name of Attending Member

Name of Attending Proxy

Signature of Attending Member

Signature of Attending Proxy

Note: 1. Shareholder/Proxyholder wishing to attend the meeting is requested to sign and hand over the Attendance Slip at the Entrance of the venue of the meeting

PRIME FOCUS LIMITED

Registered Office: Anand Kunj, North Avenue, Linking Road, Santacruz (West), Mumbai - 400 054

DP ID No.	L. F. No.
Client ID No.	No. of Shares held

PROXY FORM

I/We _____ of _____ in the district of _____ being a member/members of PRIME FOCUS LIMITED hereby appoint _____ of _____ in the district of _____ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday, September, 29, 2006 at 3.00 p. m. or at any adjournment thereof.

Signed this _____ day of _____ 2006.

Signature _____

Note: 1. The proxy form duly completed should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.

2. A Proxy need not be a Member.