



**PRIME FOCUS**  
l i m i t e d

our world  
making it flat

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## Mission Statement

To build a globally competitive business through the use  
of talent and technology



To be a leader in the business by harnessing creativity  
and passion with a zeal to change convention through  
conviction



To provide a platform for our people where  
 $\text{growth} = \text{focus} + \text{hardwork}$



To earn profit *respectably* by always delivering greater  
value for money



To provide our customer greater levels of service by  
adapting and learning from them constantly



To deliver to our shareholders a commitment to working  
with full integrity and intelligence at all the times

- Namit Malhotra

To build a

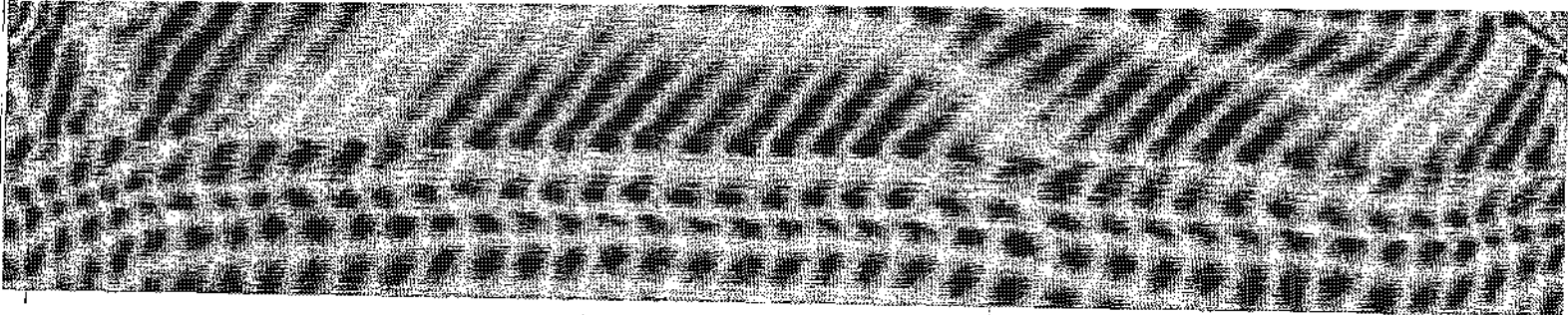
# globally

competitive business

through the use of  
talent and technology







That the world is getting flat is known.

That it has been accepted in the ITES is a thing of the past. Books have been written.

A similar revolution is sweeping the business of film visual effects and post production. In our world. The difference is that we are making it happen.

Our world. Making it flat.

Technology and creativity are converging globally. Technology is emerging as a driver of creativity as also easing it and making creativity larger and bigger. An instance of this is the entertainment industry. The top 10 grossers last year in Hollywood, all had visual effects domination. Visual effects is an example of technology driving creativity and putting a multiplier and commerce

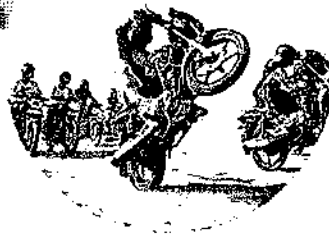
into it.

Indian cinema is following. And the technology and creativity is being leveraged to create better quality of picture and sound, as also, visual effects. With India being the largest film producing country, we see an opportunity to become the techno-creative providers to the world. India's cost, talent and time advantage is helping us.

We are uniquely positioned to participate in the growing use of technology in creativity both in India and globally. The entertainment and advertising industries are a few of our big users. Next could be digital, mobile or even DVD as a medium that uses technology and creativity as drivers. We are the 'enablers' that can support any medium.

We are creating a global techno-creative solutions company with the best talent, best technology and best competitiveness to emerge as the biggest participant in the flattening of our world.

The industry we operate in is quite fragmented. In this environment, we have grown consistently over the years, thanks to the competitiveness that we have built through our model and approach. We are now getting into other key markets like UK and then later into USA where intense competition exists. We are sure to prove ourselves even in these markets. What helps us remain ahead is our ability and passion to keep innovating. The validation of the same is the scale we have built in this business and the quality of work we do for our clients, despite other choices being available to them.



To be a

# leader

in the business by harnessing creativity  
and passion with a zeal to change  
convention through conviction

With a great team of technicians and creative minds, we are the preferred choice in every industry that we represent. In Indian cinema, our market share has consistently risen over the years and never dropped. In advertising, the best agencies trust us. They are creative companies themselves and hence, understand the creativity we bring to the table.

Our strength is in our people who are very passionate. The

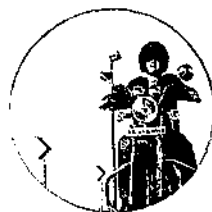
solutions keep getting better and we are therefore a knowledge shop, where technology is the same for all, it is the use and leverage of the technology through our capability that differentiates us.

The result.

We are a leader in India by far. We are now making huge strides in UK, where we are the fourth largest Post production company, following our acquisition of VTR and

Clear Post Production. We are also in the process of creating leadership in off-shoring work from USA into our Indian facilities.

We have relied on the creative exploitation of technology as a business model so that we change convention through conviction. It is our conviction that creativity knows no bounds. Further, Prime Focus adds a lot of passion through innovation in what it does to break convention.



To provide a platform  
— for our people where  
**growth** = focus + hardwork





The flip side to being a techno-creative solutions company is that both creativity and technology evolve fast. This is led by the demands of the medium we use. As the mediums evolve, the enablers need to evolve.

We invest heavily in people. Our growth is linked to the growth of our people. Their growth depends on the opportunities we offer them to grow. It's a virtuous cycle. We have to ensure that every

member who joins us understands this aspect of our business. We have over 1,000 members who are continuously growing our business and themselves through it.

The fact that we are part of the creative community that leverages technology makes our business model very people centric. Our people understand both creativity and technology. Prime Focus has led the way by attracting

and retaining fresh talent into the industry. Prime Focus provides the platform, creativity and direction to this new talent. We will always provide the opportunity. They in turn will grow through their hard work and focus.

The result.

The growth of our people is growth for us. We have grown consistently over the years, every year since we started.



To earn profit

# respectably

by always delivering

greater value for money

Prime Focus is a provider of techno-creative solutions to its clients. The company is a means to an end, not the end in itself. The ability of Prime Focus to grow is linked to the value it adds to its customers. The quality of the work ensures that we continue to grow.

Our ability to think differently and offer customers a high quality solution at competitive cost ensures that we are the preferred choice, always. In any business,

profits are a driver. We have earned the utmost respect of our clients and grown our respect with them.

We have always believed in customer delight. It is their satisfaction that ensures we keep getting more work. Our people keep adding value since they are constantly innovating. This creates a lot of respect for the company and steady cash flow. We use this cash flow to invest back in to the business by continuously upgrading

technology and people.

Every year, Prime Focus adds profits respectably by delivering greater value for money. As a company, we have consistently grown and in turn our profits have grown every single year since we started. We are very proud that unlike other companies in the media space, our profits do not see peaks and troughs. It is consistent.

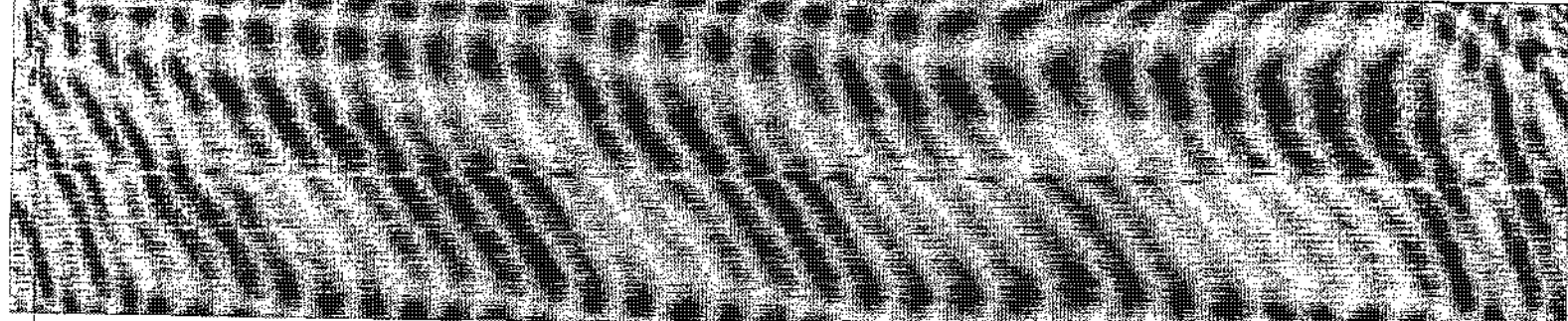
We believe in building our business around clients, not the other way around.

To provide our customer  
greater levels of service by adapting and

# learning

from them constantly





We are in the business of using technology and creativity to enhance the quality of the customer's product. We are integral for the customers and this makes us very close to them. The success of our company is directly linked to customer satisfaction.

This is where we realized the intricacies of our business. We have to learn from the customers, to serve them better. Since our modest

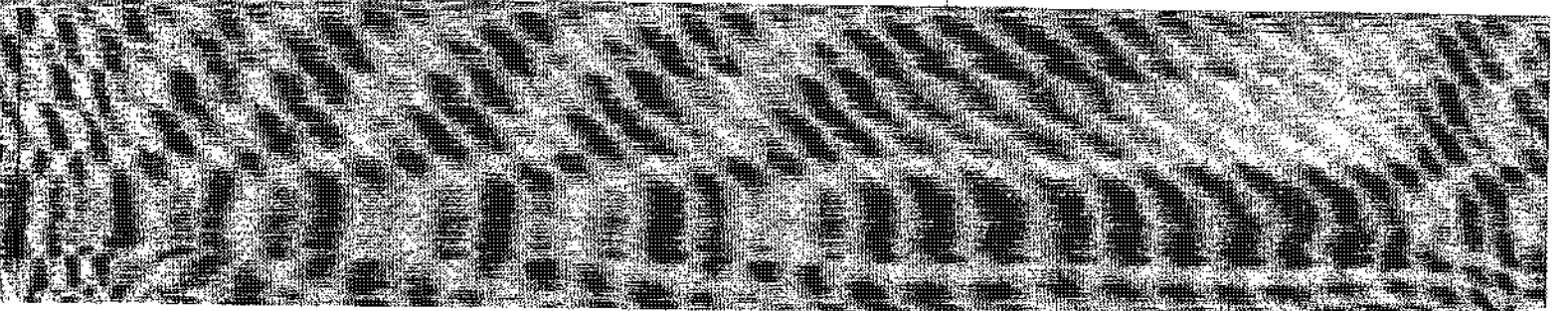
start, we have built a culture of learning from, and growing with the customer. Customer satisfaction and service are intrinsic to our growth and survival.

We are always learning from the client to serve him better. Over the years, we have known our customers and their requirements well and customized our services for them through interaction and learning.

Our culture to learn from and

interact with the client is thanks to our humble beginning. This culture has stayed with us, now that we have grown much larger. Many companies are now starting on a large base and we know how difficult it is for them to build a culture of learning.

The client knows we are here to serve them and that being a learning company, we will create a solution that is best for them.



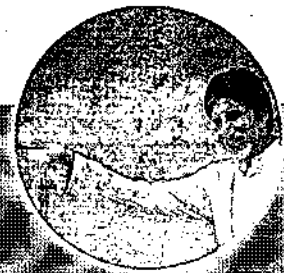




To deliver to our shareholders a

# commitment

to working with full integrity  
and intelligence at all the times



We are a company that believes in creating consistent shareholder value. It is our commitment that we work with the highest integrity and intellect at all times. We have delivered superior returns in the past and hope to do so in the future too. We are building a global company with global size.

Prime Focus is now a global company. With six locations in India and the recent acquisition of the fourth largest post production facility in London, we are the

only company in the world of its kind.

We are creating the infrastructure for growth. By March 2008, we will have a 75,000 square feet, 700 seat, dedicated facility in Mumbai for the visual effects business. And soon, you will have a Prime Focus set-up in Los Angeles and Dubai, making us a truly global company.

Even in India, we are growing with integrity and commitment. We are the only ones to have six locations,

four in Mumbai and one each in Hyderabad and Chennai, next to the production bases. We are investing heavily in technology to become the preferred choice for our customers.

We have invested in technology, infrastructure, people and locations. We have become global. This should bring scale and with it, operating leverage. This should create superior returns and consistent shareholder value in the future.

# The world of

## Take 1

Prime Focus Limited (PFL) is one of the largest integrated post production and visual effects services house for films and television content in the world. A truly global player, PFL has used its international presence to provide its customers with optimal service levels at optimum cost.

The Company accessed the capital markets in 2006 and its shares are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

## Action

PFL believes in offering end-to-end services, making itself indispensable to its clients. Our suite of offerings covers several aspects of production and post production including

- camera rentals,
- Digital Intermediate (DI) for film,
- post production (film and advertising),

- visual effects (film and advertising)

## Our territories

The Company runs four studios in Mumbai.

The Raghuvanshi Mills property is a boutique studio for commercials.

The Khar facility handles both film and TV content.

The one in Adlabs' premises is a digital film lab.

The Royal Palms, Goregaon facility is a dedicated visual effects studio.

The Company has set up studios in Hyderabad and Chennai to cater to the South Indian film industry.

Prime Focus London was created in 2006 by the merger of VTR Plc, a high-end DI and post production facility that is amongst the top five in UK and Clear Plc, a boutique visual effects services company. The

primary reason for setting up this facility was to capitalize on the huge international opportunity.

## Showreel

- 1996: The Company began operations as a TV post production house.
- 1998: The Company transformed into an advertisement post production house.
- 2002: The Company entered the film post production business.
- 2005: The Company evolved into an integrated visual effects (VFX) and post production house.
- 2006-07: The Company established itself in all domains and extended its footprint to the international market with Prime Focus London.

## Our vision

"To be one of the leading internationally recognized end-to-end quality service providers in the area

# Prime Focus

of post production and visual effects services."

## Showcase

### Key Awards and Achievements

- We were awarded the FICCI Frames (BAFF) Award 2007 for Best VFX in the CBZ commercial. The Company also had the distinction of securing all the nominations in this category.
- We are ranked the number 4 facility in the UK market by Televisual Magazine.
- According to NDTV, we are the only company in the country to have worked on 7 out of the Top 10 commercials in 2006.
- We ruled at the Abbies too. The Abby Gold Trophy Award for Best Commercial of the Year in 2006 was awarded to Mr. Prakash Kurup for the Toyota Innova advertisement (ad) starring Aamir Khan and three Silver

Abby Trophies were won by Mr. Huzefa Lokhandwala for Editing for the Tata Safari ad, the regional Sunflower ad and the Surf Excel ad (puddle ad).

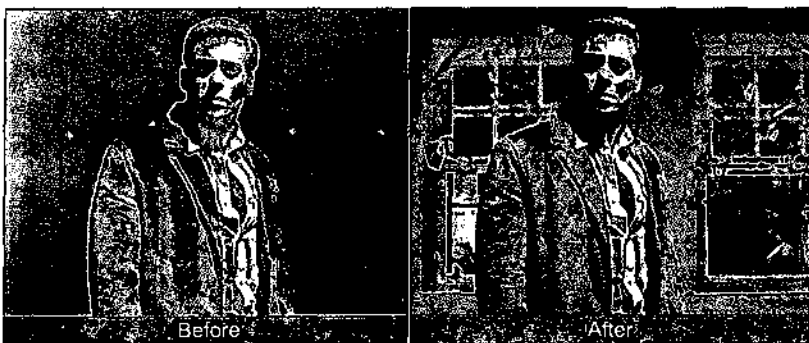
- Musafir won the Best VFX Award at the Zee Cine Awards 2005.
- We were all over the Screen Awards in 2005 having won the Best VFX Award for the film Vaah! Life Ho Toh Aisi! and the Best Editor Award for the film Yahaan.
- Another proud moment for us was when we won the BAFF Award 2005 for the Best VFX for the movie Mangal Pandey: The Rising.
- We won the IFFA Award in 2003 for the Best VFX for the film Kaante.

## Flashback

Prime Focus Limited- Always the Pioneers  
Here's how

- First digital intermediate pipeline for frame by frame feature film colour grading/restoration in India.
- First to introduce Spirit Telecine in India.
- First to get the MILO Motion Control rig in India, the only rig in Asia till date.
- First Indian film shot on Digital Video (DV) format -Let's Talk, 2002.
- First Indian film shot on High Definition (HD) format- American Daylight, 2004.
- First HD format camera rental and film mastering service in India.
- First and only Indian company with its own time slice rig for visual effects shots.
- First and only post production company listed in the Indian stock market.
- First and only Indian post production company to set up a commendable base in UK.

# Frame by Frame



## Before and after images from the movie Jaaneman

The shot required glass shards to fly towards Salman Khan. To shoot it in reality is nearly impossible as the speed with which the shards would come would be impossible to capture on camera. The shards would also injure the actor. So here is how the shot was accomplished.

Salman Khan shot against a green screen. His image was then superimposed on a computer generated (CG) image of the room and flying shards.

## Before and after images from the movie Guru

The shot required to show a stadium full of people. Since it is logistically very difficult to shoot with so many people, visual effects have been used to achieve this shot. Here is how this was done.

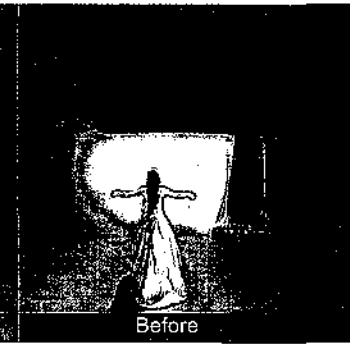
First Abhishek Bachchan shot in an empty stadium. His image was then superimposed on an image of the crowd. The people in the crowd who are closer to Abhishek and distinctly visible are actual people. The people at the far end of the stadium are computer generated.



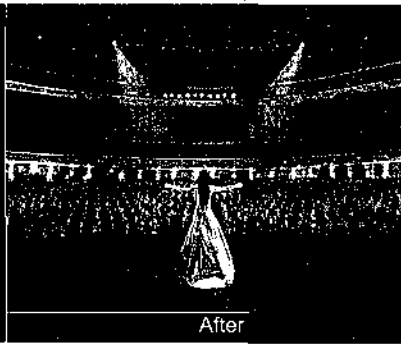
## Advertisement for Kellogg's cornflakes

The ad was created by Prime Focus entirely in the virtual space using 3D animation.





Before



After

#### Advertisement for Fair and Lovely

In this ad the grand opera theater set was constructed using computer generated imagery. The crowd was then shot separately and meticulously added to this virtual set.



Before



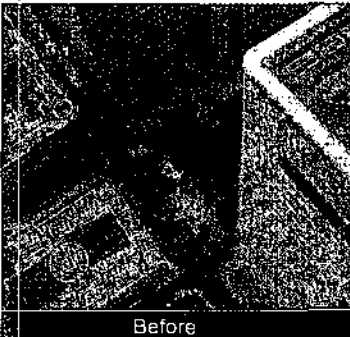
After

#### Advertisement for Pepsi

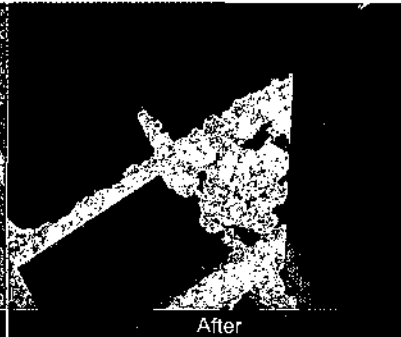
In the latest Pepsi World Cup ad, Pepsi drinkers get their wishes fulfilled no matter how weird they are. The surreal looking effect has been created using high-end, photo real visual effects.

**Before and after images from 28 weeks later,** a Hollywood film for which Prime Focus has handled key visual effects and post production work.

The shot required to show fire spreading through the streets of London at night. Here is how this was accomplished.

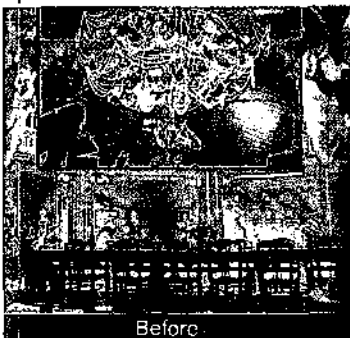


Before

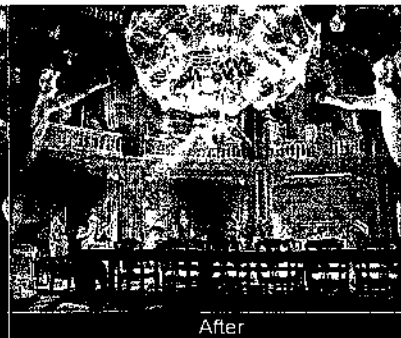


After

First a bird's eye view of the city of London was shot from a helicopter. According to the story of the movie, London has been quarantined due to a virus outbreak. Therefore the first step of the post production process was to remove any moving bodies - humans - cars etc. that could be seen in the actual helicopter shot. Then the day shot was converted to a night shot by changing the contrast, brightness and the colour levels of the image. The next step was to add a computer generated fire. To make the fire look real, reflection of the fire in the buildings and debris were created digitally on the image.



Before



After

#### Advertisement for Happydent White chewing gum

This iconic ad caught the entire nation's imagination and was a hit as soon as it was released. It also won the most prestigious award of the international advertising fraternity - the Cannes Lion. Prime Focus was responsible for the high-end packaging of this

"There is high  
growth all around  
us. Expect very  
high growth from  
us too."

- Namit Malhotra, Managing Director

Dear Shareholders,

I would like to take this opportunity to thank all of you for your continued support. I will share with you how the business has unfolded and before I end, I will share with you how I see the next year.

## The gull that flies highest sees farthest

In our business of leveraging technology within the medium of cinema, advertising and digital services, geographies are becoming history. Combined with the advent of technology and internet services being offered at increasingly competitive rates internationally, we are able to make a real-time contribution to making the world of film and post production flat.

An interesting trend that we saw last year was that the majority of top blockbusters in Hollywood, USA were special effects based. The budget for special effects movies has significantly increased in films over the past few years and the trend suggests that this market has a massive future. Technology is creating visual differentiation, initiating an explosion in the future of the visual effects business within post production.

Prime Focus intends to maximize the opportunity. Because we were leaders in change on an international scale, we are fortunate

to have a template that Prime Focus can implement anywhere in the world. Due to our key ability to predict and value future technologies, we are in a unique position to attack countries such as the USA with experience, passion and delivery that the western world has never seen before. A typical example of this was how Prime Focus delivered to an international client on key visual effects and post production work on '28 weeks later', a Fox/Atomic film. This has been a fantastic learning curve for us at Prime Focus "worldwide". By using all six Indian facilities, our staff now has full confidence to produce and deliver to international standards.

We strive to be the most competitive post production company, offering international services and rates that suit individual budgets, creativity and local expectations. Our ability and passion to keep innovating internationally has helped us stay ahead of the curve. However, we will never relinquish or digress from being the leader in the founder market of the Indian post production sector and will always remain loyal, focused and committed in a highly competitive and fragmented market.

## The only global option

Prime Focus is now a truly global company with six locations in India

and the recent acquisition of VTR plc in London, Prime Focus is on course to integrate global creativity with global cost effectiveness and networking.

In the last year in London, we have integrated seven post production companies into two, radically cut our cost base, implemented revolutionary sales processes and started to deliver on our financial numbers. I am particularly pleased that the London operation is profitable as a standalone entity within its own market. Combine this with our initiatives for Los Angeles and Dubai and Prime Focus will become the most flexible, creative post production company within the next one year. Monetary and other tangible benefits will be there to see for Prime Focus and its shareholders.

In India alone, we have six post production houses that have remained strong, focused and are delivering month in, month out. We continue to attract the best work, win high-end awards and are setting high standards. This will continue and grow as UK and USA come on stream when international integration is complete. Using the international skillset will raise the bar even higher, making us stronger. It will provide a level of creativity that Prime Focus India's clients too will benefit from.

## India Shining

Both our user industries in India - cinema and advertising - are seeing strategic inflection.

### Take cinema first

The entire industry has been transformed from a risky business into a far more predictable business with institutional financing and multiple revenue streams in multiplexes, digital cinema, satellite and the internet. With more predictability and improved management, the output of feature films has increased in number and their content improved in quality. Feature films contain more visual effects than ever before and high budgets to improve their standards are now considered the norm. The commercial success of films like *Krish* and *Dhoom* are helping to push Indian cinema to the fore internationally. India produces over 1000 feature films each year, more than any other country globally. Prime Focus has positioned itself to be able to offer "under one roof" service to film production companies.

With six locations positioned next to the film production centres, four in Mumbai and one each in Hyderabad and Chennai, we are strategically placed as the first choice for feature film productions. We have recently progressed this strategy further by acquiring a

75,000 square feet building at our Royal Palms facility to help upscale from our existing 130-seat facility to nearly 700 seats. This will provide capacity for upcoming international projects and service the already booming Indian market. Prime Focus is additionally set to take advantage by offering high-end digital camera hire. This will allow us to enter the feature film revenue stream at a much earlier stage and provide an all-round package to production companies.

### Advertising, broadcast and new areas

With over 100 television channels and 1.2 billion people in India, the growth within advertising is here to stay for a number of years. As with the feature film market, advertising is becoming increasingly sophisticated. Advertisers are using new, clever and innovative techniques to entice their audiences to purchase their products. Visual effects are combined with well-known faces and exuberance to increase their product awareness.

Prime Focus also works within the broadcast television space and has recently refurbished its Khar facility with new editing suites, new technology and a brand new building. Our existing clients have reacted very well to this new facility and you can expect more growth in

the coming years. We are also investing in new businesses such as archival film restoration, digital asset management and digitisation of all formats.

### Looks good, keeps looking good

In our first year as a listed company, I am proud and pleased that we have delivered on key elements of the business plan we presented to you last year and I feel that phase one is now complete. We have turned Prime Focus London into a vibrant, positive, profit making company, and at the same time managed to continue to service the ever-growing Indian market with intelligence and passion. The next phase of our business plan will be to make acquisitions in Los Angeles and Dubai, and to fully integrate our existing international offering to give an end result that will be a first in post production.

There is high growth all around us. We will make the most of it. Expect very high growth from us too.

With God's blessings and your good wishes, we will continue to serve our shareholders in the only way that we know best - with leadership, respectability and commitment.

Sincerely,

Namit Malhotra

# Corporate Information

## Board of Directors

Mr. Naresh Malhotra, Chairman & Whole Time Director  
Mr. Namit Malhotra, Managing Director  
Mr. Kodi Raghavan Srinivasan  
Mr. Rakesh Radheshyam Jhunjunwala  
Mr. Somasekhar Sundaresan  
Mr. Rivkaran Chadha  
Mr. Hariharan Padmanabhan  
Mr. Chandir Gidwani

## Chief Financial Officer

Mr. Nishant Fadia

## Company Secretary & Compliance Officer

Ms. Parina Sanghavi

## Auditors

M/s. V. Shivkumar & Associates  
Chartered Accountants

## Bankers

Shamrao Vithal Co-operative Bank Limited  
Kotak Mahindra Bank Limited  
ICICI Bank Limited  
HSBC Limited

## Registrar & Transfer Agent

Intime Spectrum Registry Limited  
C-13, Pannalal Silk Mills Compound,  
L.B.S. Marg, Bhandup (West),  
Mumbai 400 078

## Registered Office

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



# Notice

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF PRIME FOCUS LIMITED WILL BE HELD ON FRIDAY, THE 28<sup>TH</sup> SEPTEMBER, 2007 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, 2007, 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 **Mr. Rakesh Jhunjunwala** who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of **Mr. Rivkaran Chadha** 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. Hariharan Padmanabhan who was appointed as an Additional Director in the meeting of the Board of Directors of the Company held on 24<sup>th</sup> January, 2007, 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. Hariharan Padmanabhan as a candidate for the office of the Director of the Company, be and is hereby appointed as a Director of the Company.

6. To consider and if thought fit to pass with or without modification, the following resolution as an Ordinary Resolution:

**"RESOLVED THAT** Mr. Chandir Gidwani who was appointed as an Additional Director in the meeting of the Board of Directors of the Company held on 24<sup>th</sup> January, 2007, 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. Chandir Gidwani as a candidate for the office of the Director of the Company, be and is hereby appointed as a Director of the Company.

7. To consider and if thought fit to pass with or without modification, the following resolution as an Ordinary Resolution:

**"RESOLVED THAT** in super session of the earlier resolution passed by the members pursuant to Sec.

293(1)(d) and other applicable provisions, if any of the Companies Act, 1956 consent of the Company be and is hereby accorded to the Board of Directors of the Company for borrowing from time to time any sum or sums of money(s) from Indian / Foreign Banks / Financial Institutions / Mutual Funds / Development Agencies / Overseas Corporate Bodies and/or any other persons/entities, on such terms and conditions and with or without security as the Board of Directors may think fit which, together with the money(s) already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business), may exceed the aggregate, for the time being, of the paid up capital of the Company and its free reserves that is to say, reserves not set apart for any specific purpose, provided that the total amount of money(s) so borrowed by the Board of Directors shall not at any time exceed the limit of Rs. 750 crores."

8. To consider and if thought fit to pass with or without modification, the following resolution as an Special Resolution:

**"RESOLVED THAT** in accordance with the provisions of Section 198, 269, 309 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956 including any statutory modification or re-enactment thereof and subject to such consents and approvals as may be necessary, the consent of the Company be and is hereby accorded to the increase in remuneration of Mr. Naresh Malhotra, the Chairman and Whole Time Director upto Rs. 5,00,000/- per month w.e.f 1st April, 2007 till the remainder of his term with liberty to the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any committee which may constitute to exercise powers, including the powers conferred by this resolution) to alter and vary the terms and conditions of reappointment and/or remuneration so as not to exceed overall ceiling as stipulated in Sections 198, 309 and 310 of the Companies Act, 1956 as may be agreed to between the Board and Mr. Naresh Malhotra.

**RESOLVED FURTHER THAT** wherein any financial year, the Company has no profits or profits are inadequate, the Company do pay to Mr. Naresh Malhotra, the

Chairman and Whole Time Director of the Company, remuneration, perquisites and allowances not exceeding the ceiling limit specified under Schedule XIII of the Companies Act, 1956

**"RESOLVED FURTHER THAT** the Board be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this resolution"

9. To consider and if thought fit to pass with or without modification, the following resolution as an Special Resolution:

**"RESOLVED THAT** in accordance with the provisions of Section 198, 269, 309 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956 including any statutory modification or re-enactment thereof and subject to such consents and approvals as may be necessary, the consent of the Company be and is hereby accorded to the increase in remuneration of Mr. Namit Malhotra, the Managing Director upto Rs. 5,00,000/- per month w.e.f 1st April, 2007 till the remainder of his term with liberty to the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any committee which may constitute to exercise powers, including the powers conferred by this resolution) to alter and vary the terms and conditions of reappointment and/or remuneration so as not to exceed overall ceiling as stipulated in Sections 198, 309 and 310 of the Companies Act, 1956 as may be agreed to between the Board and Mr. Namit Malhotra.

**"RESOLVED FURTHER THAT** wherein any financial year, the Company has no profits or profits are inadequate, the Company do pay to Mr. Namit Malhotra, the Managing Director of the Company, remuneration, perquisites and allowances not exceeding the ceiling limit specified under Schedule XIII of the Companies Act, 1956.

**"RESOLVED FURTHER THAT** the Board be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this resolution"

10. To consider and if thought fit to pass with or without modification, the following resolution as an Special Resolution:

**RESOLVED THAT** in accordance with the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956 ("Act"), Foreign Exchange Management Act, 1999 (including any statutory modification(s) or re-enactment thereof for the time being in force), and the applicable Rules, Guidelines, Regulations, Notifications and Circulars, if any, and the Listing Agreements, entered into by the Company with the Stock Exchanges where the shares of the Company are listed and subject to such approvals, consents, permissions and sanctions of the Government of India ("GOI"), Reserve Bank of India ("RBI"), Foreign Investment Promotion Board ("FIPB"), Securities and Exchange Board of India ("SEBI"), Registrar of Companies ("RoC") and subject to such consents and such other approvals as may be necessary and subject to such conditions and modifications as may be considered necessary by the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this resolution) or as may be prescribed or made, in granting such consents and approvals and which may be agreed to by the Board, which the Board be and is hereby authorised to accept, if it thinks fit in the interest of the Company, the consent of the Company be and is hereby accorded to the Board to offer, issue and allot in one or more tranches, whether Indian Rupee denominated or denominated in foreign currency, in the course of domestic / international offerings (in or more foreign markets) to any person including Domestic / Foreign Investors, Foreign Institutional Investors, Non-Resident Indians, Companies, Body Corporates, Trusts, Mutual Funds, Banks, Insurance Companies, Pension Funds, individuals, employees of the Company or otherwise, whether shareholders of the Company or not (collectively referred to as the "Investors", including any combination thereof), through a public issue, rights issue, preferential issue and / or on a private placement basis, with or without over-allotment option, Equity Shares, debentures or bonds, whether non-convertible or Partly / Optionally / Fully Convertible and / or securities linked to Equity Shares or securities issued by way of **Qualified Institutional Placement** in terms of the Chapter XIII-A of the Securities and Exchange Board of India

(Disclosure and Investor Protection) Guidelines, 2000 including but not limited to Global Depository Receipts (**GDRs**) and / or American Depository Receipts (**ADRs**) and / or Foreign Currency Convertible Bonds (**FCCBs**) and / or any Other Financial Instruments (**OFIs**) and / or any securities convertible into equity shares at the option of the Company and / or holders of the securities, and / or securities linked to equity shares and / or securities with warrants including any instruments or securities representing either equity shares and / or bonds with or without Share Warrants attached (collectively referred to as "**Securities**", including any combination thereof), secured or unsecured listed on any stock exchange inside India or any international stock exchange outside India, through an offer document and / or prospectus and / or offer letter, and / or offering circular, and / or listing particulars, as the Board in its sole discretion may at any time or times hereafter decide, including the discretion to determine the categories of Investors to whom the offer, issue and allotment shall be made to the exclusion of all other categories of Investors at the time of such issue and allotment considering the prevailing market conditions and other relevant factors wherever necessary in consultation with the Lead Managers, to be issued either for cash or for consideration other than cash including shares of another company, whether in India or abroad, at such price (whether at a discount or premium to the market price) as per applicable regulations from time to time duly adjusted for any stock split, consolidation, issue of bonus shares etc. in such manner, including through book building process, provided however the total amount (including if the Securities have been issued at a premium) raised through the aforesaid Securities should not, together with the over-allotment / green shoe option, if any, exceed **USD 55 million (United States Dollars Fifty Five million only)** or its Indian Rupee equivalent.

**RESOLVED FURTHER THAT** in accordance with the provisions of Section 81(1A) and other applicable provisions, if any, of the Act, the provisions of Chapter XIII A of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 ("**SEBI DIP Guidelines**"), the provisions of the Foreign Exchange Management Act, 1999 and the Foreign Exchange Management

(Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, the Board of Directors may at their absolute discretion, issue, offer and allot equity shares / fully convertible debentures (FCDs) / partly convertible debentures (PCDs) or any securities other than warrants, which are convertible into or exchangeable with equity shares at a later date, for and upto the amount of **USD 55 million (United States Dollars Fifty Five million only)** or its Indian Rupee equivalent, inclusive of premium to **Qualified Institutional Buyers** (as defined in Clause 2.2.2B(v) of the SEBI DIP Guidelines) pursuant to a qualified institutional placement, as provided for under Chapter XIII A of the SEBI DIP Guidelines.

**RESOLVED FURTHER THAT** where securities which are convertible into or exchangeable with equity shares at a later date in terms of Chapter XIII A of the SEBI DIP Guidelines, as specified above, the relevant date for the purpose of pricing of the securities shall be the day which is thirty days prior to the date on which the general meeting of the shareholders is held in terms of Section 81(1A) or other relevant provisions of the Act to consider the proposed issue or a day 30 days prior to the date on which the holder of the securities which are convertible into or exchangeable with equity shares at a later date becomes entitled to apply for the said shares.

**RESOLVED FURTHER THAT** without prejudice to the generality of the above, the aforesaid Securities may have such features and attributes or any terms and conditions in accordance with international practices to provide for the tradability and free transferability thereof as per prevailing capital markets practices and regulations, including, but not limited to, the terms and conditions in relation to security, rate of interest, issue of additional Equity Shares, variation of the conversion price of the Securities during the duration of the Securities, payment of interest, additional interest, premium on redemption, prepayment and any other debt service payments whatsoever.

**RESOLVED FURTHER THAT** in case of any equity linked issue / offering, including without limitation, any GDR / ADR / FCCB offering, the Board be and is hereby authorised to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion, redemption or cancellation of any

such Securities referred to above or as may be issued / allotted in accordance with the terms of issue / offering in respect of such Securities and such equity shares shall rank pari-passu with the existing equity shares of the Company in all respects except if provided otherwise under the terms of issue / offering and in the offer document and / or prospectus and / or offer letter and / or offering circular and / or listing particulars.

**RESOLVED FURTHER THAT** the Company and / or any entity, agency or body authorised and / or appointed by the Company, may issue depository receipts representing the underlying Securities issued by the Company in negotiable, registered or bearer form with such features and attributes as are prevalent in international capital markets for instruments of this nature and to provide for the tradability and free transferability thereof as per international practices and regulations (including listing on one or more stock exchange(s) inside or outside India) and under the forms and practices prevalent in the international markets.

**RESOLVED FURTHER THAT** for the purpose of giving effect to the above, the Board, in consultation with the Lead Managers, Underwriters, Advisors and / or other persons as appointed by the Company, be and is hereby authorised to determine the form and terms of the issue(s), including the class of investors to whom the Securities are to be allotted, number of Securities to be allotted in each tranche, issue price (including premium, if any), face value, premium amount on issue / conversion of Securities / exercise of warrants / redemption of Securities, rate of interest, redemption period, number of equity shares or other securities upon conversion or redemption or cancellation of the Securities, the price, premium or discount on issue / conversion of Securities, rate of interest, period of conversion, fixing of record date or book closure and related or incidental matters, listings on one or more stock exchanges in India and / or abroad, as the Board in its absolute discretion deems fit.

**RESOLVED FURTHER THAT** such of these Securities as are not subscribed may be disposed off by the Board in its absolute discretion in such manner, as the Board may deem fit and as permissible by law.

**RESOLVED FURTHER THAT** for the purpose of giving effect to the above resolution, the Board be and is

hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion deem necessary or desirable, including without limitation to settle any question, difficulty or doubt that may arise in regard to the offer, issue and allotment of the Securities.

**RESOLVED FURTHER THAT** the Board be and is hereby authorised to accept any modification in the proposal as may be required by the authorities involved in such issues but subject to such conditions as the SEBI / GOI / RBI or such other appropriate authorities, inside or outside India, may impose at the time of their approval and as agreed to by the Board.

**RESOLVED FURTHER THAT** the Board be and is hereby entitled to appoint or enter into and execute all such arrangements / agreements, with any Lead Manager(s) / Underwriter(s) / Banker(s) / Guarantor(s) / Depository(ies) / Listing Agent(s) / Trustee(s) / Legal Counsel / Custodian(s) / Process Agent(s) / Advisor(s) and all such agencies or entities, inside or outside India, as may be involved or concerned in such issue / offering of Securities and to remunerate all such agencies and entities as may be involved in cash or otherwise including by way of payment of commission, brokerage, fees, expenses incurred in relation to the issue / offering of Securities and other expenses, if any or the like, subject to applicable laws and regulations.

**RESOLVED FURTHER THAT** the Board be and is hereby authorised to delegate all or any of the powers herein conferred above to any Committee of Directors or any one or more Directors / Executives of the Company.

**By order of the Board of Directors**

**Parina Sanghavi**  
Company Secretary

Place : Mumbai  
Date : 30th August 2007

**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 26th September, 2007 to 28th September, 2007 (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**

**Parina Sanghavi**  
Company Secretary

Place : Mumbai  
Date : 30th August 2007

**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. Hariharan Padmanabhan as director:

In the meeting of the Board of Directors held on 24th January, 2007, the Board of Directors appointed Mr. Hariharan Padmanabhan the Additional Director of the Company under Section 260 of the Companies Act, 1956. Mr. Hariharan Padmanabhan 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 has been received from one of the members, proposing the candidature of Mr. Hariharan Padmanabhan for appointment as Director of the Company

Therefore, the above resolution is recommended for your approval.

None of the Directors other than Mr. Hariharan Padmanabhan is interested in the resolution

### Item No. 6

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

In the meeting of the Board of Directors held on 24th January, 2007, the Board of Directors appointed Mr. Chandir Gidwani the Additional Director of the Company under Section 260 of the Companies Act, 1956. Mr. Chandir Gidwani 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 has been received from one of the members, proposing the candidature of Mr. Chandir Gidwani for appointment as Director of the Company

Therefore, the above resolution is recommended for your

approval.

None of the Directors other than Mr. Chandir Gidwani is interested in the resolution.

### Item No. 7

At present, the Company has borrowing limits upto Rs. 100 Crores approved by the members under section 293(1)(d) of the Companies Act, 1956. Keeping in view the expansion plans and consequent fund requirements of the Company, it is proposed to increase the borrowing limits of the Company upto a maximum amount of Rs. 750 crores. As per section 293(1) (d) of the Companies Act, 1956, the proposal to increase the borrowing limits of the company requires members approval by way of an ordinary resolution.

Accordingly the Board recommends the resolution for approval.

None of the Directors of the Company is interested or concerned in the said resolution.

### Item No. 8

The members at the Extra ordinary general meeting held on 30th April, 2005 approved the terms of appointment including the payment of remuneration of Mr. Naresh Malhotra , the Chairman and Whole Time Director at a monthly remuneration upto Rs. 2,50,000/- w.e.f 1st April, 2005 for a period of Five Years.

The Board, as per the recommendations of the Remuneration Committee, took up the review of remuneration payable to Mr. Naresh Malhotra , the Whole Time Director at the Meeting held on 29th June, 2007 and in appreciation of his commitment and contribution decided that the remuneration payable to Mr. Naresh Malhotra , the Whole Time Director be revised upto Rs. 5,00,000/- per month w.e.f 1st April, 2007

Except Mr. Naresh Malhotra , the Whole Time Director and Mr. Namit Malhotra, the Managing Director who is the son of Mr. Naresh Malhotra, no other director is deemed to be



interested or concerned in the resolution.

Accordingly the Board recommends the resolution for approval.

Item No. 9

The members at the Extra ordinary general meeting held on 30th April, 2005 approved the terms of appointment including the payment of remuneration of Mr. Namit Malhotra, the Managing Director at a monthly remuneration upto Rs. 2,50,000/- w.e.f 1st April, 2005 for a period of Five Years.

The Board, as per the recommendations of the Remuneration Committee, took up the review of remuneration payable to Mr. Namit Malhotra, the Managing Director at the Meeting held on 29th June, 2007 and in appreciation of his commitment and contribution decided that the remuneration payable to Mr. Namit Malhotra, the Managing Director be revised upto Rs. 5,00,000/- per month w.e.f 1st April, 2007

Except Mr. Namit Malhotra, the Managing Director and Mr. Naresh Malhotra, the Whole Time Director who is the father of Mr. Namit Malhotra, no other director is deemed to be interested or concerned in the resolution.

Accordingly the Board recommends the resolution for approval.

Item No. 10

During the last financial year, your Company successfully completed its IPO and raised Rs.100 crores by the issue of 23,98,088 equity shares of Rs.10/- each at a price of Rs.417 per share.

Your Company has been considering expanding its business including by way of acquisition. The proposed resolution will enable your Company to issue / offer equity and / or equity related instruments / Depository Receipts / Foreign Currency Convertible Bonds (FCCB), or such other instrument as may be finalized by the Board or Committee thereof in the course of domestic / international offering, in the aggregate amount not exceeding USD 55 million or equivalent sum in Indian Rupees/in any other currency in the manner set out in the resolution. The issue proceeds will enable the Company inter alia finance acquisitions, other strategic initiatives and / or other general corporate purposes.

The detailed terms and conditions for the offer will be determined in consultation with the Advisors, Lead Managers and Underwriters and such other authority or authorities as may be required, considering the prevailing market conditions and other regulatory requirements.

The Special Resolution seeks to empower the Board of Directors to issue securities in such tranche at such time or times, at such price or prices and to such persons including institutions and/or corporate bodies and/or individuals or otherwise as the Board may in its absolute discretion, deem fit and / or also to undertake a qualified institutional placement with qualified institutional buyers as defined by SEBI DIP Guidelines. The Board of Directors may in their discretion adopt this mechanism as prescribed under Chapter XIII A of the SEBI DIP Guidelines for raising funds for the Company, without seeking fresh approval from the shareholders.

As the pricing of the offering cannot be decided except at a later stage, it is not possible to state the price or the exact number of securities or shares to be issued. However, the same would be in accordance with SEBI Guidelines and / or Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 as amended from time to time or any other guidelines / regulations as may be applicable.

For the reasons stated aforesaid, an enabling resolution is being passed to give adequate flexibility and discretion to the Board to finalise the terms of the issue.

Under Section 81 of the Companies Act, 1956 (the Act) shareholders' approval by a special resolution is required for issue of shares to persons other than existing shareholders of the Company. Similarly Listing Agreement provides inter alia that the Company in the first instance should offer all securities to be issued by the Company for subscription pro-rata to the existing equity shareholders unless the shareholders in a General Meeting decide otherwise.

The said special resolution, if passed, shall have the effect of allowing the Board on behalf of the Company to issue and allot the securities otherwise than on pro-rata basis to the existing shareholders.

Therefore, consent of the shareholders is being sought pursuant to the provisions of Section 81 and other applicable provisions of the Act.

The Board of Directors believes that such issue is in the interest of the Company and therefore recommends the resolution for your approval.

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

<b>Name of Director</b>	<b>Mr. Rakesh Jhunjhunwala</b>	<b>Mr. Rivkaran Chadha</b>
<b>Date of Birth</b>	5th July, 1960	17th August, 1976
<b>Date of Appointment</b>	22nd August, 2004	27th May, 2005
<b>Expertise in specific functional areas</b>	He is a Chartered Accountant. He has been profiled as one of India's best five investors by Business India magazine in 1998. He is a partner in Rare Enterprises	He is a MBA in finance from Cardiff University, England and Wales. He provides valuable inputs in framing and implementation of financial strategies.
<b>Qualifications</b>	C.A.	B.COM., M.B.A.
<b>Directorship held in other public companies (excluding foreign and private companies) as on 31st March, 2007.</b>	Aptech Limited Bilcare Limited Concord Biotech Limited Geojit Financial Services Limited Innovasynth Technologies (I) Limited Mid-day Multimedia Limited Nagarjuna Construction Co. Limited Provogue (India) Limited Praj Industries Limited Viceroy Hotels Limited Tops Security Limited	NIL
<b>Memberships / Chairmanships of Committees across public companies as on 31st March, 2007</b>	Mid-day Multimedia Limited	NIL

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

By order of the Board of Directors

**Parina Sanghavi**  
Company Secretary

Place : Mumbai

Date : 30th August, 2007

# Management Discussion and Analysis

## 1. Economic Overview

The Indian economy has been doing phenomenally well for the past few years and all industry forecasts predict that it will continue to do so in the future. The economy grew at a scorching rate of over 9% in 2006-07, exceeding expectations on all accounts. The fast paced growth of the Indian economy is leading to the emergence of a larger and richer consumer market. The consumption pattern is also undergoing a change with expenditure on healthcare, transport, communication and recreation going up substantially. All this bodes well for the Entertainment & Media industry.

## 2. Industry Overview

### Entertainment & Media (E&M) Industry

The Entertainment & Media Industry is one of India's fastest growing sectors and is expected to outgrow the country's economy for the next five years. Currently valued at over Rs. 435 billion, the Indian Entertainment & Media Industry is expected to grow at a Compounded Annual Growth Rate (CAGR) of around 18 % to reach Rs. 885 billion by 2010.

The industry is currently at an inflection point and is witnessing sweeping changes. Regulatory amendments are paving the way for corporate participation and investments. Large business houses are entering the industry and leading the way to the creation of a corporatized structure. As media businesses converge, integrated media models are set to emerge as in the case of TV18 and Times Group, for instance. Top global brands like Walt Disney, Warner, Viacom, Astro Broadcast etc. have entered India and many more are waiting in the wings.

### Entertainment Technology (ET)

#### **GLOBAL SCENARIO**

Technology is the key driver in the E&M industry today. The Entertainment Technology domain consists of high - definition cameras, motion control rigs etc. in the area of production (of films, commercials and TV shows) and Digital Intermediate (DI) process, editing (both offline and online), special/visual effects (SFX/VFX), animation, etc. in the area of post production (of films, commercials and TV shows). There has been a phenomenal growth in the demand for ET services all over the world, especially in the case of films.

Globally, the top 10 all time grossers are movies heavily loaded with visual effects wherein the post production/VFX budget averaged to approximately 70% of the cost of production (Titanic, Star Wars, Lord of the Rings, etc.). Visual effects films have on an average grossed 40% more than other films and the top grosser each year over the past few years has been a visual effects heavy film.

#### **LOCAL SCENARIO**

A similar trend can be observed emerging in India. Three of the recent big hits - Dhoom 2, Krissh and Don have visual effects of more than 50 minutes each.

The VFX and animation industry in India is said to be growing at an extremely fast pace of 38% and 25% respectively. Currently, the average spend on visual effects and post production is around 15% of the total production cost. Certain new films released recently have increased this spend to around 25%. Investment in post-production and promos has moved up from an average of Rs. 5 million per film in the late 1990s to Rs. 30-40 million currently.

#### International ET Outsourcing

With spiraling labour costs and 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. Currently much of ET services outsourcing is to Eastern Europe, Australia and New Zealand, countries with proximity to the major markets, viz, US and Western Europe.

India has the potential to emerge as a major outsourcing hub for entertainment technology. Apart from technical know-how and talent, India's competitive edge comes from people's fluency with English language. Also, the cost differential for India in comparison to the UK market is as high as 6-8 times and 3-4 times for the US market.

Analysts predict that Indian ET services have the ability to grow at a rate of around 35% over the next 10 years. The size of the VFX and postproduction outsourcing opportunity from US itself is worth at least USD 3.3 billion.

Considering the above, the opportunity in the entertainment technology industry is huge. Prime Focus with its experience and expertise is fully geared to seize this opportunity and has already established itself as the market leader in this space in India.

### 3. Business Overview

Prime Focus Limited is one of the largest integrated post production and visual effects services house for films and TV content in the world. A global media technology company, PFL believes in offering end-to-end services and hence, our suite of offerings covers every aspect of production and post production including camera rentals, DI for film, post-production (film and advertising), visual effects (film and advertising). The company is easily the industry leader in film and advertising post production, whether it is DI or VFX.

PFL has a subsidiary in UK, Prime Focus Plc (earlier known as VTR Plc), which it acquired in May 2006. This was recently ranked as the number four post production facility in UK.

#### a. Product segments

The Company has a diverse client and product portfolio, which enables a robust business model. A large chunk of the Company's business comes from leading companies in the media sector.

(I) **ADVERTISEMENTS** - PFL has worked with leading ad agencies like HTA, O&M, FCB Ulka and Triton J and top ad film production houses like Corcoise Films, MAD Films, Black Magic Motion Pictures, Ramesh Deo Productions and Equinox Films. The Company has over 400 advertisements to its credit till date.

(II) **FEATURE FILMS** - Almost 60% of the industry's post production requirements are met by PFL. Ram Gopal Verma, Sanjay Leela Bhansali, Sanjay Gupta, Ramesh Sippy, Vidhu Vinod Chopra, Sajid Nadiadwala, Manmohan Shetty, Boney Kapoor, Vashu Bhagnani and Pritish Nandy are just some of the film makers who swear by the Company. Several of the recent blockbusters like *Fanaa*, *Kabul Express* and *Guru* have the Prime Focus touch.

(III) **TELEVISION & MUSIC VIDEO** - The Company has vast and varied experience in this segment. It is currently working with a number of TV channels like Star TV, Sony, Zee, MTV, Zoom, Cinevista, UTV and TV 18 and recording companies like Tips, T-Series, Sony Music, Venus and Virgin Music. Services offered include on-air packaging, equipment rental, show edit and mastering.

#### b. Reach

PFL has 4 studios in Mumbai at different locations across the city.

**RAGHUVANSHI MILLS STUDIO** - This is a boutique studio for ad films, strategically located in the Lower Parel area which is the hub of the advertising industry.

**KHAR STUDIO** - This centrally located facility handles both film and ad content and does a majority of film promo works.

**ADLABS STUDIO** - Located in Adlabs premises, this facility is a digital film lab, which has been set up to leverage its unique positioning of being situated within a processing laboratory, to provide clients with an integrated service offering.

**ROYAL PALMS, GOREGAON STUDIO** - This facility is a dedicated VFX studio. The set up is at par with international standards and caters to domestic as well as international clients.

The Company also has studios in Chennai and

Hyderabad to cater to the Tamil and Telugu film industries respectively.

c. Prime Focus London

Prime Focus London was created in 2006 by the merger of VTR Plc, a high-end DI and post production facility that is amongst the top five in UK and Clear Plc, a boutique visual effects services company. PFL acquired a 55% stake in VTR Plc to access a niche clientele in the UK and US markets (the likes of Fox, Warner Brothers, Disney, etc). The name VTR was changed to Prime Focus Plc. Prime Focus Plc acquired a 100% stake in Clear Plc to facilitate its entry in the international VFX/animation space.

## 4. Opportunities and Threats

### Opportunities

The E&M industry is set to grow at a rate faster than the Indian economy. The Entertainment Technology industry specifically, is at an inflection point in India. Movies and commercials are increasing their post production and VFX budgets dramatically. Given the cost advantage that India has, ET outsourcing is all set to take off as well. Prime Focus, with its leadership position in this industry is well placed to exploit this opportunity.

The Company has a strong relationship with technology vendors and with all the major Indian movie production houses, enabling it to grow its share in the expanding market. It has high customer retention with around 60% of its revenues coming through repeat business. PFL is also bringing its expertise and experience to the South Indian film industry with studios in Chennai and Hyderabad. With Prime Focus London and plans to set up facilities in Los Angeles, USA and in Dubai, the Company's reach and business are set to grow exponentially.

Its multi-location advantage, state-of-the-art technology and above all its people are factors that will enable PFL to seize the opportunities that lie ahead.

### Threats

Like in most other industries, opportunity brings with itself competition. More and more post production studios are opening in the country to take advantage of the burgeoning entertainment technology industry. With Prime Focus going international, the company faces stiff competition from East Europe, Australia, New Zealand, Korea and China for ET outsourcing business. However, being one of the largest integrated post

production and visual effects houses in the world with multi-location and first mover advantage, Prime Focus is well placed to deal with competition.

Shortage of skilled manpower and technological obsolescence can also affect the Company's business. However, these are threats faced by the entire industry. With superior methodologies and improved processes and systems, the Company is well positioned to lead a high growth path.

## 5. Outlook

Considering the Entertainment Technology boom and the outsourcing surge that the country will witness in the coming years, it is safe to say that the future of the Company looks very promising. With 4 studios in Mumbai and one each in Hyderabad and Chennai, PFL is well placed to exploit the immense opportunity presented by the Hindi and the South Indian film industry as well as the television space. The Company's proposed expansion plan to open facilities in Los Angeles, USA and Dubai are testimony to the global opportunity open to the Company.

We are prepared to participate aggressively in this opportunity. We are building forward and backward integration to provide comprehensive bundled services to our clients. We are also consistently investing in relevant technologies to provide new services to clients at attractive price points. With extensive experience in the business, strong relationships in the film industry and first mover advantage, Prime Focus is well positioned in the space. We expect 2007-08 to be an inflection point for our business, preparing us for higher growth then on.

## 6. Risks and Concerns

The Company is operating in an environment that is becoming more and more competitive. As it gets into the expansion mode, it is poised to exploit several new opportunities. The Company ensures that the risks it undertakes are commensurate with better returns. Through strategic focus, forward thinking and contingency planning, the Company has devised a risk management policy to control risks involved in all corporate activities to maximize returns and minimize adversity.

### Geographical Risk

*This risk arises from dependence on any geographical region.*

With studios in Chennai, Hyderabad and London apart from Mumbai, the Company is spreading its risk across different geographical markets. This ensures PFL is not subjected to the vagaries of a single geographical market. This risk will be further mitigated when the Company opens its facilities in Los Angeles and Dubai.

#### Concentration Risk

*This risk arises from excessive dependence on any customer for business.*

The Company has a good mix of television and film business. A majority of the Company's revenue comes from the film sector and the remaining from television. Even within movies, the Company's Chennai and Hyderabad studios are expected to lower its dependence on Bollywood. The Company also believes it can scale up its business in both the sectors immensely in the coming years. Therefore, PFL believes that it is not significantly affected by this risk.

#### Competition Risk

*This risk arises from more players wanting a share of the same business.*

Given the huge opportunity in the Entertainment Technology space, several small players have entered this field. The Company can also face competition from integrated production studios that might set up their own post production and VFX division to take advantage of the high margins offered by the business.

However, given the Company's leadership position in this sector, extensive experience, strong relationships in the film industry, first mover advantage, setting up of Prime Focus London and international expansion plans to become a global player, PFL believes it is not significantly affected by this risk.

## 7. Internal Control Systems and Adequacy

The Company has adequate internal controls for its business processes across departments to ensure efficiency of operations, compliance with internal policies and applicable laws and regulations, protection of resources and assets and accurate reporting of financial transactions.

## 8. Discussion on financial performance

Income from Operations: The Company recorded

operating income of Rs. 5515.55 lacs for 2006-07, as compared to Rs. 3988.47 Lacs for the previous year, a growth of 38.29 %.

PBDIT: The Company's EBIDTA stood at Rs. 4115.76 Lacs against Rs. 2828.77 Lacs in 2005-06, an increase of 45.50%. There was an improvement in the PBDIT margins by 3.7 % as compared to the previous year.

PAT: The Profit after Tax (PAT) of the company increased from Rs. 1402.27 Lacs in 2005-06 to Rs. 2007.81 Lacs in 2006-07, an increase of 43.18%.

Overall, the company is on a strong growth path and its efforts to improve efficiency, productivity and profitability will improve overall returns.

## 9. Material developments in Human Resources

Prime Focus is about people. We believe that it is only the people that create. In a business dominated by cutting edge technology, we believe that machines are only tools and that it is the attitude, talent, hard work and persistence of our people that has brought us to where we are now.

Our ideology is reflected in our logo as well. We have a core group of employees who have been with us for years. Our team now consists of more than 700 people in India and around 250 in UK.

PFL has a well-drawn recruitment policy to attract and retain the best talent. The attrition rate is negligible. Lot of emphasis and efforts are made to create a working environment that will encourage innovation, enhance work satisfaction and build a merit driven organizational culture.

## 10. Cautionary Statement

This report contains forward looking statements that involve risks and uncertainties including, but not limited to, risk inherent in the Company's growth strategy, acquisition plans, dependence on certain businesses, dependence on availability of qualified and trained manpower and other factors. Actual results, performances or achievements could differ materially from those expressed or implied in such forward looking statements. This report should be read in conjunction with the financial statements included herein and the notes thereto.



# 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, 2007:

## 1. Financial Results:

Financial Results for the Year ending 31st March 2007

(Rs. In Lacs)

Particulars	2006-2007	2005-2006
Income	6317.84	4387.71
Profit/(Loss) Before Interest, Depreciation, Tax And Extraordinary Item	4115.76	2828.77
Less: Interest	330.78	193.23
Profit/(Loss) After Interest, Before Depreciation And Tax	3785	2635.53
Less: Depreciation	774.52	540.67
Profit Before Tax (PBT) And Extraordinary Item	3010.48	2094.86
Less: Extraordinary Item, Preliminary & Pre-Operative Expenses Written Off	89.70	2.1
Profit Before Tax (PBT)	2920.78	2092.76
Less: Provision For Tax		
Current Tax	686.55	226.44
Deferred Tax	517.76	172.74
Profit After Tax	2007.80	1402.26
Add: Balance Brought Forward	3055.89	1653.62
Balance Carried To Balance Sheet	5063.69	3055.88

## 2. Dividend:

Your Directors have not recommended any dividend on equity shares for the period under review.

### 3. Appropriations :

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

### 4. Overall Performance:

The Gross Income increased by Rs. 1930.13 Lacs in 2006-2007, which is 43.98% increase over Previous Year. The Profit After Tax of the Company increase from Rs. 1402.26 Lacs in 2005-06 to Rs. 2007.80 Lacs in 2006-2007 which is 43.18% increase over Previous Year.

### 5. Share Capital:

The Company has 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 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 31st March, 2007.

### 6. Subsidiary Company:

The Company has obtained permission from the Central Government under Section 212(8) of the Companies Act, 1956 and accordingly the individual Annual Accounts of VTR Plc. the subsidiary company for the year ended 31st March, 2007 have not been attached to the Annual Report. Copies of these Accounts will be made available to any member upon request.

### 7. Directors:

Mr. Rakesh Jhunjhunwala and Mr. Rivkaran Chadha shall retire from the Board under the Articles of Association and they are eligible for reappointment.

### 8. Listing on the Stock Exchanges:

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

1. The Stock Exchange, Mumbai  
Phiroze Jeejobhoy Towers.  
Daial 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. 2007-08 to Mumbai Stock Exchange and the National Stock Exchange.

### 9. Corporate Governance:

The Company has been proactive in following the principles and practices of good corporate governance. The company has taken adequate steps to ensure that the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreements of the Stock Exchanges are complied with.

A separate statement on corporate governance is produced as a part of the Annual Report along with the Auditors certificate on its compliance.

### 10. Fixed Deposits:

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

### 11. Particulars of employees:

There is no employee during the year under review in respect of whom the particulars as required to be disclosed with reference to the Companies (Particulars of Employees) Rules, 1975 as amended.

### 12. 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 2007:

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, 2007.
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.

### 13. Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo:

1. 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.

2. Foreign Exchange Earnings and Outgo:

Foreign Exchange Earnings and Outgo:

(Rs. In Lacs)

Particulars	2006-2007	2005-2006
Foreign Exchange Earned		
Technical Service receipts	88.58	36.10
Foreign Exchange Outgo		
Professional fees	29.50	24.04
Payment on other accounts	36.76	40.81

### 14. Directors' Explanation on Auditor's Remarks

With respect to the Group Subsidiary's auditors reservations regarding their inability to express an

opinion for lack of their being unable to carry out certain audit procedures as they were appointed mid-term for lack of certain evidence and inadequate assurance on operations from the erstwhile auditors on opening balances as at 31st August, 2006 wherein even we are unable to arrive at the reluctance of the erstwhile auditors since we had certified that all relevant information was disclosed at all times. We therefore believe that the issue referred to above is only academic in nature.

### 15. Auditors:

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

### 16. Acknowledgements:

Your Directors place on record, their deep appreciation to the devoted services rendered by the employees of the company who have contributed towards an excellent performance of the Company. Your Directors also acknowledges the cooperation and assistance received from our bankers, auditors and shareholders during the period under review.

By Order of the Board,

(Naresh Malhotra)

(Chairman and Whole Time Director)

Place : Mumbai

Date : 30th August, 2007

# Corporate Governance Report

## 1. Company's Philosophy on Code of Governance :

The Company believes that the essence of Corporate Governance is to conduct the Company's business and deal with its stakeholders in an ethical and transparent manner. This has been the Company's endeavour and the Company continues to build on its values of Quality, Integrity, Respect for People, Leadership and Collaboration to effectively meet its financial, social, environmental and statutory obligations. The relevant Corporate Governance standards have been complied with.

## 2. Board of Directors :

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

The composition of the Board of Directors of the Company is in conformity with the Code of Corporate Governance under the Listing Agreement. The Board is structured in a manner that it has appropriate mix of Executive and Non-Executive Directors with considerable professional expertise and experience

The Company is managed by the Board of 8 Directors detailed as under :

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. Kodi Raghavan Srinivasan	Independent Director	Nil	Nil	Nil
Mr. Rakesh Radheyshyam Jhunjhunwalla	Non-Executive Director	11	Nil	1
Mr. Somasekhar Sundaresan	Independent Director	Nil	Nil	Nil
Mr. Rivkaran Chadha	Independent Director	Nil	Nil	Nil
#Mr. Varadarajan Ananthanarayanan	Independent Director	1	Nil	Nil
#Ms. Pooja Shetty	Non-Executive Director	3	Nil	Nil
**Mr. Hariharan Padmanabhan	Independent Director	2	1	Nil
**Mr. Chandir Gidwani	Non-Executive Director	4	1	1

# Mr. Varadarajan Ananthanarayanan and Ms. Pooja Shetty resigned w.e.f 2nd November, 2006

\*\* Mr. Hariharan Padmanabhan and Mr. Chandir Gidwani were appointed as additional director w.e.f 24th January, 2007

\* 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 2006-2007, 9 Board Meetings were held on 20th April, 2006, 15th May, 2006, 5th June, 2006, 12th June, 2006, 10th July, 2006, 27th July, 2006, 31st October, 2006, 24th January, 2007 and 23rd March, 2007.

The last Annual General Meeting of the company was held on 29th September, 2006.

Attendance of each Director at Board Meetings for the year 2006-2007 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	9	9	PRESENT
Mr. Namit Malhotra	9	9	PRESENT
Mr. Varadarajan Ananthanarayan	9	7	ABSENT
Mr. Kodi Raghavan Srinivasan	9	7	ABSENT
Ms. Pooja Shetty	9	NIL	ABSENT
Mr. Rakesh Radheyshyam Jhunjhunwalla	9	2	ABSENT
Mr. Somasekhar Sundaresan	9	1	ABSENT
Mr. Rivkaran Chadha	9	6	PRESENT
Mr. Hariharan Padmanabhan	9	NIL	NIL
Mr. Chandir Gidwani	9	NIL	NIL

# Mr. Varadarajan Ananthanaraynan and Ms. Pooja Shetty resigned w.e.f 2nd November, 2006

\*\* Mr. Hariharan Padmanabhan and Mr. Chandir Gidwani were appointed as additional director w.e.f 24th January, 2007

### 3. Board Committees :

a. Audit Committee :

The Audit Committee of the Company has been constituted to oversee the Company's financial reporting



process, internal control systems, reviewed Management Discussion and Analysis of financial condition and results of operations, statement of significant related party transactions submitted by the management,

i) The Audit Committee comprises of the following members of the Board:

Sr.No.	Name of the Member	Particulars	Category
1	Mr. K. R. Srinivasan	Chairman	Independent & Non-Executive Director
2	Mr. Rivkaran Chadha	Member	Independent & Non-Executive Director
3	Mr. Namit Malhotra	Member	Executive Director

ii) During the year 2006-07 the audit Committee met four times on the following dates:

20th April, 2006, 27th July, 2006, 30th October, 2006 and 24th January, 2007

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

Name Of the Director	No. of Meetings Attended
Mr. K. R. Srinivasan	4
Mr. Rivkaran Chadha	4
Mr. Namit Malhotra	4

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. Hari Padmanabhan 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 31.03.2007 is as below:

39

Rupees

Name of Director	Remuneration Paid	Sitting Fees	Total Paid
Mr. Naresh Malhotra	24,00,000/-	Nil	24,00,000/-
Mr. Namit Malhotra	24,00,000/-	Nil	24,00,000/-
Mr. Rakesh Jhunjhunwala	Nil	40,000/-	40,000/-
Mr. Somasekhar Sundaresan	Nil	20,000/-	20,000/-
Mr. Rivkaran Chadha	Nil	20,000/-	20,000/-

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. K. R. Srinivasan
	Mr. Hari Padmanabhan



#### 4. Management Analysis and Review Report:

Management Discussion and Analysis Report forms part of the Annual Report.

#### 5. General Body Meetings:

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

Financial Year	Date	Location	Time
2003-2004	30th September, 2004	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	4:00 P.M.
2004-2005	3rd May, 2005	Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai – 400 054	4:00 P.M.
2005-2006	29th September, 2006	Hotel Rangsharda, K.C. Marg, Bandra Reclamation, Bandra West, Mumbai – 400 050	3:00 P.M.

The Company also held NO Extra Ordinary General Meetings in the Financial Year 2006-2007 as follows;

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.
- CEO/CFO certification

A certificate from CEO and CFO on the financial statements of the Company was placed before the Board.

#### 7. Code of Conduct:

The Board of Directors has adopted the Code of Conduct for Directors and Senior Management. The said Code has been communicated to the Directors and members of the Senior Management. The Code has also been posted on the Company's website- [www.primefocus.co.in](http://www.primefocus.co.in)

#### 8. Means of Communication:

- The Board of Directors of the Company approves and takes on record the quarterly, half yearly and yearly financial results in the proforma prescribed by Clause 41 of the Listing Agreement within One month of the close of the respective period. Quarterly results are submitted to the Stock Exchanges in terms of the requirements of Clause 41 of the Listing Agreement.

- Quarterly results are 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](http://www.primefocus.co.in)

## 9. General Shareholder Information:

- Annual General Meeting:** Date, time and venue –  
On 28th September, 2007 at 3.00P.M. at  
HOTEL RANGSHARDA, K.C. MARG, BANDRA RECLAMATION, BANDRA WEST, MUMBAI – 400 050
- Financial Calendar:** 1st April, 2006 to 31st March, 2007
- Date of Book Closure:** 26th September, 2007 to 28th September, 2007 (both days inclusive)
- Dividend payment Date:** Not Applicable
- Your Company's shares are listed on the following:**
  - The Stock Exchange, Mumbai  
Phiroze Jeejobhoy Towers  
Dalal Street, Fort, Mumbai – 400 001.  
Tel: + 91-22-226 5581 Fax: +91 – 22- 22723719/2272 2039
  - 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 2007-2008 have already been paid to all the Stock Exchanges where the Company's Shares are listed.

- Market Price Data:** The price of the Company's Share-High, Low during each month in the last financial year on the Stock Exchanges were as under:

Month	Bombay Stock Exchange (BSE) (In Rs. per share)		National Stock Exchange (NSE) (In Rs. per share)	
	High Price (Rs.)	Low Price (Rs.)	High Price (Rs.)	Low Price (Rs.)
June 2006	374.00	274.05	363.50	275.00
July 2006	391.05	285.00	390.90	251.00
August 2006	371.00	318.05	372.00	309.00
September 2006	345.00	316.00	349.00	316.20
October 2006	349.50	318.00	348.75	315.00
November 2006	343.00	295.05	344.90	295.20
December 2006	356.00	280.00	357.00	280.00
January 2007	428.00	331.90	428.80	333.00
February 2007	456.70	349.90	456.00	351.05
March 2007	424.00	352.05	435.00	356.00

\* The Company got listed 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.

h) 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, 2007 are 1,27,22,450 shares representing 99.99 % 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 31st March, 2007.

j) Address for Investors Correspondence:

**REGISTERED OFFICE:**

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

**CORPORATE OFFICE:**

Prime Focus House, Opp. Citi Bank, Linking Road, Khar West, Mumbai-400052

Phone : +91-22-6715 5000 Fax : +91-22-6715 5100

k) Company's Studio Locations

- a. Anand Kunj, North Avenue, Linking Road, Santacruz West, Mumbai-400 054
- b. Adilabs, 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, Unit 1-A, Master Mind I, Survey No 169, Aarey Milk colony, Goregaon (E), Mumbai-400 065.

l) Distribution of Shareholding as on 31st March, 2007

The broad shareholding distribution of the Company as on March 31, 2007 with respect to categories of investors was as follows;

Sr. No.	Category	No. of Equity Shares	Percentage %
1.	Promoter & Promoter Group	7065000	55.53
2.	Mutual Funds / UTI	281997	2.22
3.	Financial Institutions / Banks	29011	0.23
4.	FII's	1101505	8.65
5.	Bodies Corporate	2128108	16.73
6.	Individuals	2093268	16.45
7.	Clearing Member	6380	0.05
8.	Non Resident Indians (Repatriation)	17319	0.14
	<b>Total</b>	<b>12722583</b>	<b>100.00</b>

The broad shareholding distribution of the Company as on March 31, 2007 with respect to holdings was as follows;

Range	No. of Holders	Percentage %	No. of Shares	Percentage %
1 - 500	9097	98.30	475947	3.74
501 - 1000	61	0.66	47543	0.37
1001 - 2000	36	0.39	56406	0.44
2001 - 3000	22	0.24	54561	0.43
3001 - 4000	6	0.06	22684	0.18
4001 - 5000	6	0.06	28000	0.22
5001 - 10000	7	0.08	48181	0.38
10001 and above	19	0.21	11989266	94.24
<b>Total</b>	<b>9254</b>	<b>100.00</b>	<b>12722588</b>	<b>100.00</b>

For and on behalf of the Board of Directors

(Naresh Malhotra)

Chairman and Whole Time Director

Place: Mumbai.

Dated : 30th August, 2007

# 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** ("the Company") for the year ended **31st March, 2007** as stipulated in clause 49 of the Listing Agreement of the Company with the National Stock Exchange of India Limited and the Stock Exchange, Mumbai.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate governance referred to above. 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, we certify that the Company has complied with conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

Based on confirmations received from the Company's share transfer agent, and representations made by management, we report 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 : 30th August, 2007

# Auditor's Report

To,  
The Members  
Prime Focus Limited  
Mumbai.

We have audited the attached Balance Sheet of **PRIME FOCUS LIMITED**, as at 31st March, 2007, 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, 2007, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2007, 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, 2007;
- (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 : 29th June, 2007



# Annexure to the Auditor's Report

Annexure referred to in paragraph 2 of the Auditor's Report of even date to the members of Prime Focus Limited on the Accounts for the year ended 31st March, 2007.

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, 2007 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). Substantial relief has been granted in favour of the Company and in respect of the remaining disputed amount, the Company has preferred an appeal with the appellate authorities.
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. 56,11,000 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. We have verified the end use of money raised by Public Issue as disclosed in the notes to the financial statements.
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

Place : MUMBAI

Date : 29th June, 2007

(Membership No. 42673)

# Balance Sheet as at 31st March, 2007

Rupees

Sch No:

31.03.2007

31.03.2006

## SOURCES OF FUNDS

### SHAREHOLDERS' FUNDS

Share Capital	1	127,225,880	103,245,000
Reserves and Surplus	2	1,774,164,277	597,361,547
		<b>1,901,390,157</b>	<b>700,606,547</b>

### LOAN FUNDS

Secured Loans	3	470,046,757	257,864,114
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### DEFERRED TAX

4	108,104,035	85,460,343
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<b>TOTAL</b>		<b>2,479,540,949</b>	<b>1,043,931,004</b>
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## APPLICATION OF FUNDS

### FIXED ASSETS

5		
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Gross Block		922,887,146	705,947,411
Less: Depreciation		244,729,334	172,089,293
<b>Net Block</b>		<b>678,157,812</b>	<b>533,858,118</b>
<b>Capital Work in Progress</b>		<b>230,319,699</b>	<b>95,524,696</b>

### INVESTMENTS

6	562,922,585	100,000
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### CURRENT ASSETS, LOANS AND ADVANCES

Sundry Debtors	7	326,909,926	207,747,888
Cash and Bank Balances	8	325,272,928	391,845,439
Loans and Advances	9	605,492,906	132,146,704
		<b>1,257,675,760</b>	<b>731,740,031</b>

### Less: CURRENT LIABILITIES & PROVISIONS

Current Liabilities	10	191,705,881	250,398,294
Provisions	11	144,842,764	76,188,124
		<b>336,548,645</b>	<b>326,586,418</b>

### NET CURRENT ASSETS

	<b>921,127,115</b>	<b>405,153,613</b>
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### MISCELLANEOUS EXPENDITURE

12	87,013,738	9,294,577
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(To the extent not written off or adjusted)

<b>TOTAL</b>		<b>2,479,540,949</b>	<b>1,043,931,004</b>
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### NOTES ON ACCOUNTS

16		
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As per our report of even date

For V. Shivkumar & Associates  
Chartered Accountants

For and on behalf of the Board

V.Shivkumar  
(Proprietor)  
Membership No. 042673

Naresh Malhotra  
(Chairman)

Namit Malhotra  
(Managing Director)

Parina Sanghavi  
(Company Secretary)

Place : Mumbai

Date : 29th June, 2007

# Profit and Loss Account for the year ended 31st March, 2007

Rupees

	Sch No	31.03.2007	31.03.2006
<b>INCOME</b>			
Income from Operations		551,555,262	398,847,047
Other Income	13	80,228,731	39,923,474
		<b>631,783,993</b>	<b>438,770,521</b>
<b>EXPENDITURE</b>			
Operating Costs	14	220,207,639	155,893,765
Interest	15	33,075,663	19,323,379
Depreciation		77,451,555	54,067,172
		<b>330,734,857</b>	<b>229,284,316</b>
<b>PROFIT BEFORE TAX &amp; EXTRAORDINARY ITEM</b>		<b>301,049,136</b>	<b>209,486,205</b>
Extraordinary Item, Preliminary & Pre-operative Expenses Written Off		8,969,890	210,000
<b>PROFIT BEFORE TAX</b>		<b>292,079,246</b>	<b>209,276,205</b>
<b>TAXATION PROVISION</b>			
Current Tax		68,654,640	51,776,067
Deferred Tax		22,643,692	17,273,507
		<b>91,298,332</b>	<b>69,049,574</b>
<b>PROFIT AFTER TAX</b>		<b>200,780,914</b>	<b>140,226,631</b>
<b>BALANCE BROUGHT FORWARD</b>		<b>305,588,747</b>	<b>165,362,116</b>
<b>BALANCE CARRIED TO BALANCE SHEET</b>		<b>506,369,661</b>	<b>305,588,747</b>
<b>NOTES ON ACCOUNTS</b>	16		

As per our report of even date  
**For V. Shivkumar & Associates**  
Chartered Accountants

**For and on behalf of the Board**

**V.Shivkumar**  
(Proprietor)  
Membership No. 042673

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai  
Date : 29th June, 2007

# Cash Flow Statement for the year ended 31st March, 2007

Rupees

31-03-2007

31-03-2006

## A. CASH FROM OPERATING ACTIVITIES

Net Profit before tax	292,079,246	209,276,205
Adjustments for:		
Depreciation	77,451,555	54,067,172
Interest Expense	33,075,663	19,323,379
Interest Income, Dividend, etc., received	(41,323,538)	(20,483,849)
Miscellaneous Expenditure written off	7,593,126	210,000
(Profit)/ Loss on sale of Fixed Assets	(25,193,271)	(2,932,997)
(Profit)/ Loss on sale of Investments	(3,594,233)	(6,547,554)
(Gain)/ Loss on exchange fluctuation	(4,056,830)	
Operating profit before working capital changes	336,031,718	252,912,356
Adjustments for:		
(Increase)/ Decrease in Receivables	(119,162,039)	(65,784,718)
(Increase)/ Decrease in Loans & Advances	(473,346,202)	(76,640,696)
(Increase)/ Decrease in Miscellaneous Expenditure not written off	(85,312,287)	(9,084,577)
Increase/(Decrease) in Trade Creditors and Other Payables	(58,692,413)	181,089,540
Cash generated from/(used in) operations	(400,481,223)	282,491,905

## B. CASH FLOW FROM INVESTING ACTIVITIES

Purchase of Fixed Assets	(376,974,997)	(354,556,045)
(Increase) / Decrease in Investment	(562,822,585)	
Sale or Disposal of Fixed Assets	45,622,017	14,963,664
Profit on Sale of Investments	3,594,233	6,547,554
Interest, Dividend, etc., received	41,323,538	20,483,849
Net Cash generated from/(used in) investing activities	(849,257,794)	(312,560,978)

## C. CASH FLOW FROM FINANCING ACTIVITIES

Proceeds from Issue of shares		
Equity	23,980,880	15,000,000
Premium	976,021,816	234,990,000
Loans Borrowed (net)	212,182,643	80,819,037
Interest Expense	(33,075,663)	(19,323,379)
Gain / Loss on Exchange	4,056,830	
Net Cash recovered from /(used in) Financing Activities	1,183,166,506	311,485,658
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>(66,572,511)</b>	<b>281,416,585</b>
Cash and cash equivalents (opening)	391,845,439	110,428,854
Cash and cash equivalents (closing)	325,272,928	391,845,439
	<b>(66,572,511)</b>	<b>281,416,585</b>

As per our report of even date

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

**For and on behalf of the Board**

**V.Shivkumar**  
(Proprietor)  
Membership No. 042673

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai

Date : 29th June, 2007



# Schedules to Balance Sheet as at 31st March, 2007

Rupees

31.03.2007

31.03.2006

## SCHEDULE 1 - SHARE CAPITAL

Authorised :

1,50,00,000 Shares of Rs.10 each (1,50,00,000 Shares of Rs. 10 each)

150,000,000

150,000,000

Issued, Subscribed and Paid-Up:

1,27,22,588 Shares of Rs.10 each (1,03,24,500 Shares of Rs.10 each)

127,225,880

103,245,000

(Of the above 23,98,088 equity shares of Rs.10 each fully paid up have been issued by way of Initial Public Offer during the year)

127,225,880

103,245,000

## SCHEDULE 2 - RESERVES AND SURPLUS

Profit and Loss Account

506,369,661

305,588,747

Share Premium at the beginning of the Year

291,772,800

166,782,800

Add : Receipts on issue of 23,98,088 equity shares through Initial Public Offer (IPO) during the year

976,021,816

234,990,000

Share Premium at end of the Year

1,267,794,616

291,772,800

1,774,164,277

597,361,547

## SCHEDULE 3 - SECURED LOANS

Loans from Banks

Term Loans and Cash Credit

456,924,889

244,985,110

Vehicle Finance

13,121,868

12,879,004

470,046,757

257,864,114

Notes

a. Secured against Fixed Assets, Book Debts and Receivables both present and future

b. Auto Loans availed are secured by exclusive hypothecation of Vehicles

## SCHEDULE 4 - DEFERRED TAX LIABILITY (Net)

Pertaining to earlier years

85,460,343

68,186,836

Current Year

22,643,692

17,273,507

108,104,035

85,460,343



# Schedules to Balance Sheet as at 31st March, 2007

## SCHEDULE 5: FIXED ASSETS

Rupees

Description of asset	Gross Block			Depreciation				Net Block		
	As on 01.04.2006	Additions	Deductions	As on 31.03.2007	As on 01.04.2006	Deductions	For the Year	As on 31.03.2007	As on 31.03.2007	As on 31.03.2006
Office premises	82,956,942	4,734,583	19,640,249	68,051,276	7,607,638	4,381,118	3,345,685	6,572,205	61,479,070	75,349,305
Editing Equipment-Computer based	430,508,407	132,254,770	3,000,210	559,762,967	111,901,416		50,405,721	162,307,137	397,455,830	318,606,991
Editing Equipment-Recorder based	97,767,577	3,769,419		101,537,096	29,110,334		7,720,183	36,830,517	64,706,579	68,657,343
Editing Equipment-Others	49,288,694	72,208,739	325,000	121,172,433	7,302,581		7,435,935	14,738,516	106,433,917	41,986,113
Airconditioners	2,863,539	1,733,879		4,597,418	1,162,654		332,077	1,494,631	3,102,787	1,700,985
Office equipments	1,318,432	1,539,038		2,857,470	178,927		285,389	464,316	2,393,154	1,139,505
Electrical fittings	1,350,183	7,058,347		8,408,530	339,417		621,485	960,902	7,447,628	1,010,766
Furniture and fixtures	11,227,459	16,194,331		27,421,790	4,422,500		2,759,059	7,181,559	20,240,231	6,804,958
Vehicles	23,346,079	2,686,858	2,274,800	23,758,187	6,138,532	430,394	4,267,098	9,975,236	13,782,931	17,207,546
Goodwill	5,320,000			5,320,000	3,925,394		278,922	4,204,316	1,115,684	1,394,606
Capital WIP	95,524,696	193,451,502	58,656,499	230,319,699					230,319,699	95,524,696
<b>Total</b>	<b>801,472,108</b>	<b>435,831,496</b>	<b>83,896,759</b>	<b>1,153,206,845</b>	<b>172,089,293</b>	<b>4,811,512</b>	<b>77,451,555</b>	<b>244,729,334</b>	<b>908,477,511</b>	<b>629,382,814</b>

# Schedules to Balance Sheet as at 31st March, 2007

Rupees

	31.03.2007	31.03.2006
<b>SCHEDULE 6 - INVESTMENTS</b>		
In Subsidiary (at cost)		
VTR PLC, United Kingdom	416,395,722	-
1,47,16,051 (PY - Nil) equity shares of 5 pence each fully paid up.		
Trade : Quoted (at cost)		
Cinemax India Limited	1,426,863	-
9,170 (PY - Nil) equity shares of Rs.10 each fully paid up		
Other than trade : Quoted (at cost)		
HSBC Cash Fund	75,000,000	-
Prudential ICICI	30,000,000	-
Birla Fixed Term Plan	20,000,000	-
Kotak FMP 3M Series	20,000,000	-
<b>1. Aggregate Value of Quoted Investments</b>	<b>562,822,585</b>	<b>-</b>
Other than trade : Unquoted (at cost)		
The Shamrao Vithal Co-operative Bank Limited.	100,000	100,000
4000 (PY- 4000) shares of Rs. 25 each, fully paid up (at cost)		
<b>2. Aggregate Value of Unquoted Investments</b>	<b>100,000</b>	<b>100,000</b>
	<b>562,922,585</b>	<b>100,000</b>
<b>SCHEDULE 7 - SUNDRY DEBTORS</b>		
<b>Trade Debtors:</b>		
Over six months old (unsecured):		
Considered good	160,436,768	101,069,013
Others (unsecured):		
Considered good	205,962,978	129,672,887
	<b>366,399,746</b>	<b>230,741,900</b>
Service Tax	(39,489,820)	(22,994,012)
	<b>326,909,926</b>	<b>207,747,888</b>
<b>SCHEDULE 8 - CASH AND BANK BALANCES</b>		
Cash in hand	2,763,467	385,810
Bank balances		
With scheduled banks		
In Current Accounts	20,853,554	58,414,010
In Fixed Deposit Accounts (Refer Note - 10.)	301,655,907	333,045,619
	<b>325,272,928</b>	<b>391,845,439</b>

# Schedules to Balance Sheet as at 31st March, 2007

Rupees

	31.03.2007	31.03.2006
<b>SCHEDULE 9 - LOANS AND ADVANCES</b>		
Unsecured-considered good:		
Advance payment of taxes	162,194,403	29,000,700
Advances recoverable in cash or in kind or for value to be received	92,335,505	63,786,087
Deposits	75,041,309	10,633,715
Other current assets	275,921,689	28,726,202
	<b>605,492,906</b>	<b>132,146,704</b>
<b>SCHEDULE 10 - CURRENT LIABILITIES</b>		
Sundry Creditors:		
For Goods & Services	33,442,075	18,984,007
For Equipment	8,768,611	2,895,501
Working Capital Loans:		
Bank Over Draft	127,545,199	227,691,560
Short Term Demand Loan	20,000,000	-
Notes :		
a. Bank Overdraft from The Shamrao Vitthal Co-operative Bank Ltd. is secured against the Fixed Deposit held by the Bank.		
b. Short Term Working Capital Demand Loan granted by Kotak Mahindra Bank Ltd. is secured by way of Personal Guarantee of Director.		
Taxes payable	1,916,395	634,892
Advances from customers	33,601	192,334
	<b>191,705,881</b>	<b>250,398,294</b>
<b>SCHEDULE 11 - PROVISIONS</b>		
For taxation	144,842,764	76,188,124
	<b>144,842,764</b>	<b>76,188,124</b>
<b>SCHEDULE 12 - MISCELLANEOUS EXPENDITURE</b>		
(To the extent not written off or adjusted)		
Preliminary expenses:		
As per last balance sheet	9,294,577	210,000
Add: incurred during the year	85,312,287	9,294,577
	<b>94,606,864</b>	<b>9,504,577</b>
Less: written off during the year	7,593,126	210,000
	<b>87,013,738</b>	<b>9,294,577</b>

# Schedules to Profit and Loss Account for the year ended 31st March, 2007

Rupees

31.03.2007

31.03.2006

## SCHEDULE 13 - OTHER INCOME

Dividend	20,500	18,000
Interest	41,303,038	20,465,849
Profit on Sale of Investment	3,594,233	6,547,554
Sundry Credit Balances written back	769,807	1,785,850
Profit on sale of Assets (net)	25,193,271	2,932,997
Exchange Gain (Net)	4,056,830	-
Insurance Claim Received	71,711	-
Cenvat Credit	1,009,467	1,143,619
Bad Debts recovered	4,209,874	7,029,605
	<b>80,228,731</b>	<b>39,923,474</b>

## SCHEDULE 14 - OPERATING COSTS

Personnel Cost:		
Salaries, Staff remuneration	42,051,388	26,658,345
Bonus	364,760	207,750
Staff welfare	2,895,993	1,831,305
Editors' Remuneration		
Editors' charges & Commissions	69,838,954	35,510,159
Technical services payments	9,324,609	13,696,203
Communication Expenses:		
Postage and telegram	531,747	255,453
Telephone expenses	5,299,683	3,767,619
General, Selling and Administrative Expenses:		
Advertisement and publicity	347,962	565,860
Bank charges	1,657,225	878,917
Charity and donations	1,194,329	35,202
Consumables and consumable stores	12,462,201	13,390,281
Directors sitting fees	80,000	-
Electricity expenses	10,950,564	5,795,710
Exchange loss (Net)	-	854,240
Insurance	4,884,896	4,808,883
Legal and professional fees	8,643,060	7,678,094
Miscellaneous	628,989	3,203,780
Office expenses	8,848,762	4,531,352
Printing and stationery	1,825,538	933,949
Rates and taxes	1,293,848	607,821

# Schedules to Profit and Loss Account for the year ended 31st March, 2007

Rupees

	31.03.2007	31.03.2006
<b>SCHEDULE 14 - OPERATING COSTS (Contd...)</b>		
Rebates and discount	10,682,680	10,490,497
Rent	2,794,068	2,396,213
Sales promotion expenses	1,451,247	1,253,052
Distribution expense (net)	535,551	(6,821,554)
Repairs and maintenance-equipment	1,370,147	936,551
Repairs and maintenance-studio/office premises	2,623,121	2,211,404
Travelling:		
Travelling and conveyance	8,176,153	6,949,057
Vehicle expenses	1,313,517	1,142,526
Bad debts	7,829,303	11,818,976
Auditor's remuneration:		
Audit fees	67,344	66,120
In other capacity	240,000	240,000
	<b>220,207,639</b>	<b>155,893,765</b>
<b>SCHEDULE 15 - INTEREST</b>		
On bank overdraft	14,161,976	11,710,537
On term loan	18,176,494	1,840,507
On others	737,193	5,772,335
	<b>33,075,663</b>	<b>19,323,379</b>

## **SCHEDULE 16**

### **Significant Accounting Policies and Notes to Accounts**

#### **1. Significant Accounting Policies**

##### **a. Basis of Accounting**

The Financial Statements are prepared under historical cost convention on an accrual basis and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India referred to in 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 assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

##### **d. Revenue Recognition**

Technical services receipts are recognized on the basis of services rendered and when no significant uncertainty exists as to its determination or realization.

##### **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. Overseas Investments are recorded at the rate of exchange in force on the date of allotment / acquisition.

##### **f. Investments**

Investments are classified as current or long term in accordance with Accounting Standard (AS) -13 on Accounting for Investments.



Current Investments are stated at lower of cost and fair value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the Profit & Loss Account.

Long Term Investments are stated at cost. Provision is made to recognize a decline, other than temporary, in the value of such investments.

**g. Taxes on Income**

- (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 and includes Fringe Benefit Tax.
- (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.

**h. Provisions & Contingent Liabilities**

The Company recognizes a provision when there is a present obligation as a result of past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent Assets are neither recognized nor disclosed in the Financial Statements.

**i. Miscellaneous Expenditure**

Miscellaneous Expenditure is written off to the Profit and Loss Account over a period of up to 10 years depending upon the nature and expected future benefit of such expenditure. The management reviews the amortization period on a regular basis and if expected future benefits from such expenditure are significantly lower from previous estimates, the amortization period is accordingly changed.

**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 (Rs.2,00,000)
iv. On account of undertakings given by the Company in favour of Customs authorities:	Rs. 39,12,14,628 (Rs. 16,18,05,553)
v. On account of Corporate guarantee:	Rs.56,11,000 (Rs.1,05,11,000)
vi. On account of Corporate Guarantee given on behalf of subsidiary company:	Rs.4,52,66,248 (Nil)
vii. On account of Unexpired letters of credit:	Rs.5,97,97,940 (Rs.2,80,04,190)

(Of the amount of Rs. 5,97,97,940 (Rs. 2,80,04,190) an amount of Rs. 1,19,59,588 (Rs. 99,74,458) has been kept in fixed deposit as margin money with HSBC Bank Ltd. 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 raised demands under the Income - Tax Act, 1961, aggregating to Rs.3,75,60,468/- pertaining to the assessment years 2001- 2002 to 2004 - 2005 . Further, an amount of Rs.84,03,932, being prepaid taxes was not considered while raising this demand. The Company has disputed the Income-Tax and interest and the Company preferred an appeal with the Commissioner of Income Tax (Appeals). Substantial relief has been granted in favour of the Company and in respect of the remaining disputed amount, the Company has preferred an appeal with the appellate authorities. Based on the favorable decisions in similar cases, 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.

The Company has paid an amount of Rs.1,37,72,686/- under protest as on date against the said demand.

- 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.

However, the company has deposited an amount of Rs.5,81,804 as on date under protest against the said demand.

4. Preliminary Expenses include an amount of Rs.6,66,36,681 incurred towards the expenses pertaining to fresh issue of capital by the Company by way of Initial Public Offer (IPO) in May 2006. These expenses shall be amortised over a period of ten years.
5. The company during the year acquired 1,34,91,561 equity shares of VTR Plc, UK (face value of 5 pence each) fully paid up constituting 55% of the total equity capital. As a part of consideration for acquisition of Clear Post Production, VTR Plc, UK, issued additional 20,01,675 equity shares (face value of 5 pence each) to the Vendors of Clear Post Production and the Company also subscribed to the expanded capital to the extent of 12,24,490 equity shares (face value of 5 pence each).
6. Loans and Advances include net amount of Rs.1,54,32,136 recoverable from VTR Plc., UK, a subsidiary company.
7. Managerial remuneration under section 198 of the Companies Act, 1956 for the Chairman / Managing Director was Rs. 48,00,000 (Rs. 39,00,000).
8. The company is presently operating an integrated post production setup. 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. The Company has not received any intimation from 'suppliers' regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year and together with interest paid / payable as required under this Act have not been given.
10. Fixed Deposits with scheduled banks - Rs.30,16,55,907 (Rs.33,30,45,619) includes interest accrued up to 31st March 2007. The amount shown in fixed deposit accounts represent the following:

Fixed Deposit (against which overdraft facilities availed)	Rs. 15,48,32,644 (Rs. 25,80,82,905)
Fixed Deposit (as margin money)	Rs. 12,51,62,826 (Rs. 5,94,53,702)
Fixed Deposit (as 100 % deposit against Bank Guarantee availed)	Rs. 2,16,60,437 (Rs. 1,55,09,012)

**11. Statement of IPO Funds as on 31st March, 2007:**

	No. of Shares	Price	Amount (Rs. Lacs)
Amount raised through IPO	23,98,088	Rs.417/-	10000.00
Share issue expense			786.20
<b>Net Proceeds</b>			<b>9213.80</b>
<b>Deployment:</b>			
1. General Corporate Purposes Capital expenditure for infrastructure			3,984.15
2. Strategic Initiatives Investment in Subsidiary Company, VTR Plc., UK.			4,163.96
3. Held under Short Term Investment pending utilization			1,065.69
<b>Net Proceeds</b>			<b>9,213.80</b>

**12. 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, Chairman.
  - Ms. Neha Malhotra – Daughter of Mr. Naresh Malhotra, Chairman
  - Mr. Premnath Malhotra – Brother of Mr. Naresh Malhotra, Chairman
- iii) Subsidiary Company
  - VTR Plc - UK

Details of Transaction	2006-07				
	Key Management Personnel	Relatives of Key Management Personnel	Subsidiary	Balance as on 31.03.07	Balance as on 31.03.06
	Rupees	Rupees	Rupees	Rupees	Rupees
Salary	48,00,000	-	-	48,00,000	39,00,000
Contractual Services	-	8,32,500	-	8,32,500	8,87,875
Rent	1,20,000	60,000	-	1,80,000	3,60,000
Finance Granted (Including Equity Contribution in Cash or Kind)					
a. Equity			40,55,77,763	40,55,77,763	-
b. Advances (Net)			1,54,32,136	1,54,32,136	-
<b>Total</b>	<b>49,20,000</b>	<b>8,92,500</b>	<b>42,10,09,899</b>	<b>42,68,22,399</b>	<b>51,47,875</b>

**13. C I F Value of imports**

Capital Goods Rs.19,11,94,494  
(Rs.20,83,16,320)

**14. Expenditure in Foreign Currency – On payment basis:**

Professional Fees Rs.29,50,463  
(Rs.24,03,931)

Payment on other accounts Rs.36,76,463  
(Rs.40,80,518)

**15. Earnings in foreign exchange – On receipt basis:**

Technical Service receipts Rs. 88,58,130  
(Rs. 36,09,775)

**16. Figures for the previous year have been re-grouped / re-arranged, wherever considered necessary to conform to current year's presentation.**

Schedules 1 to 16 form an integral part of the Balance Sheet as at 31st March, 2007 and Profit & Loss Account for the year ended on that date.

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

**V.Shivkumar**  
(Proprietor)  
Membership No. 042673

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai  
Date : 29th June, 2007

**For and on behalf of the Board**

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**Balance Sheet Abstract and Company's General Business Profile:****1. Registration Details**

Registration Details	:	11-108981
State Code	:	11.00
Balance Sheet Date	:	31st March,07

**2. Capital Raised during the year**

		(Rs. in Lacs)
Public Issue	:	239.81
Rights Issue	:	Nil
Bonus Issue	:	Nil
Private Placement	:	Nil

**3. Position of Mobilisation and Deployment of Funds**

		(Rs. in Lacs)
Total Liabilities	:	24795.41
Total Assets	:	24795.41

Sources Of funds

Paid up Capital	:	1272.26
Secured Loans	:	4700.47
Reserves and Surplus	:	17741.64
Unsecured Loans	:	Nil
Deferred Tax Liability	:	1081.04

Application of Funds

Net Fixed Assets	:	9084.77
Investments	:	5629.23
Net Current Assets	:	9211.27
Miscellaneous Expenditure	:	870.14
Accumulated Losses	:	Nil

**4. Performance of the Company**

		(Rs. in Lacs)
Turnover	:	6317.84
Total Expenditure	:	3307.35
Profit Before Tax	:	2920.79
Profit After Tax	:	2007.81
Earning Per Share (Annualised)	:	Rs.15.78
Dividend Rate	:	Nil

**5. Generic Names of Principal Products of the Company**

Item Code No.	:	N. A.
Product / Description	:	
DIGITAL & POST PRODUCTION SERVICES		

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**For and on behalf of the Board**

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai

Date : 29th June, 2007

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**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO COMPANY'S INTEREST IN SUBSIDIARY COMPANIES FOR THE YEAR 2006-07**

S. No.	Name of the Subsidiary Company	VTR Plc
1.	The Financial year / period of the Subsidiary Company ended on	31st March, 2007
2.	Date from which they became Subsidiary Company	1st May, 2006 being the date of acquisition and control.
3.	a. Number of Shares held by the Company with its nominees in the Subsidiary at the end of the financial year of the Subsidiary Company.	1,47,16,051
	b. Extent of Interest in the Subsidiary Company	53%
4.	The Net aggregate amount of the Subsidiary Company's Profit / (Loss) so far as it concerns the members of the Company	
	a. Not dealt in the Company's accounts	
	i) for the financial year ended 31st March, 2007	Rs. 12,924,203
	ii) for the previous financial years of the Subsidiary Company since it became the Company's subsidiary.	
	b. Dealt with in the Company's accounts	
	i) for the financial year ended 31st March, 2007	
	ii) for the previous financial years of the Subsidiary Company since it became the Company's Subsidiary.	



# Auditor's Report

## on Consolidated Financial Statements

To,

The Board of Directors

Prime Focus Limited

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We have audited the attached consolidated Balance Sheet of Prime Focus Limited Group, as at 31st March 2007, and also the consolidated Profit and Loss account and the consolidated cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Prime Focus Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

We did not audit the financial statements of a subsidiary, whose financial statements reflect total assets (net) of Rs.11307.79 Lacs as at 31st March 2007, total revenue of Rs. 14049.29 Lacs for the year then ended. This financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the reports of the auditors.

We report that the consolidated financial statements have been prepared by the Prime Focus Limited's management in accordance with the requirements of Accounting Standard (AS) 21-Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.

Based on our report and subject to the reservations expressed by the present Group Subsidiary's Auditors appointed mid-term, of their inability to express an opinion as they were unable to carry out necessary audit procedures due to limited evidence and inadequate assurance on the operation from the erstwhile auditors for the opening balances as at 31st August, 2006 on separate financial statements and on the other financial

information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Prime Focus Limited Group as at 31st March 2007;
- (b) in the case of the consolidated financial Profit and Loss account, of the profit for the year ended on that date; and
- (c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

**For V Shivkumar & Associates**  
Chartered Accountants

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

Place : MUMBAI

Date : 29th June, 2007

# Consolidated Balance Sheet as at 31st March, 2007

Rupees

Sch. No. 5

31.03.2007

31.03.2006

## SOURCES OF FUNDS

### SHAREHOLDERS' FUNDS

Share Capital

1

127,225,880

-

Reserves and Surplus

2

1,784,966,675

-

**1,912,192,555**

-

### LOAN FUNDS

Secured Loans

3

785,704,476

-

### MINORITY INTEREST

378,835,315

-

### DEFERRED TAX

4

117,191,812

-

### TOTAL

**3,193,924,158**

-

## APPLICATION OF FUNDS

### FIXED ASSETS

5

Gross Block

3,928,682,161

-

Less: Depreciation

2,203,836,880

-

**Net Block**

**1,724,845,281**

-

**Capital Work in Progress**

**230,319,699**

-

### INVESTMENTS

6

151,555,215

-

### CURRENT ASSETS, LOANS AND ADVANCES

Stock

2,270,516

-

Sundry Debtors

7

839,099,722

-

Cash and Bank Balances

8

337,592,560

-

Loans and Advances

9

647,749,558

-

**1,826,712,356**

-

### Less: CURRENT LIABILITIES & PROVISIONS

Current Liabilities

10

633,174,443

-

Provisions

11

193,347,688

-

**826,522,131**

-

### NET CURRENT ASSETS

**1,000,190,225**

-

### MISCELLANEOUS EXPENDITURE

12

87,013,738

-

(To the extent not written off or adjusted)

### TOTAL

**3,193,924,158**

-

### NOTES ON ACCOUNTS

16

As per our report of even date

**For V. Shivkumar & Associates**

Chartered Accountants

**For and on behalf of the Board**

**V. Shivkumar**

(Proprietor)

Membership No. 042673

**Naresh Malhotra**

(Chairman)

**Namit Malhotra**

(Managing Director)

**Parina Sanghavi**

(Company Secretary)

Place : Mumbai

Date : 29th June, 2007

# Consolidated Profit and Loss Account for the year ended 31st March, 2007

Rupees

Sch No		31.03.2007	31.03.2006
<b>INCOME</b>			
Income from Operations		1,955,384,607	
Other Income	13	81,328,012	
		<b>2,036,712,619</b>	
<b>EXPENDITURE</b>			
Operating Costs	14	1,389,849,220	
Interest	15	63,338,957	
Depreciation		232,493,766	
		<b>1,685,681,943</b>	
<b>PROFIT BEFORE TAX &amp; EXTRAORDINARY ITEM</b>		<b>351,030,676</b>	
Extraordinary Item, Preliminary & Pre-operative Expenses Written Off		34,353,347	
<b>PROFIT BEFORE TAX</b>		<b>316,677,329</b>	
<b>TAXATION PROVISION</b>			
Current Tax		68,867,437	
Deferred Tax		22,643,692	
		<b>91,511,129</b>	
<b>PROFIT AFTER TAX</b>		<b>225,166,200</b>	
<b>MINORITY INTEREST</b>		<b>11,461,086</b>	
<b>PROFIT AFTER TAX AND MINORITY INTEREST</b>		<b>213,705,114</b>	
<b>BALANCE BROUGHT FORWARD</b>		<b>305,588,747</b>	
<b>BALANCE CARRIED TO BALANCE SHEET</b>		<b>519,293,861</b>	
<b>NOTES ON ACCOUNTS</b>		<b>16</b>	

As per our report of even date  
**For V. Shivkumar & Associates**  
Chartered Accountants

**For and on behalf of the Board**

**V. Shivkumar**  
(Proprietor)  
Membership No. 042673

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai  
Date : 29th June, 2007

# Consolidated Cash Flow Statement for the year ended 31st March, 2007

Rupees

31.03.2007

31.03.2006

## A. CASH FROM OPERATING ACTIVITIES

Net Profit before Tax	316,677,329	-
Adjustments for :		
Depreciation	232,493,766	-
Interest Expense	63,338,957	-
Interest Income, Dividend, etc., received	(42,422,818)	-
Miscellaneous Expenditure written off	7,593,126	-
(Profit)/ Loss on sale of Fixed Assets	(25,193,271)	-
(Profit)/ Loss on sale of Investments	(3,594,233)	-
(Gain)/ Loss on exchange fluctuation	(4,056,830)	-
Operating profit before working capital changes	544,836,025	-
Adjustments for:		
(Increase)/ Decrease in Stock	(118,983,432)	-
(Increase)/ Decrease in Receivables	(805,119,225)	-
(Increase)/ Decrease in Loans & Advances	(11,583,412)	-
Corporation Tax paid during the year	(5,078,482)	-
Increase/(Decrease) in Trade Creditors and Other Payables	90,451,322	-
Cash generated from/(used in) operations	(305,477,204)	-

## B. CASH FLOW FROM INVESTING ACTIVITIES

Purchase of Fixed Assets	(729,776,872)	-
(Increase) / Decrease in Investment	(577,789,305)	-
Sale or Disposal of Fixed Assets	48,080,777	-
Profit on Sale of Investments	3,594,233	-
Interest, Dividend, etc., received	42,422,818	-
Net Cash generated from/(used in) investing activities	(1,213,468,349)	-

## C. CASH FLOW FROM FINANCING ACTIVITIES

Proceeds from Issue of shares		
Equity	37,733,226	-
Premium	1,028,372,174	-
Loans Borrowed (net)	92,959,043	-
Interest Expense	(63,338,957)	-
Gain / Loss on Exchange	4,056,830	-
Net Cash recovered from /(used in) Financing Activities	1,099,782,315	-
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>(419,163,237)</b>	<b>-</b>
Cash and cash equivalents (opening)	756,755,797	-
Cash and cash equivalents (closing)	337,592,560	-
	<b>(419,163,237)</b>	<b>-</b>

As per our report of even date

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

**For and on behalf of the Board**

**V.Shivkumar**  
(Proprietor)  
Membership No. 042673

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai  
Date : 29th June, 2007

# Schedules to Consolidated Balance Sheet as at 31st March 2007

Rupees

31.03.2007

31.03.2006

## SCHEDULE 1 - SHARE CAPITAL

Authorised

1,50,00,000 Shares of Rs.10 each (1,50,00,000 Shares of Rs.10 each)

150,000,000

Issued, Subscribed and Paid-Up

1,27,22,588 Shares of Rs.10 each (1,03,24,500 Shares of Rs.10 each)

127,225,880

(Of the above 23,98,088 equity shares of Rs.10 each fully paid up have been issued by way of Initial Public Offer during the year)

127,225,880

## SCHEDULE 2 - RESERVES AND SURPLUS

Profit and Loss Account

519,293,861

Share Premium Account

1,265,672,814

1,784,966,675

## SCHEDULE 3 - SECURED LOANS

Loans from Banks

Term Loans and Cash Credit

695,073,013

Vehicle Finance

90,631,463

785,704,476

Note

a. Secured against Fixed Assets, Book Debts and Receivables both present and future.

b. Auto Loans availed are secured by exclusive hypothecation of Vehicles.

## SCHEDULE 4 - DEFERRED TAX LIABILITY (Net)

Pertaining to earlier years

94,548,120

Current Year

22,643,692

117,191,812



# Schedules to Consolidated Balance Sheet as at 31st March, 2007

## SCHEDULE 5 - FIXED ASSETS

Rupees

Description of asset	Gross Block				Depreciation			Net Block		
	As on 01.04.2006	Additions	Deductions	As on 31.03.2007	As on 01.04.2006	Deductions	For the Year	As on 31.03.2007	As on 31.03.2007	As on 31.03.2006
Office premises	458,901,597	4,734,583	19,640,249	443,995,931	181,490,393	4,381,118	21,905,487	199,014,761	244,981,169	
Editing Equipment-Computer based	2,364,814,533	340,940,644	3,000,210	2,702,754,967	1,544,780,362	13,003,626	170,787,241	1,712,573,977	990,180,990	
Editing Equipment-Recorder based	97,767,677	3,769,419		101,537,096	29,110,334		7,720,183	36,830,517	64,706,579	
Editing Equipment-Others	49,288,694	72,208,739	325,000	121,172,433	7,302,581		7,435,935	14,738,516	106,433,917	
Airconditioners	2,863,539	1,733,879		4,597,418	1,162,554		332,077	1,494,631	3,102,787	
Office equipments	1,318,432	1,539,038		2,857,470	178,927		285,389	464,316	2,393,154	
Electrical fittings	1,350,183	7,058,347		8,408,530	339,417		621,485	960,902	7,447,628	
Furniture and fixtures	350,559,609	4,315,557		391,875,166	204,899,623		18,173,275	223,066,899	168,808,267	
Vehicles	29,215,047	2,686,888	4,733,560	27,168,376	7,654,710	2,110,433	4,943,769	10,488,046	16,680,330	
Goodwill	5,320,000	118,994,775		124,314,775	3,925,394		278,922	4,204,316	120,110,459	
Capital WIP	95,524,636	193,451,502	58,656,499	230,319,639					230,319,639	
<b>Total</b>	<b>3,456,924,007</b>	<b>788,433,371</b>	<b>86,355,519</b>	<b>4,159,001,860</b>	<b>1,980,838,295</b>	<b>9,495,177</b>	<b>232,493,763</b>	<b>2,203,836,880</b>	<b>1,955,164,980</b>	

# Schedules to Consolidated Balance Sheet as at 31st March, 2007

Rupees

31.03.2007

31.03.2005

## SCHEDULE 6 - INVESTMENTS

Trade : Quoted (at cost)		
Cinemax India Limited	1,426,863	
9,170 equity shares of Rs.10 each fully paid up		
Music Copyright Solutions Plc	5,028,352	
17,50,000 ordinary shares of 1 pence each		
Other than trade : Quoted (at cost)		
HSBC Cash Fund	75,000,000	
Prudential ICICI	30,000,000	
Birla Fixed-Term Plan	20,000,000	
Kotak FMP 3M Series	20,000,000	
<b>1. Aggregate Value of Quoted Investments</b>	<b>151,455,215</b>	
Other than trade : Unquoted (at cost)		
The Shamrao Vithal Co-operative Bank Limited	100,000	
4000 shares of Rs.25 each, fully paid up (at cost)		
<b>2. Aggregate Value of Unquoted Investments</b>	<b>100,000</b>	
	<b>151,555,215</b>	

## SCHEDULE 7 - SUNDRY DEBTORS

Trade Debtors		
Over six months old (unsecured):		
Considered good	235,436,876	
Others (unsecured):		
Considered good	713,742,096	
	<b>949,178,972</b>	
Service Tax / VAT	(110,079,250)	
	<b>839,099,722</b>	

## SCHEDULE 8 - CASH AND BANK BALANCES

Cash in hand	3,861,298	
Bank balances		
In Current Accounts	32,075,355	
In Fixed Deposit Accounts (Refer Note - 9)	301,655,907	
	<b>337,592,560</b>	

# Schedules to Consolidated Balance Sheet as at 31st March, 2007

Rupees

31-03-2007

31-03-2006

## SCHEDULE 9 - LOANS AND ADVANCES

### Unsecured -considered good

Advance Payment of Taxes	162,194,403	-
Advances recoverable in cash or in kind or for value to be received	102,906,639	-
Deposits	81,861,725	-
Other Current Assets	300,786,791	-
	<b>647,749,558</b>	-

## SCHEDULE 10 - CURRENT LIABILITIES

### Sundry creditors:

For Goods & Services	282,161,334	-
For Equipment	8,768,611	-

### Working Capital Loans:

Bank Over Draft	127,545,199	-
Short Term Demand Loan	20,000,000	-

### Notes :

- Bank Overdraft from The Shamrao Vithal Co-operative Bank Ltd. is secured against the Fixed Deposit held by the Bank.
- Short Term Working Capital Demand Loan granted by Kotak Mahindra Bank Ltd. is secured by way of Personal Guarantee of Director.
- Other Bank Loans are secured by a fixed and floating charge over all the assets of the company.

Taxes payable	194,665,699	-
Advances from customers	33,601	-
	<b>633,174,443</b>	-

## SCHEDULE 11 - PROVISIONS

For taxation	148,081,440	-
Discounted contingent consideration	45,266,248	-
	<b>193,347,688</b>	-

## SCHEDULE 12 - MISCELLANEOUS EXPENDITURE

(To the extent not written off or adjusted)

### Preliminary expenses

As per last balance sheet	9,294,577	-
Add: incurred during the year	85,312,287	-
	<b>94,606,864</b>	-
Less: written off during the year	7,593,126	-
	<b>87,013,738</b>	-

**Schedules to Consolidated Profit and Loss Account  
for the year ended 31st March, 2007**

Rupees

	31.03.2007	31.03.2006
<b>SCHEDULE 13 - OTHER INCOME</b>		
Dividend	20,500	-
Interest	42,402,318	-
Profit on Sale of Investment	3,594,233	-
Sundry Credit Balances written back	769,807	-
Profit on sale of Assets (net)	25,193,271	-
Exchange Gain (Net)	4,056,830	-
Insurance Claim Received	71,711	-
Cenvat Credit	1,009,467	-
Bad Debts recovered	4,209,875	-
	<b>81,328,012</b>	-
<b>SCHEDULE 14 - OPERATING COSTS</b>		
Personnel Cost:		
Salaries, Staff remuneration	770,843,529	-
Bonus	364,760	-
Staff welfare	48,378,960	-
Editors' Remuneration		
Editors' Charges & Commissions	69,838,954	-
Technical services payments	9,324,609	-
Communication Expenses		
Postage and telegram	531,747	-
Telephone expenses	5,299,683	-
General, Selling and Administrative Expenses		
Advertisement and publicity	6,089,218	-
Bank charges	3,771,042	-
Charity and donations	1,194,329	-
Consumables and consumable stores	149,316,747	-
Directors Sitting Fees	80,000	-
Electricity expenses	47,520,697	-
Insurance	16,977,238	-
Legal and professional fees	21,817,035	-
Miscellaneous	628,989	-
Office expenses	8,848,762	-
Printing and stationery	5,772,343	-

**Schedules to Consolidated Profit and Loss Account  
for the year ended 31st March, 2007**

Rupees

	31.03.2007	31.03.2006
<b>SCHEDULE 14 - OPERATING COSTS (Contd...)</b>		
Rates and taxes	1,293,848	-
Rebates and discount	10,682,680	-
Rent	145,533,098	-
Equipment Hire	4,781,367	-
Sales promotion expenses	1,451,247	-
Distribution expense (net)	535,551	-
Repairs & Maintenance		
Repairs and maintenance-equipment	4,149,807	-
Repairs and maintenance-studio/office premises	18,822,291	-
Travelling		
Travelling and conveyance	14,918,561	-
Vehicle expenses	1,313,517	-
Bad debts	12,781,267	-
Auditor's remuneration		
Audit fees	6,747,345	-
In other capacity	240,000	-
	<b>1,389,849,220</b>	-
<b>SCHEDULE 15 - INTEREST</b>		
On bank overdraft	44,425,271	-
On term loan	18,176,494	-
On others	737,193	-
	<b>63,338,957</b>	-

## SCHEDULE 16

### Significant Accounting Policies and Notes to Accounts

#### 1. Significant Accounting Policies

##### a. Basis of Accounting

The consolidated financial statements are prepared and presented under historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India ('GAAP') and in compliance with the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India (the 'ICAI'), to the extent applicable.

##### b. Principles of consolidation

The consolidated financial statements include the financial statements of Prime Focus Limited and its subsidiary, which are more than 50% owned or controlled and have been prepared in accordance with the consolidation procedures laid down in Accounting Standard 21- 'Consolidated Financial Statements' issued by ICAI.

The Consolidated financial statements have been prepared on the following basis:

- i. The financial statements of the parent and the subsidiary have been combined on a line-by line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting profits in full. An unrealised loss resulting from intra-group transactions has also been eliminated except to the extent that recoverable value of related assets is lower than their cost to the Group.
- ii. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.
- iii. The consolidated financial statements are prepared using uniform accounting policies across the Group.
- iv. Goodwill arising on consolidation

The excess of cost to the parent, of its investment in subsidiary over its portion of equity in the subsidiary at the respective dates on which investment in the subsidiary was made, is recognized in the financial statements as goodwill and in the case where equity exceeds the cost; the same is being adjusted in the said goodwill. The parent's portion of equity in the subsidiary is determined on the basis of the value of assets and liabilities as per the financial statements of the subsidiary as on the date of investment.

##### c. The Subsidiary Company considered in the consolidated financial statements:

Name of the Company	Country of Incorporation	% Shareholding
VTR Plc.	United Kingdom	53%



## **Other Significant Accounting Policies**

### **A. 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.

In case of the subsidiary company, the method of depreciation has been revised to conform to the rates provided by the parent company.

Leasehold assets of the subsidiary are depreciated on a straight line basis over the unexpired period of lease.

### **B. Impairment of Assets**

The company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

### **C. Revenue Recognition**

Technical services receipts are recognized on the basis of services rendered and when no significant uncertainty exists as to its determination or realization.

In case of the subsidiary company, the company follows the percentage of completion method for recognizing the value of services.

### **D. 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. Overseas Investments are recorded at the rate of exchange in force on the date of allotment / acquisition.

#### **E. Investments**

Investments are classified as current or long term in accordance with Accounting Standard (AS) – 13 on Accounting for Investments.

Current Investments are stated at lower of cost and fair value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the Profit & Loss Account.

Long Term Investments are stated at cost. Provision is made to recognize a decline, other than temporary, in the value of such investments.

#### **F. Taxes on Income**

(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 and includes Fringe Benefit Tax.

(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.

The deferred tax assets / liabilities and tax expenses are determined separately for parent and subsidiary company, as per their applicable laws and then aggregated.

#### **G. Provisions & Contingent Liabilities**

The Company recognizes a provision when there is a present obligation as a result of past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent Assets are neither recognized nor disclosed in the Financial Statements.

#### **H. Miscellaneous Expenditure**

Miscellaneous Expenditure is written off to the Profit and Loss Account over a period of up to 10 years depending upon the nature and expected future benefit of such expenditure. The management reviews the amortization period on a regular basis and if expected future benefits from such expenditure are significantly lower from previous estimates, the amortization period is accordingly changed.

#### **I. Accounting of Pension**

The subsidiary company operates a defined contribution pension scheme for executive directors. The assets are held separately from the group in an independently administered fund.

The costs of providing the pension for the executive directors charged in the profit and loss account are the amounts payable in respect of the accounting period.

## 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 (Rs.2,00,000)
iv. On account of undertakings given by the Company in favour of Customs authorities:	Rs. 39,12,14,628 (Rs. 16,18,05,553)
v. On account of Corporate guarantee:	Rs. 14,56,62,751 (Rs.1,05,11,000)
vi. On account of Corporate Guarantee given on behalf of subsidiary company:	Rs.4,52,66,248 (Nil)
vii. On account of Unexpired letters of credit:	Rs.5,97,97,940 (Rs.2,80,04,190)

(Of the amount of Rs. 5,97,97,940 (Rs. 2,80,04,190) an amount of Rs. 1,19,59,588 (Rs. 99,74,458) has been kept in fixed deposit as margin money with HSBC Bank Ltd. and ICICI Bank Ltd.)

- viii. The Group is involved in lawsuits and claims which arise in ordinary course of business in UK. There are no such matters pending that the Group expects to be material in relation to its business.
- ix. As a matter of prudence the subsidiary company has made a provision of Rs. 452.66 Lacs for the contingencies arising out of acquisition of a company.

- 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 raised demands under the Income - Tax Act, 1961, aggregating to Rs.3,75,60,468/- pertaining to the assessment years 2001- 2002 to 2004 - 2005 . Further, an amount of Rs.84,03,932, being prepaid taxes was not considered while raising this demand. The Company has disputed the Income-Tax and interest and the Company preferred an appeal with the Commissioner of Income Tax (Appeals). Substantial relief has been granted in favour of the Company and in respect of the remaining disputed amount, the Company has preferred an appeal with the appellate authorities. Based on the favorable decisions in similar cases, 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.

The Company has paid an amount of Rs.1,37,72,686/- under protest as on date against the said demand.

- 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.

However, the company has deposited an amount of Rs.5,81,804 as on date under protest against the said demand.

4. Preliminary Expenses include an amount of Rs.6,66,36,681 incurred towards the expenses pertaining to fresh issue of capital by the Company by way of Initial Public Offer (IPO) in May 2006. These expenses shall be amortised over a period of ten years.
5. The company during the year acquired 1,34,91,561 equity shares of VTR Plc, UK (face value of 5 pence each) fully paid up constituting 55% of the total equity capital. As a part of consideration for acquisition of Clear Post Production, VTR Plc, UK, issued additional 20,01,675 equity shares (Face value of 5 pence each) to the Vendors of Clear Post Production and the Company also subscribed to the expanded capital to the extent of 12,24,490 equity shares (face value of 5 pence each).
6. Managerial remuneration under section 198 of the Companies Act, 1956 for the Chairman / Managing Director was Rs. 48,00,000 (Rs. 39,00,000).
7. The company is presently operating an integrated post production setup. 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).
8. The Company has not received any intimation from 'suppliers' regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year and together with interest paid / payable as required under this Act have not been given.
9. Fixed Deposits with scheduled banks - Rs.30,16,55,907 (Rs.33,30,45,619) includes interest accrued upto 31st March 2007. The amount shown in fixed deposit accounts represent the following:

Fixed Deposit (against which overdraft facilities availed)	Rs. 15,48,32,644 (Rs. 25,80,82,905)
Fixed Deposit (as margin money)	Rs. 12,51,62,826 (Rs. 5,94,53,702)
Fixed Deposit (as 100 % deposit against Bank Guarantee availed)	Rs. 2,16,60,437 (Rs.1,55,09,012)

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10. Statement of IPO Funds as on 31st March 2007.

	No. of Shares	Price	Amount (Rs. Lacs)
Amount raised through IPO	23,98,088	Rs.417/-	10,000.00
Share issue expense			786.20
<b>Net Proceeds</b>			<b>9,213.80</b>
<b>Deployment:</b>			
1. General Corporate Purposes Capital expenditure for infrastructure			3,984.15
2. Strategic Initiatives Investment in Subsidiary Company, VTR Plc.,UK			4,163.96
3. Held under Short Term Investment pending utilization			1,065.69
<b>Net Proceeds</b>			<b>9,213.80</b>

# 11. 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, Chairman.

Ms. Neha Malhotra – Daughter of Mr. Naresh Malhotra, Chairman

Mr. Premnath Malhotra – Brother of Mr. Naresh Malhotra, Chairman

## iii) Subsidiary Company

VTR Plc - UK

Details of Transaction	2006-07				
	Key Management Personnel	Relatives of Key Management Personnel	Subsidiary	Balance as on 31.03.07	Balance as on 31.03.06
	Rupees	Rupees	Rupees	Rupees	Rupees
Salary	48,00,000	-	-	48,00,000	39,00,000
Contractual Services	-	8,32,500	-	8,32,500	8,87,875
Rent	1,20,000	60,000	-	1,80,000	3,60,000
Finance Granted (Including Equity Contribution in Cash or Kind)					
a. Equity			40,55,77,763	40,55,77,763	-
b. Advances (Net)			1,54,32,136	1,54,32,136	-
<b>Total</b>	<b>49,20,000</b>	<b>8,92,500</b>	<b>42,10,09,899</b>	<b>42,68,22,399</b>	<b>51,47,875</b>

12. This being the first year of publishing the Consolidated Financial Statements for the Group, considering the transitional provision of AS 21 "Consolidated Financial Statements", the comparative figures for the previous year has not been given.

Schedules 1 to 16 form an integral part of the Balance Sheet as at 31st March, 2007 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)  
Membership No. 042673

**Naresh Malhotra**  
(Chairman)

**Namit Malhotra**  
(Managing Director)

**Parina Sanghavi**  
(Company Secretary)

Place : Mumbai

Date : 29th June, 2007



