

DIRECTOR'S REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

DEAR MEMBERS,

Your Board of Directors are presenting herewith the Forty Third Annual Report on the business and operations of your company together with the Audited Financial Statements for the year ended 31st March, 2019. The Management Discussion and Analysis is given as part of this Report

FINANCIAL PERFORMANCE:

(Rs. In Crores)

| PARTICULARS | Year Ended 31 st March 2019 | Year Ended 31 st March 2018 |
|---|--|--|
| Revenue from Operations | 3.87 | 3.24 |
| Other Income | 0.00 | 0.00 |
| Total Income | 3.87 | 3.24 |
| Total Expenses | 9.54 | 3.30 |
| Exceptional Items | Nil | Nil |
| Profit Before Tax | (5.67) | (.06) |
| Provision for Taxation (net) / Deferred Tax | 0.21 | 0.17 |
| Profit after Tax | (5.46) | 0.11 |

During the year under review, the Company's total revenue stood as Rs.3.87 Crore against Rs.3.24 Crore of the previous year and the net profit stood at Rs. (5.46) crores from Rs. 0.11 crores of previous year. The board of directors have taken note that company performance has not been to the desired level. This mainly due to the turbulent condition prevailing in both live/animation film industry in India. The board is working on the business strategies and the business structure in order to substantially improve the performance of the company

BUSINESS OVERVIEW:

As stated last year started entering Rights acquisition and Distribution of Live action films, with the objective reducing the turnaround period of resources and maximizing the revenue and profits. The Company also purchased the rights of three South Indian films but because certain problems in the industry the performance was not up to the mark during the year.

The Company vigorously working for the marketing of its animation film "Mustafa & the Magician in the overseas market. The Company is also in talks with the Netflix and Amazon Prime for streaming film through internet.

DIVIDEND:

Taking into account overall financial performances of the Company Your Directors do not recommend any dividend for the financial year 2018-19. Consequently, no amount is transferred to General Reserve Account.

SHARE CAPITAL:

The paid-up equity share capital of the Company as on 31st March 2019 stood at Rs.41.50 Crore. During the year under review, the Company has not raised its issued capital with different voting rights nor has granted any stock options or sweat equity and none of the directors hold instruments is to be converted as equity shares as on 31st March 2019.

DEPOSITS

During the year under review, Your Company has not accepted any Deposits within the meaning of provisions of Chapter V of the Companies Act 2013 (Acceptance of Deposits by Companies) read with the Companies (Acceptance of Deposits) Rules, 2014.

RISK MANAGEMENT

Your Company has a robust Risk Management Policy, the Company through a steering committee oversees the Risk Management process including risk identification, impact assessment, effective implementation of the mitigation plans and risk reporting. A detailed Risk Management policy of the Company to have good Corporate Governance is hosted in the Company's official website www.pentamedia.in

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Your Company has adequate internal control systems combined with Delegation of Powers and periodical review of the process. The control system is also supported by internal audits and management reviews of documented policies and procedures.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

The Management of the Company was carried out by:

1. Mr. Kalyanaraman
2. Mr. V. Venkataramanan
3. Mr. C. V. Ravi
4. Mrs. Parvathy

EVALUATION OF BOARD'S PERFORMANCE

As per the provisions of Section 134(3)(p) of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board of Directors carried out annual performance evaluation of the Board, the directors individually as well as evaluation of the working of its Audit Committee, Nomination and Remuneration Committee and Stakeholders Relationship Committee. The manner in which the evaluation has been carried out is explained in the Corporate Governance Report.

MANAGEMENT DISCUSSION & ANALYSIS

The Indian Media & Entertainment industry will touch \$ 34.8 bn by 2021.

The Indian M&E Industry is projected to grow at a pace of 14% over the period of 2016-2021, outshining the global average of 4.2% CAGR with advertising revenue expected to increase at a CAGR of 15% during the same period. Television is expected to grow at a CAGR at 14.7% over the next five years as both advertisement and subscription revenues are projected to exhibit strong growth at 14.4% and 14.8% respectively. Print is projected to continue its growth of 7.3%, largely on the back of continued leadership growth in vernacular markets and advertisements 'confidence in the medium, tier II and tier III cities. Films segments is expected to bounce back and is forecasted to grow at CAGR of 7.7 % as the revenue streams broaden. Digital advertising is expected to grow at a CAGR of 32% by 2020. Animation and VFX is expected to grow at a CAGR of 20.4 % over 2016-2021

Foreign Animation film producers like Disney, Pixar and others are spending huge resources, which are 30 to 40 times the amount being spent by the Indian animation film producers. This makes the quality of Their Production far superior and the Indian Animation Film Industry is unable to compete with these high-quality films in the global market. In addition, substantial amount must be spent in promotion and prerelease activities for the animation films rendering them unviable. Though quality and creativity are well appreciated by the media industry they are not well rewarded with revenues.

The Management has decided to discontinue the production of animation films. The Management proposes to leverage its Brand Equity with outsourced Contents to build a resilient Business Model. The company will aggressively pursue distribution of digital contents for both Live and Animation for Theatrical, Television and online to increase sales and margins. The company plans to enter streaming and broadcasting industry which are growing at a very rapid rate. Development of digital contents using Multimedia for various platforms is another option. The management is reasonably confident with this restructuring of the business model; they will be able to generate healthy revenue and profits with a sustained growth.

EXTRACT OF ANNUAL RETURN

The details forming part of the extract of the Annual Return in form MGT-9 is annexed herewith as "Annexure 1" as per section 92 of the Companies Act 2013.

NUMBER OF THE MEETINGS OF THE BOARD

The Board had met Five (5) times during the financial year ended 31st March 2019, on 30/05/2018, 10/08/2018, 13/11/2018, 07.02.2019, and 30/03/2019. Particulars of meetings held and attended by each Director are detailed in the Corporate Governance Report, which forms part of this Report.

FAMILIARISATION PROGRAMME FOR INDEPENDENT DIRECTORS

The details of familiarization programs to Independent Directors with the Company, their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, business model of the Company and related matters are put up on the website of the Company at the link: www.pentamedia.in.

DECLARATION BY INDEPENDENT DIRECTORS

The Company has received necessary declaration from each Independent Director of the Company under Section 149(7) of the Companies Act, 2013 (Act) stating that the Independent Directors of the Company met with the criteria of Independence laid down in Section 149(6) of the Act and Regulation 25 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS:

The complete details of loans guarantee and Investments as per the provisions of Section 186 of Companies Act 2013 are given in the notes on accounts of the financial statements.

VIGIL MECHANISM/WHISTLE BLOWER POLICY

The Company has taken steps to establish the Vigil Mechanism/Whistle Blower Policy as is stipulated in the Regulation 22 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 and Pursuant to Section 177(9) & 177(10) of the Companies Act 2013. This provides a mechanism to raise concerns about actual or suspected frauds, unethical behavior, safeguards against victimization of employees, etc., and the same has been posted in the official website of the Company www.pentamedia.in.

NOMINATION AND REMUNERATION COMMITTEE

Pursuant to Section 178 of the Companies Act, 2013, the Board has constituted a Nomination and Remuneration Committee consisting of the following members

| | | |
|------------------|---|-------------|
| Mr. Kalyanaraman | : | Chairperson |
| Mr. C V Ravi | : | Member |
| Mr. V.N.Parvathy | : | Member |

The said committee has been empowered and authorized to exercise powers as entrusted under the provisions of Section 178 of the Companies Act, 2013. The Company had laid out and following the policy on director's appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under sub section 3 of Section 178 of the Companies Act, 2013.

Policy on Criteria for Board Nomination and Remuneration policy is available in the website of the Company link www.pentamedia.in.

RELATED PARTY TRANSACTIONS

The Audit Committee and the Board of Directors have approved the Related Party Transactions Policy and the same has been uploaded on the Company's website www.pentamedia.in. The Company has a process in place to periodically review and monitor Related Party Transactions. All the related party transactions were in the ordinary course of business and at arm's length, disclosure of the same is made in AOC 2 "Annexure 2" to this report. There were no materially significant related party transactions that may have conflict with interest of the Company

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS

There are no significant and material orders passed by the Regulators or Courts or Tribunals which would impact the going concern status of the Company.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 134 (3)(c) of the Companies Act, 2013, in relation to the Annual Financial Statements for the Financial Year 2018-2019, your Directors confirm that:

- a) The Financial Statements of the Company comprising of the Balance Sheet as at 31 March, 2019 and the Statement of Profit & Loss for the year ended on that date, have been prepared on a going concern basis following as per the applicable accounting standards along with proper explanation relating to material departures;
- b) Accounting policies selected were applied consistently and the judgments and estimates related to the financial statements have been made on a prudent and reasonable basis, so as to give a true and fair view of the state of affairs of the Company as at 31 March, 2019, and, of the profit of the Company for the year ended on that date; and
- c) Proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.
- d) that the annual accounts for the year ended 31st March 2019 have been prepared on a 'going concern' basis;
- e) that the directors had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
- f) that the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

STATUTORY AUDITORS

Pursuant to Section 139 of the Act and Rules made thereunder, Messrs. Babu Peram & Associates, Chartered Accountants were appointed as statutory auditors of the Company at the Annual General meeting held on 28th August, 2014 for a period of 5 years commencing from the closure of the 38th Annual general Meeting till the closure of the 43rd Annual General Meeting. Appointment of as statutory auditors is proposed in the ensuing AGM.

INTERNAL AUDITORS

The Company has appointed M/s.RSM & associates, Chartered Accountants (Firm Reg. No.2813 S), Chennai as Internal

Auditors of the Company for the financial year 2018-19.

SECRETARIAL AUDIT

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and rules made thereunder, the Company has appointed Ms. J. Anusuya, of M/s. J Anusuya & Associates Company Secretaries in Practice (CP No. 19510), Chennai to undertake the Secretarial Audit of the Company. The Secretarial Audit Report is annexed to this report as Annexure -3.

EXPLANATION AND COMMENTS

The reports of Statutory Auditors and that of the Secretarial Auditors is self-explanatory and have no adverse comments.

ADDENDUM TO THE DIRECTORS REPORT

On the qualification made by the auditor in their report:

1. Product Rights - According to the audit observation realizable value is not ascertainable.

Reply: Products rights represents software developed exclusively for Banking and Insurance companies. These software are customized as per the requirement of clients and they are not available off the shelf. This year as per recommendation they have been treated as per accounting standards 26

2. Capital Work in Progress - According to the audit observation realizable value is not ascertainable:

Reply: Capital Work in progress represents digital contents developed in house. It is a specialised item. They will be capitalised in couple of years as they have done in the earlier depending upon the requirement.

INCOME TAX

3. Claims against the company which has not been acknowledged as debt for the year ended 31st March 2018 includes demands from the Income Tax Authorities for payment of Tax including interest for the issues mentioned hereinafter. Rs.8.89 crores pertaining to the assessment years 1996-97, 1997-98 and 1998-99. The demands for these years are due to disallowance of Training Income in STP/EHTP.

The Company is a 100% EOU under STP/EHTP scheme. STP has allowed Training inside the STP complex provided the machines imported are not taken outside the complex. Software technology park (STP) scheme through Notification No. SO388 (E) dated 30.04.1995 in clause 2.12 permitted "Use of Computer system in STP for Training purpose will also be allowed subject to the condition that no computer terminal will be installed outside the STP for this purpose'.

Up to AY 2001-02 as per 2nd proviso to sub section 1 Section 10 B, the Assessing office should allow full deduction of profits from the business if the exports are more than 75% of the total sales.

Department has ignored the above this being contested\

1. There is also a demand and interest of Rs. 13.53 pertaining to the assessment year 2000-01 is due to the treatment of Goodwill

2. For the assessment year 2001-02, 2002-03, 2003-04 and 2004-05 the demand and including interest is Rs. 48.53 crores to the treatment of unrealized sales and opening of fresh cases u/s 263.

The Company has filed revised returns for the above years and has also obtained a court direction vide order 11.01.2010 to consider the revised returns filed. Hence no provisions have been made by the company. The Company has filed a WP in the High Court of Madras for considering the revised returns

3. For the assessment years 2004-05, 2005-06 and 2006-07 the demands inclusive interest are Rs. 82.89 crores which arose due to opening of the files afresh u/s 147 due to non-deduction of TDS for some matters, rate of depreciation etc.

The company has appealed against the same in the High Court of Madras and has obtained a stay order. When the revised returns are considered there will be no demand because of the carry forward losses.

4. For the assessment years 2008-09, 2009-10, 2010-11, 2012-13, 2013-14, 2014-15 there is a total demand of Rs. 6.72 crores including interest because of the dispute in the rate depreciation, deduction of TDS in some matters

These matters are now with the Commissioner of Income Tax (Appeals). These issues will be addressed when the revised returns filed by the company are taken up.

The Company has given special petitions listing out the matters for the above Assessment years during this year and they are yet to be taken up.

5. There is also a matter pending for Pentasoft Technologies (now merged with Pentamedia Graphics) where demand inclusive interest for Rs. 6.30 crores for issues pertaining to unrealized sales.

The company has filed the revised returns as per the Court orders for these issue same as above. When they are

taken into consideration there will be no demand.

MATERIAL CHANGE

There is no material change or commitments after the closure of the financial year.

DISCLOSURE UNDER THE SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

The Company has in place an Anti-Sexual Harassment Policy in line with the requirements of The Sexual Harassment of Women at the workplace (Prevention, Prohibition & Redressal) Act, 2013.

Internal Complaints Committee (ICC) has been set up to redress complaints received regarding sexual harassment. All employees (permanent, contractual, temporary, trainees) are covered under this policy.

The following is a summary of sexual harassment complaints received and disposed off during the year 2017-18.

| | | |
|--------------------------------|---|----------------|
| No. of complaints received | - | Nil |
| No. of complaints disposed off | - | Not Applicable |

COMPOSITION OF AUDIT COMMITTEE.

Pursuant to Section 177 of the Companies Act, 2013, the Audit Committee was constituted by the Board of Directors and consists of the following members:

| | | |
|---------------------|---|-------------|
| Mr. R. Kalyanaraman | : | Chairperson |
| Mr. C V. Ravi | : | Member |
| Mrs. V.N.Parvathy | : | Member |

The Board has accepted the recommendations of the Audit Committee and there were no incidences of deviation from such recommendations during the financial year under review.

CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY

The Company through its Corporate Social Responsibility Committee had formulated a CSR policy as required under Section 135 of the Companies Act, 2013.

The following is the composition of the Corporate Social Responsibility Committee.

| | | |
|---------------------|---|-------------|
| Mr. R. Kalyanaraman | : | Chairperson |
| Mr. C V. Ravi | : | Member |
| Mrs. V.N.Parvathy | : | Member |

SCOPE OF CSR POLICY

This policy will apply to all projects/ programs undertaken as part the Company's Corporate Social Responsibility and will be developed, reviewed and updated periodically with reference to relevant changes in corporate governance, international standards and sustainable and innovative practices.

The policy will maintain compliance and alignment with the activities listed in Schedule VII and Section 135 of the Companies Act 2013 and the rules framed there under, as amended from time to time.

CSR POLICY IMPLEMENTATION

The Company shall undertake CSR project/ programs identified by the CSR Committee and approved by the Board of Directors in line with the CSR Policy.

The CSR Policy of the Company is uploaded in the website of the Company www.pentamedia.in.

The spending on CSR activities is not applicable to our Company.

VIGIL MECHANISM

The Company has devised a vigil mechanism in pursuance of provisions of Section 177(10) of the Companies Act, 2013 for Directors and employees to report genuine concerns or grievances to the Audit Committee in this regard and details whereof are available on the Company's website.

CORPORATE GOVERNANCE REPORT

All material information was circulated to the directors before the meeting or placed at the meeting, including minimum information required to be made available to the Board as prescribed under Part A of Schedule II of Sub- Regulation 7 of Regulation 17 of the Listing Regulations.

In terms of Regulation 34 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements)

Regulations, 2015 a Report on Corporate Governance along with a Certificate from the Practicing Chartered Accountant confirming the compliance with the conditions of Corporate Governance as stipulated under Part E of Schedule V of Sub-Regulation 34(3) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 is attached to this report "Annexure 4".

HUMAN RESOURCES

The Company takes pride in the commitment, competence and dedication shown by its employees (including outsourced) in all areas of business. The Company is committed to nurturing, enhancing and retaining top talent through superior learning & organization development as a part of Corporate HR function. It is a critical pillar to support the organization growth and its sustainability over the long run.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE AND OUTGO:

Your Company is into the business of Production of Digital Contents for Film, Television & Internet and Development of APPs on Mobile, Tablet. Since this business does not involve any manufacturing activity, most of the Information required to be provided under Section 134(3)(m) of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014, are Not applicable.

However, the information, as applicable, is given hereunder:

a) CONSERVATION OF ENERGY

The Company is taking all the measurements for optimal use of energy to avoid wastages and conserve energy as far as possible.

b) TECHNOLOGY ABSORPTION

Your Company is continuously absorbing and applying the latest state of art technology in Digital Media & Software for Content creation, APPs Development & Skill Development Training

c) FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, foreign exchange earnings & outgo is Nil

PARTICULARS OF EMPLOYEES

Disclosures relating to remuneration and other details as required under Section 197(12) of the Act read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are also attached as Annexure 5 to the Board's Report.

LISTING OF SECURITIES IN STOCK EXCHANGES

The Company's Equity Shares are presently listed on BSE Ltd & GDRs listed on Luxembourg Stock Exchange.

ACKNOWLEDGEMENTS

Your Directors thank and express their gratitude for the support and co-operation received from the Central and State Governments, Regulatory authorities, Banks & Financial Institutions, Colleges/ Universities, Educational Institutes and Ministry of Corporate Affairs, Reserve Bank of India, Securities and Exchange Board of India, BSE Ltd. and Depositories and other stakeholders viz., Distributors, Vendors, Investors & Employees.

Place: Chennai

Date: 10/08/2019

On behalf of the Board of Directors

V Venkataramanan
Director

V. N. Parvathy
Director