

2005-2006
16TH ANNUAL REPORT



COLORCHIPS
(INDIA) LIMITED

Board of Directors:

Dr. Sudhish S Rambhotla	Chairman and Managing Director
Y. Suryanarayana	Executive Director
William Bill Buck	Director
Y. Kasipathy	Director
Kch. A.V.S.N. Murthy	Director
Dr. Chandra Bhushan	Director

Company Secretary:

Korepu Mallesham

Registered Office:

Plot No. 16, Road No. 5,
Jubilee Hills, Hyderabad – 500 033
Tel No. 040 – 23550268, 23544862/3/4

Auditors:

S N Murthy & Co.,
Chartered Accountants,
Chikkadpally,
Hyderabad – 500 020.

Registrars (Physical and Electronic)

Venture Capital and Corporate Investments Ltd.,
6-2-913914, 3rd Floor,
Progressive Towers, Khairatabad,
Hyderabad – 500 004.
Phone No. 040 – 23322262/4
Fax No. 040 - 23324803

NOTICE

Notice is hereby given that the 16th Annual General Meeting of the members of the company is scheduled to be held on 29th day of September 2006 at 11.00 AM at Famous Function Hall situated at 8-2-237/A/2, Beside Savera Function Palace, Yousufguda Corner, Hyderabad – 500 045 to transact the following business:

AS ORDINARY BUSINESS:

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended 31st March, 2006 and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Y. Kasipathy who retires by rotation and being eligible offers himself for re-appointment.
3. To consider, and if thought fit, to pass, with or without modification(s) the following Resolution as an Ordinary Resolution:

“RESOLVED that M/s M.S.S. Prasad & Co., Chartered Accountants, Hyderabad be and are hereby appointed as Auditors of the Company in place of the retiring auditors M/s S.N. Murthy & Co., from the conclusion of this meeting until the conclusion of the next Annual General Meeting on a remuneration to be fixed by the Board of Directors of the Company in addition to actual out-of-pocket expenses incurred by them for the purpose of audit.”

By Order of the Board

Hyderabad
August 25, 2006

(Dr. Sudhish S Rambhotla)
Chairman and Managing Director

NOTES:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy need not to be a member. The instrument appointing a proxy should be deposited at the Registered Office of the Company not less than Forty-Eight Hours before the commencement of the Meeting.
2. Members seeking any information with regard to Annual Accounts are requested to write to the Company at least one week in advance, so as to enable the Company to keep information ready.

3. The Register of Members and Share Transfer Books of the Company will remain closed on 29th September, 2006.
4. Members are requested to notify changes in their address, if any, to Venture Capital & Corporate Investments Limited (Unit: Color Chips).

Hyderabad
August 25, 2006

By Order of the Board of Directors

(Dr. Sudhish S Rambhotla)
Chairman and Managing Director

DIRECTOR'S REPORT & MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

To

The Members

Your Directors have pleasure in placing before you the 16th Annual Report of the company with Audited Financial statements for the year ended 31st March 2006.

OPERATIONS AND FUTURE OUT LOOK:

(Rs In Lakhs)

	2005-06	2004-05
Net Sales / Income from operations	1000.91	1093.66
Other Income	2.35	34.12
Total Expenditure	931	1054.42
Profit before Depreciation	171.87	171.90
Depreciation	99.56	98.54
Profit after depreciation	72.31	73.36
Profit of the PY brought forward	(105.79)	(179.15)
Provision for Deferred tax asset current year	0.96	Nil
Transitional Cum Deferred tax asset	34.32	Nil
Profit / Loss carried to Balance Sheet	(33.48)	(105.79)

During the year under review, your company has continued to execute projects for its European clients and has received appreciation from all quarters for the quality of its animation.

DIVIDEND:

Your directors after careful consideration of the accounts of the Company have not recommended any dividend to the equity shareholders of the Company.

SHARE CAPITAL:

Your company has issued 68,77,350 Equity Shares of Rs. 10/- each for cash at par on Rights basis to the Existing Equity Shareholders of the Company in the ration of one Equity Share for every two Equity Shares held [ie. 1:2] on Record Date i.e. July 25, 2005 aggregating to Rs. 687.735 Lakhs.

The issue was oversubscribed by 3.18 times and out of 68,77,350 Equity Shares issued 24,87,202 equity shares were allotted as fully paid shares and the remaining 43,90,148 Equity Shares were allotted as partly paid shares.

Out of 43,90,148 partly paid Equity Shares, 41,91,118 partly paid Equity Shares have been converted into fully paid Equity shares and the remaining 1,92,033 Equity Shares are still lying as partly paid shares as on 31.03.2006.

Your Company has issued 3,30,000 Equity Shares of Rs. 10/- each at a price of Rs. 12.22 to M/s. Color Chips Animation Park Limited, the existing promoter of the Company. The price of Rs. 12.22 was arrived as per regulation 13.1.1 of SEBI (DIP) Guidelines, 2000.

CORPORATE GOVERNANCE:

Your company has adopted the best corporate governance practices and has also taken steps to understand the interest of its stakeholders so that the needs of the stakeholders could be met.

A detailed Report along with a certificate of Compliance appears in the Annexure to the Director's Report.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Articles of association of the Company, Y. Kasipathy, Director will be retiring by rotation at the Annual General Meeting and being eligible, offers himself for reappointment.

AUDITORS AND AUDIT REPORT

M/s. S. N. Murthy & Co., Chartered Accountants, Hyderabad, the company's auditors retire at the conclusion of the ensuing annual general meeting. They have expressed their inability to continue as auditors of the company. Therefore the company is appointing M/s. M.S.S. Prasad & Co. as the auditors of the company.

DISCLOSURES

Disclosure in terms of Companies (Particulars of Employees) Rules, 1975 and Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 in respect of conservation of energy, technology absorption, earnings and outgo of foreign exchange are attached and forms part of this report.

HUMAN RESOURCE

Your Company during the year has taken various initiatives with the assistance of renowned consultants to introduce and implement best HR practices that meet global standards.

CORPORATE SOCIAL RESPONSIBILITY:

Your company has always been a responsible corporate citizen and has made contributions towards community development and as part of this, your company has joined with the Government of Andhra Pradesh for the Jawahar Knowledge Initiative.

INTERNAL CONTROL SYSTEM:

Your Company has established internal controls which provides reasonable assurance with regard to maintaining proper financial system, preserving economy and efficiency of operations, safeguarding assets against unauthorized use or losses and facilitating reliability of financial and operational information. The Company's internal control systems are adequate and are routinely tested and certified by the statutory and internal auditors.

An Audit Committee of the Board of Directors regularly reviews the audit plans, significant audit findings, adequacy of internal controls as well as compliance with accounting standards. The Audit Committee met eight times during the year to review and monitor implementation of management actions for continuous improvement.

DIRECTORS REponsibility STATEMENT:

As per Section 217(2AA) of the Companies Act, 1956, we directors of the Company, confirm the following:

1. That in the preparation of the accounts for the financial year ended 31st March 2006; the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of the affairs of the Company at the end of financial year and of the profit and loss of the company year under review;
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. That the Directors have prepared the accounts for the financial year ended 31st March 2006 on a 'going concern' basis.

Animation - Opportunities and threats

Prospects in the Animation Industry

Animation is not just about cartoon; it is just one genre of animation. Animation has several applications like educational CDs, online education, video games, Internet, mobile phones, commercials and industry-specific applications in architecture, medical, law and insurance. Besides, newer applications for animation are already in progress. In a classical sense, animation is converting drawing skills to a moving format it could be either on paper (2D) or on the computer (3D). By 2008, the global animation market is expected to grow at the rate of 8%, while the Indian market is expected to have a 2.5% growth rate, according to a study carried out by the NASSCOM.

Segment wise analysis of the Industry

The high cost of production is one of the key reasons why studios are willing to outsource animation work to India. Overseas markets, already impressed by the country's proven success in the IT industry are increasingly looking at India to cut costs, as studios here offer services at lower rates due to availability of skilled yet cheaper manpower. India also has a strong advantage in getting outsourced work from the West because of the fast growing consumer class and lack of language barrier.

Industry Size

(Source: FICCI Report - 2006)

As per Nasscom estimates, the Indian entertainment industry contributes around 68 percent of the revenues of the Indian animation industry. This translates into revenues of approximately INR 8.8 million that the Indian animation industry earns from the Indian entertainment industry. Globally, the contribution of the entertainment industry towards animation is pegged at around 72 percent. Even if the existing share of 68 percent is maintained by the Indian Entertainment Industry in the growing animation market, the contribution by the entertainment segment has the potential to grow the Indian animation industry by an estimated 35 percent to reach up to INR 28.8 billion by 2009.

Business overview of the Company

Color Chips (India) Limited is into 2D and 3D Animation and syndication of comics & contents. In a short span, the company emerged as a leading player in animation industry in India. Color chips has produced various short animation films and worked with international animation production houses like BKN International, Germany, Benj Productions, France etc.

Risks and Concerns:

Computer animation Industry in India is in its Nascent Stage:

Animation is a new industry to the Indian Business Environment. Hence, the functioning of the Industry, its risks, the payoffs and the time taken to achieve the payoffs, are not very well understood. The company has been able to develop a strong track record of successful deliveries and has established a strong foundation for a robust growth in the years to come.

Manpower risks:

Over the years, one distinguishing factor about Color Chips has been the quality of the manpower and low attrition rate, which is much below the industry levels. Particularly, in the 2D animation business, the animators have seen Color Chips as a destination of choice due to training and high quality work opportunities, and a culture best suited for creative talents. This franchise is of utmost importance to this risk reduces progressively with the increase in trained manpower base but nevertheless is an inherent part of the business and needs to be managed actively at all times. Quality computer animation talent is in short supply and also takes time to develop and hence the other major challenges is to successfully increase the talented manpower base of the company.

Competition

The main Competitors for the Company includes all domestic animation companies like Heart Animation, Hyderabad; Data Quest, Hyderabad; Esco Toonz Limited, New Delhi; UTV Toons, Mumbai; Penta Media Graphics, Chennai; Crest Communications Ltd. etc. The company also faces stiff competition from Far East companies located in countries like China, Japan, Philippines, Taiwan etc. The other major challenge faced by the company being changing technologies, and upgrading the technologies is a task in itself. Our strength vis-à-vis our competitors are our trained staff, content library and creative team. ColorChips holds a strong creative team of professionals and suitable infrastructure to cater to requirements of print media, visual media & corporate communications. The above strengths give our company a wider market and more visibility.

Export Possibilities

The Company has already co-produced projects along with producers in Europe. With its ability to produce high quality animation shows the company expects to have good export possibilities of its products and services. Further as India has rich pool of historical, mythological and folklore which are till date not exposed in the international animation market the company expects that the content produced by it will have good export potential.

Cautionary Statement:

Statement in this Management Discussion and Analysis describing the Company's objective, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Certain observations made on the industry and other players also reflect an opinion by the management and the management accepts no liability on such opinions. Actual results might differ materially from those either expressed or implied.

DISCLOSURES AS PER THE LISTING AGREEMENT:**Cash Flow statement:**

A Cash flow statement for the period ended 31-03-2006 is annexed forming a part of Annual Report in compliance with the requirement of clause 32 of the Listing Agreement with Stock Exchanges.

Stock Exchanges:

S No	Name of the Stock Exchange	Addresses
1	The Mumbai Stock Exchange	Phiroze JeeJeebhoy Towers Dalal Street, Mumbai –400 001
2	The National Stock Exchange of India Limited	Exchange Plaza, Plot No C/1 G Block Bandra – Kurla Complex , Bandra (E) Mumbai – 400 051
3	The Hyderabad stock Exchange Limited	6-3-275, Adjacent to Erramanjil Bus stop, Somajiguda, Hyderabad - 500 082.

FIXED DEPOSITS:

Your company has not accepted any deposits from the public or shareholders of the company pursuant to provisions of Section 58A of the Companies Act, 1956.

PARTICULARS OF EMPLOYEES:

The Provisions of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is not applicable to the company, since no employee draws the remuneration in excess of the limits prescribed therein.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation of the continued assistance and co-operation extended to your company by the Government of India, Government of Andhra Pradesh, the large family of shareholders and investors of your company, the dedicated employees and all others who are continuing to assist your company.

By Order of the Board

Hyderabad
August 25, 2006

(Dr. Sudhish S Rambhotla)
Chairman and Managing Director

ANNEXURE TO DIRECTORS REPORT

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO OF THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

FORM A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION ENERGY

The operations of your company are not energy intensive. Adequate measures have however, been taken on reduce energy consumption by using energy-efficient computer terminals and by the purchase of energy-efficient equipment incorporating the latest technology. Your Company constantly evaluates new technologies and invests in them, to make its infrastructure more energy-efficient. Energy efficient UPS systems have been purchased. Energy saving air conditioners is used only where required. These measures have enhanced energy efficiency. As energy cost forms a very small part of the total cost, the impact on cost is not material.

FORM B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION FOR THE YEAR 2005-2006.

A. RESEARCH AND DEVELOPMENT

1. Specific areas in which R & D carried out by the Company: Research and development is a continuous process and your company is devoting sufficient resources to continuously create and update its content in order to meet the changing education and entertainment needs of youngsters and elders.
2. Benefit derived as results of the above R & D: N.A
3. Future plans of Action: The Company intends to engage in research and development for improving quality as well as to reduce cost.
4. Expenditure in R & D: N.A

B. TECHNOLOGY ABSORPTION AND ADOPTION:

1. Efforts in brief towards technology absorption, adoption and innovation:
The company keeps it self abreast of latest developments in technology applicable to it and absorbs and adopts accordingly as may be permissible by its operations.
2. Benefit derived as results of the above R & D: N.A
3. Import of Technology: N.A

C. FOREIGN EXCHANGE EARNINGS AND OUT GO

Foreign exchange earnings: Rs. 44.90 lacs

Foreign Exchange Outgo: Rs. 75.93 lacs

CORPORATE GOVERNANCE REPORT FOR THE PERIOD APRIL 1, 2005 TO MARCH 31, 2006

ANNEXURE-D TO THE DIRECTOR'S REPORT

I. COMPANY'S PHILOSOPHY:

At Color Chips we believe in philosophy of SERVING SOCIETY THROUGH INDUSTRY, with the Color Chips culture being 'we live every moment of life in harmony with nature to create the value for ourselves, our stakeholders and the society'.

This philosophy backed by principles of concern, commitment, ethics, excellence and learning in all its acts and relationships with stakeholders, customers, associates and community at large which has always propelled the company towards higher origins.

Owing to the changing business environment in which the company today operates, your company has drawn up a vision 'To be global leader in animation'.

We are committed to continuously re-engage customer delight through constant review, monitoring and delivering proactive valued added solutions. We are also committed to strive for satisfaction of all stakeholders in a balanced manner through sustainable growth and profitability. We also aim to create an environment where work becomes enjoyable experience so as to align individual goals with organizational goals, share knowledge and information, be proactive and responsible, pursue excellence and be committed so as to transform the society around. Our aim is to create an environment, which enhances opportunities for all the good things, better health, education and overall quality of living that life has to offer.

At Color Chips, we believe that it is not latest technology or management practice (as important as they are) that makes an organization successful, as it ought to be. However, what makes it an enterprise worthy of emulation is that it shapes up the environment in which it grows. And to achieve this, we strive to be a learning organization where creativity, innovation, entrepreneurship and knowledge sharing are encouraged fostered actively.

We believe in the principles of trusteeship, fair play and transparency in all our dealings. We endeavor to have a work culture, which is performance driven and conducive to improving discipline, accountability, depth of character, team spirit and honesty in all our personal and professional relationships.

We also believe that mutual care and concern among the employees and the organization, shall be guiding principle.

1. The company views Corporate Governance under the following major parameters:

1. Transparency in relationship to appointments, meetings of directors on the Board of the company, responsibility and accountability of the Board of Directors.
2. Providing correct, accurate and relevant information to the shareholders regarding the functioning and performance of the company pertaining to financial and non-financial matters.
3. Internal and external controls and audits

2. Board of Directors:

The Board of Directors of the Company, headed by an Executive Chairman and Managing Director, consisted of the following Directors, as on March 31, 2006 categorized as indicated.

(i) **Chairman and Managing Director:** Mr. Sudhish S Rambhotla
Executive Director: Mr. Y Suryanarayana

(ii) **Non-Executive Directors** – Independent:

William Bill Buck
Dr. Chandra Bhushan
K Ch A V S N Murthy
Y.Kasipathy

3. During the financial year 2005-2006, Board met Thirteen times on the following dates:

(1) i) 30.04.2005; ii) 07.05.2005; iii) 28.07.2006; iv) 25.08.2005; v) 19.10.2005 vi) 28.10.2005; vii) 19.11.2005; viii) 30.01.2006 ix) 31.01.2006; x) 01.03.2006; xi) 06.03.2006; xii) 09.03.2006; xiii) 17.03.2006

(2) The details of the attendance of the Directors at Board Meeting and at the last Annual General Meeting with particulars of their other Directorship and Chairman / Membership of the Board Committees are given in the following table:

Name of the Director	Category	Attendance at Board	Attendance at last AGM	Committee Membership	Committee Chairmanship	No. of Directorships in other Companies
Dr Rambhotla S Sudhish	CMD	10	Yes	-	-	3
Y Suryanarayana	ED	13	Yes	1	-	2
William Bill Buck	INED	-	No	-	-	-
Dr. Chandra Bhushan	INED	6	Yes	1	-	-
Kch A V S N Murthy	INED	9	Yes	2	-	-
Y.Kasipathy	INED	10	Yes	2	2	-

CMD : Chairman and Managing Director

ED : Executive Director

IED : Independent Executive Director

INED : Independent Non – Executive Director

- The time gap between any two Board Meetings did not exceed four months.
- The last Annual General Meeting was held on September 29, 2005

(iv) CODE OF CONDUCT AND ETHICS:

The Board of Directors of the Company has formulated a Code of Conduct and Ethics applicable to all the Members of the Board of Directors and Senior Management Personnel of the Company.

The details of the Code of Conduct and Ethics are posted at the company's website at www.colorchipsindia.com.

A detailed declaration along with a certificate of compliance appears in the Annexure to the Corporate Governance Report.

3. Audit Committee:

The terms of reference to Audit Committee are:

1. Overseeing the Company's financial reporting process and disclosure of its financial information
2. Recommending the appointment and removal of external Auditors and fixation of their fee.
3. Reviewing the annual financial statements before submission to the Board.
4. Reviewing the adequacy of internal control system and internal audit function.
5. Discussion with internal auditor on any significant findings and follow up thereon.
6. Discussion with external auditor to ascertain any area of concern.
7. Reviewing the Company's financial and risk management policies.

Composition, name of member, chairperson, meetings and attendance:

The members of the Audit Committee are as follows:

Sri. Y.kasipathy	-	Chairman
Sri Kch. A. V. S. N. Murty	-	Member
Dr. Chandra Bhushan	-	Member

Audit committee met eight times on the following dates:

i) 30.04.2005; ii) 28.07.2005; iii) 25.08.2005; iv) 19.10.2005 v) 28.10.2005; vi) 19-11-2005; vii) 30.01.2006; viii) 09.03.2006

Name of Member	Category	Designation	No. of Meetings
Sri Y. Kasipathy	INED	Chairman	8
Sri Kch AVSN Murthy	INED	Member	8
Dr Chandra Bhushan	ED	Member	8

4. Remuneration Committee: No Remuneration Committee has been constituted since none of the directors have drawn any managerial remuneration during the year 2005-06.

5. Share Transfer / Investor Grievances Committee:

The members of the Shareholders Committee are as follows:

Name of the member	Category	Designation
Sri Y.Kasipathy	INED	Chairperson
Sri Kch.A.V.S.N.Murty	INED	Member
Sri Y Suryanarayana	ED	Member
Sri Korepu Mallesham	Compliance Officer	Company Secretary

The Shareholder/Investor grievances committee specifically looks into redressing of Shareholders and Investors' complaints and ensures expeditious share transfer process.

Name and designation of the Compliance officer:

Korepu Mallesham, Company Secretary.

Number of shareholders complaints received: As soon as complaints are received from the shareholders, the same will be redressed by the Registrars and share transfer Agents and also Secretarial Department of the Company within one week from the receipt of the complaints.

Number not solved to the satisfaction of shareholders: Nil

No complaints remained unsolved to the satisfaction of shareholders.

Number of pending share transfers: None

2. Financial calendar : 1st April 2005 to 31st March 2006.

6) General Body Meeting:

The Last three Annual General Meetings of the Company were held as under:

Year	Location	Date	Time	Special resolution
2002-2003	Plot No.16,Road No.5, Jubilee hills, Hyderabad - 33.	30-09-2003	10.00 am	None
2003-2004	Plot No.16, Road No.5, Jubilee Hills, Hyderabad – 33	30-09-2004	9.30 am	1
2004-2005	Sagi Ramakrishnam Raju Community Hall, Madhuranagar, Hyderabad - 33	29-09-2005	11.00 am	5

7. Postal Ballot:

No Resolutions either Ordinary or Special Resolutions which attracted the provisions of Section 192A of the Companies Act, 1956 were passed by the Company's shareholders through postal ballot.

8. Disclosures:

Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the directors or management, their subsidiaries or relatives etc. that may have potential conflict with the interest of company at large:

(i) During the year, the Company had invested an amount of Rs.8 Crores in the equity shares of M/s. Color Chips Entertainment & Media Limited.

(ii) During the year, the Company had issued 68,77,350 Equity Shares of Rs.10/- each at par to the existing shareholders on rights basis.

(iii) There are no instances of non-compliance nor any penalties or strictures are imposed on the Company by stock Exchanges or SEBI or any statutory authority, or any matter related to capital markets, during the last three years.

(iv) Whistle Blower Policy: The Audit Committee of directors at their meeting held on 28.10.2005 approved and commenced the draft whistler blower policy and the Board of Directors at their meeting held on 19.11.2005 approved the whistler blower policy. The company affirms that no personnel has been denied access to the audit committee.

(v) Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause:- The company has complied with all the mandatory requirements and has adopted the non-mandatory requirements.

(vi) The company has not issued any ADRs / GDRs / Warrants.

9. Means of Communications:

Quarterly financial results are normally published in Financial Express and Andhra Jyothi daily newspapers both in English and Telugu languages respectively. As we are publishing the results in English and Telugu daily newspapers there is no necessity to send the results to the households of shareholders. There is no official news release and presentation to Institutional Investor or Analyst relating to quarterly and half yearly financial results considering the magnitude of our activities and stake of Institutional Investors. Management Discussion & Analysis Report forms part of this Annual Report.

10. General Shareholder Information:

1. Annual General Meeting : Famous Function Hall, Yousufguda Corner, Hyderabad – 45
 2. Date of Book Closure : 29th September 2006
 3. Dividend Payment Date : N.A.
 4. Listing on Stock Exchanges : The Hyderabad Stock Exchange Limited
 The Bombay Stock Exchange Limited
 The National Stock Exchange of India Ltd.
 5. Stock Code : BSE : 532172; NSE : COLOR CHIPS

6. Market Price Data

Month	BSE			NSE		
	High	Low	Volume	High	Low	Volume
Apr 2005	12.59	9.50	2716397	12.65	9.70	563034
May2005	14.45	9.51	3972982	14.35	9.90	690056
June2005	19.34	12.10	14036144	19.65	12.00	1265114
Jul 2005	25.50	17.75	19706097	25.30	17.70	2715360
Aug2005	28.35	18.00	14309533	30.00	18.05	1952801
Sep 2005	26.50	18.85	2815747	26.30	18.75	374628
Oct 2005	19.60	11.35	872025	19.85	11.35	75092
Nov2005	15.34	12.55	754932	15.25	12.70	47232
Dec2005	14.48	11.49	862982	14.45	11.55	14192
Jan 2006	13.65	11.01	1394132	13.65	11.00	62979
Feb2006	12.30	9.52	1280839	12.55	9.55	213122
Mar2006	11.99	8.69	1674415	12.15	9.05	182002

7. Performance in comparison to broad based indices: Considering the magnitude of opportunities of the company, the comparison will be irrelevant.
8. Registrar and share transfer Agents:
 M/S Venture Capital and Corporate Investments Limited, 6-2-913/914 ,
 3rd Floor Progressive towers, Khairatabad,
 Hyderabad - 500 004.
 Phone: 040 - 233 22262 / 233 22264
 Fax: 040 - 233 24803
9. Share transfer systems: Share transfers will be affected by the above Share transfer agents, within 15 days from the receipt of request for transfers. Share Transfer Committee meets periodically to approve the transfers.

10. Distribution of shareholding as on 31-03-2006:

Shares	No of Share Holders	%
Up to_500	8923	62.86
501-1000	2421	17.06
1001 - 2000	1394	9.82
2001 - 3000	433	3.05
3001 - 4000	243	1.71
4001 - 5000	205	1.44
5001 – 10000	323	2.28
10001 and above	253	1.78
Total	14195	100.00

Shareholding Pattern as on 31-03-2006

Category	No of Share Holders	%
Promoters	914620	4.43
Mutual Funds and UTI	—	—
Financial Institutions/ Mutual Funds	—	—
Private Corporate Bodies	2890937	14.01
Indian Public	16248207	78.75
NRI's/OCB's	550086	2.67
Others – Director	28200	0.14
Total	20632050	100.00

11. Dematerialization of shares and liquidity:

The Company is registered with both National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The number of shares, which have been dematerialized so far, is 2,02,45,846 amounting to 98.13% of the total number of shares.

12. Company's Demat ID No. IN E 737B01017.
13. Outstanding GDR/ ADR/ Warrants or any Convertible instruments, conversion date and likely impact on the Equity: N.A.
14. Plant Location (Studio): Plot No 16, Road No. 5 Jubilee hills, Hyderabad - 500 033.
15. Address for Correspondence: Plot No 16, Road No. 5 Jubilee hills, Hyderabad - 33.

DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT PERSONNEL WITH THE CODE OF CONDUCT AND ETHICS:

This is to inform you that the Company has adopted a Code of Conduct and Ethics applicable to all the Members of the Board of Directors and Senior Management Personnel of the Company. The details of the Code of Conduct and Ethics are available at the Company's website at [www. colorchipsindia.com](http://www.colorchipsindia.com).

I confirm that the Company has in respect of the financial year ended 31st March 2006 received from all the Members of the Board of Directors and all the Senior Management Personnel of the Company a declaration of Compliance with the Code of Conduct and Ethics as applicable to them.

Senior Management Personnel are personnel who are a part of the core management team, comprising personnel one level below the executive directors and including all functional heads as on 31st March 2006.

Hyderabad
Date: 25-08-2006

GANTI V.S. SARMA
Chief Financial Officer

S.N. MURTHY & CO.,
Chartered Accountant

1-8-30 Upstairs
Chikkadapally
HYDERABAD – 20
Tel No 27660168

CERTIFICATE ON CORPORATE GOVERNANCE

To
The Members of Color Chips (India) Limited
Hyderabad

We have examined the compliance of conditions of Corporate Governance by Color Chips (India) Limited for the year ended 31-3-2006, as stipulated in clause 49 of the Listing Agreement of the company with stock Exchanges.

The compliance of conditions of corporate governance is the responsibility of the management .Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the corporate Governance. It is neither an audit nor an expression of opinion on the financial statement 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 the conditions of corporate governance as explained in the above-mentioned Listing Agreement.

We state that generally no investor grievances are pending for a period exceeding one month against the company as per the records maintained by the company.

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

For **S N Murthy & Co**
Chartered Accountants

Date: August 25, 2006
Place: Hyderabad

P S N Murthy
Membership No: 21862

S.N. MURTHY & CO.,
Chartered Accountant

1-8-30 Upstairs
Chikkadapally
HYDERABAD – 20
Tel No 27660168

AUDITORS' REPORT

To
The Members,
M/s. Colorchips (India) Limited

We have audited the attached Balance Sheet of M/s. Colorchips (India) Limited as at 31st March 2006 and also the Profit & loss Account of the company for the year ended on the 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.

We have conducted our audit in accordance with 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Company (Auditor's Report) Order, 2003 issued by the Central Government in terms of sub-section (4A) of section 227 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.

Further to our comments in the annexure referred to above, we report that:

we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our Audit.

In our opinion, proper books of accounts as required by law have been kept by the company so far as appears from our examination of those books.

The Balance sheet and Profit & Loss Account dealt with by this report are in agreement with books of accounts.

In our Opinion, the Balance Sheet and Profit & Loss Account dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of Companies Act, 1956.

On the basis of written representations received from the directors, as on 31st March, 2006 and taken on record by the Board of directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as director in terms of clause (g) of sub-section 1 of section 274 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the same accounts give the information required by the Companies Act, 1956, in the matter so required and give a true and fair view in conformity with accounting principles generally accepted in India.

In the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2006 and

In the case of the Profit and Loss Account, of the profit for the year ended on the date.

Date : 31st July 2006
Place: Hyderabad

For **S N Murthy & Co**
Chartered Accountants

P.V.S.N Murthy
Proprietor
M.No 21862

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in Para 1 of our report even date)

- 1) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
The management has physically verified the fixed assets at reasonable intervals during the year and no major discrepancies were noticed on such verification.
In our opinion, the Company has not disposed of substantial part of fixed assets during the year and the going concern status of the Company is not affected.
- 2) As explained to us, inventories have been physically verified during the year by the management at regular intervals. In opinion, the frequency of verification is reasonable.
In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
The Company has maintained proper records of inventories. In our opinion and according to the information and explanations given to us, the discrepancies noticed on verification between the physical stocks and the book records were not material, have been properly dealt with in the books of accounts.
- 3) As informed, the Company has given / taken loans, Secured or Un-Secured, to / from Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. Refer to Notes on Accounts under note (II) (3) (b).
- 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 raw materials, Plant and Machinery, equipment and similar assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls.
- 5) According to the information and explanations provided by the management, there have been transactions that need to be entered into a register maintained under section 301 of the Companies Act, 1956.
- 6) In our opinion and according to the information and explanations given to us, the company has not accepted any deposits from public to which the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 framed there under apply.
- 7) In our opinion, the Company has an adequate internal audit control system commensurate with the size and nature of its business.
- 8) We are informed and according to the information and explanations given to us, that the Central Government has not prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956, for the activities of the Company.
- 9) In Respect of Statutory dues:
According to the records of the Company as per the information and explanations given to us, the company is generally regular in depositing with appropriate authorities undisputed Statutory dues including Provident Fund, Employees State Insurance, Wealth tax, Custom duty, cess and other material statutory dues applicable to it.

According to the information and explanations given to us, there are no undisputed amounts payable in respect of Income Tax, wealth Tax, Sales Tax, Customs Duty and Excise Duty which have remained outstanding as at March 31, 2006 for a period exceeding six months from the date they become payable.

According to the information and explanations given to us, there are no dues of Sales Tax, Income Tax, Custom duty, Wealth tax, Excise duty and cess which have not been deposited on account of any dispute.

- 10) In our opinion, the accumulated losses of the company are not more than fifty percent of its net worth. The company has not incurred cash losses during the financial year covered by our audit.
- 11) As per the records of the Company and according to the information and explanations given to us, we are of the opinion that the company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.
- 12) According to the information and explanations given to us, the company has not given any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13) The Company is neither a chit fund nor a nidhi mutual fund benefit fund / society. Therefore, the provisions of clause 4 (xiii) of the above referred order are not applicable to the company.
- 14) The company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of claused 4(xiv) of the above referred order are not applicable to the Company.
- 15) The Company has not given any guarantee for loans taken by others from banks or financial institutions.
- 16) The Company has not availed any term loan from any bank / financial institutions. According to the information and explanations given to us and on overall examination of the balance sheet of the company, we report that no funds raised on short-term basis have been used of long term investment. No Long-term funds have been used to finance short-terms assets.
- 17) The company has not issued any debentures. Accordingly, the provisions of clause 4(xix) of the above referred Order are not applicable to the company.
- 18) During the year the company has made rights issue of equity shares to the shareholders of the company and raised Rs.6,87,73,500/- out of which Rs. 6,73,33,253/- has been received.
- 19) The Company has not made any preferential allotment of shares to any parties or companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- 20) In our opinion, the Company is not required to create / register / modify and security (Charge) as company is not holding / issued any debentures.
- 21) According to the information and explanations given to us, no fraud on or by the company has been noticed or report during the course of our audit.

Date : 31st July 2006
Place: Hyderabad

For **S N Murthy & Co**
Chartered Accountants

P.V.S.N Murthy
Proprietor
M.No 21862

COLOR CHIPS INDIA LIMITED
BALANCE SHEET AS AT 31ST MARCH, 2006

SCHEDULE	SCH No.	As at 31-Mar-06 Rs.	As at 31-Mar 05 Rs.
SOURCE OF FUNDS			
SHARE HOLDER'S FUNDS			
Share Capital	1	204,880,253	137,547,000
Reserves & Surplus	2	1,570,500	1,570,500
	Total	206,450,753	139,117,500
APPLICATION OF FUNDS			
A. FIXED ASSETS			
a) Gross Block	3	72,555,170	74,460,155
b) Less : Depreciation		46,043,921	38,817,168
c) Net Block		26,511,249	35,642,987
B. Investments		80,000,000	-
C. Deferred Tax		6,851,352	10,284,314
D. Current Assets and loans & Advances			
Stock In Trade	4	134,240,287	62,347,900
Sundry Debtors	5	17,086,051	16,433,866
Cash and bank balances	6	5,140,496	5,012,152
Loans & Advances	7	9,719,117	39,339,581
		166,185,952	123,133,498
C.LESS : CURRENT LIABILITIES & PROVISIONS			
Provision for bad and doubtful debts	8	80,131,599	40,805,184
		80,131,599	40,805,184
NET CURRENT ASSETS			
Profit and Loss Account		86,054,353	82,328,314
Miscellaneous Expenditure to the Extent not written off	9	154,751	282,479
	Total	206,450,753	139,117,500
NOTES ON ACCOUNTS	14	-	-

As per our report of even date attached

For S N Murthy & Co
Chartered Accountants

For and on behalf of Board Directors

P V S N Murthy
Proprietor
M.No 21862

Dr. SUDHISH S.RAMBHOTLA
Chairman & Managing Director

Y SURYANARAYANA
Executive Director

KOREPU MALLESHAM
Company Secretary

Place : Hyderabad
Date : 31st July 2006

COLOR CHIPS INDIA LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006

SCHEDULE		For the year ended 31-Mar-06	For the year ended 31-Mar-05
IINCOME			
1) Turnover		100,091,698	109,365,688
2) Other Income		235,307	3,412,428
		100,327,004	112,778,116
EXPENDITURE			
(Increase)/Decrease in stocks		(71,892,387)	(39,234,802)
Manufacturing Expenses	10	133,758,185	99,294,136
Administrative Expenses	11	20,380,183	34,504,029
Selling & Distribution Expenses	12	643,744	906,233
Finance cost	13	122,874	-
Depreciation for the year		9,956,564	9,854,063
Provision for bad and doubtful debts		-	-
Amortisation of Preliminary Exp		28,690	28,690
Amortisation of Public Issue Exp		99,038	90,038
Total Expenditure		93,096,891	105,442,388
PROFIT BEFORE TAX		7,230,114	7,335,728
Less: Provision for Taxation		-	-
PROFIT BEFORE TAX		7,230,114	7,335,728
Provision for Deferred Tax		3,432,962	-
Provision for FBT		96,794	-
PROFIT AFTER TAX		3,700,358	7,335,728
Balance brought forward from P.Year		(10,579,405)	(17,915,133)
Traditional Cumulative deferred tax		-	-
Balance carried to balance sheet		(6,879,048)	(10,579,405)
NOTES ON ACCOUNTS	14		
As per our report of even date attached			
For S N Murthy & Co Chartered Accountants		For and on behalf of Board Directors	
P V S N Murthy Proprietor M.No 21862	Dr. SUDHISH S.RAMBHOTLA Chairman & Managing Director	Y SURYANARAYANA Executive Director	KOREPU MALLESHAM Company Secretary
Place : Hyderabad			
Date : 31st July 2006			

COLOR CHIPS INDIA LIMITED
Schedule - 3

(Rs.)

Fixed Assets for the year ended 31-3-2006											
Name of the Assets	Gross Block				Depreciation				Net Block		
	As on 01-Apr-05	Additions during the Year	Deletions during the year	Gross Assets as on 31-3-2006	As on 01-Apr-05	For the year	Dep. On deletions	As on 31-Mar-06	As on 31-Mar-06	As on 31-Mar-05	
Airconditioners	1,862,587	56,560		1,919,147	368,660	89,485		458,145	1,461,002	1,493,927	
Computers	49,622,393	507,461		50,129,854	307,62756	8,051,925		38,814,681	11,315,173	18,859,637	
Plant & Machinery	1,431,951	-		1,431,951	386,069	186,154		572,222	859,729	1,045,882	
Electrical Equipment	6,322,835	16,060		6,338,895	1528156	823,290		2,351,446	3,987,449	4,794,679	
Furniture & Fixtures	10,603,559	19,200		10,622,759	2,606,769	672,034		3,278,803	7,343,956	7,996,790	
Office Equipment	1,633,980	225,584		1,859,564	419737	109,640		529,377	1,330,187	1,214,243	
Art Features	2,683,850		2,683,850	-	2,683,810		2,683,810	-	-	40	
Motor Vehicles	253,000	-		253,000	15,211	24,035		39,246	213,754	237,789	
Syndication Features	46,000		46,000	-	46000		46,000	-	-	-	
Totals	74,460,155	824,865	2,729,850	72,555,170	38,817,168	9,956,564	2,729,810	46,043,921	26,511,249	35,642,987	
Previous Year	81,876,975	4,187,517	11,604,337	74,460,155	28,963,105	9,854,063		38,817,168	35,642,987	52,913,869	

**SCHEDULES FORMING PART OF THE BALANCE
SHEET FOR THE YEAR ENDED 31-03-2006**

SCHEDULES	As at 31-Mar-06 Rs.	As at 31-Mar-05 Rs.
SCHEDULE - 1		
SHARE CAPITAL		
AUTHORISED		
3,93,15,000 Eq Shares of Rs.10/- each	393,150,000	393,150,000
ISSUED ,SUBSCRIBED & PAID UP		
2,04,40,017 Eq, Shares of Rs 10/- each fully paid up	204,400,170	137,547,000
1,92,033 Eq, shares of Rs. 2.50/- each Partly paid up	480,083	-
	<u>204,880,253</u>	<u>137,547,000</u>
SCHEDULE- 2		
RESERVES & SURPLUS		
General Reserve	1,529,000	1,529,000
Special Reserve	41,500	41,500
Surplus as per Profit and loss A/c	-	-
	<u>1,570,500</u>	<u>1,570,500</u>
SCHEDULE		
	As at (Rs.) 31-Mar-06	As at (Rs.) 31-Mar-05
SCHEDULE - 4		
		Rs
Closing Stock		
Stock In Trade	134,240,287	62,347,900
SCHEDULE		
	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 5		
	Rs	
SUNDRY DEBTORS		
Debts considered good		
more than 6 months	1,582,940	1,403,984
less than 6 months	15,503,111	15,209,638
Debts considered doubtful		
more than 6 months	-	(179,756)
less than 6 months		
	<u>17,086,051</u>	<u>16,433,866</u>

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 6		
		Rs
CASH & BANK BALANCES		
Cash In hand	67,719	3,121,620
Cash at Bank (In scheduled bank)	1,328,996	221,520
Deposits	3,743,781	1,669,013
	5,140,496	5,012,152

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 7		
		Rs
LOANS & ADVANCES		
(Unsecured considered good)		
Loans and Advances	7,998,600	2,038,954
Less Provision for doubtfuls	-	(2,038,954)
Advances recoverable in cash or kind for value to be recovered	-	38,292,338
Advances for Capital goods	-	29,204
Investment Subsidy Receivable	500,000	750,000
Prepaid Rights Issue Expnenses	968,305	
T D S Receivable	252,213	268,039
	9,719,117	39,339,581

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 8		
		Rs
CURRENT LIABILITIES & PROVISIONS		
A.Currnet Liabilities		
Sundry creditors	8,592,845	8,098,029
Other liabilities	71,538,754	32,707,155
	80,131,599	40,805,184

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 9		
		Rs
MISCELLANEOUS EXPENDITURE		
(To the extent not written off or Adj)		
Preliminary Expenses	28,690	57,380
Public Issue Expenses	126,061	225,099
	-	
	154,751	282,479

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT :

SCHEDULE	As at (Rs.) 31-Mar-06	As at (Rs.) 31-Mar-05
SCHEDULE - 10		Rs
MANUFACTURING EXPENSES		
Power, Fuel & Water	995,674	1,069,121
consumables		1,459,337
Syndication & Animation expenses	132,762,511	96,765,678
	133,758,185	99,294,136

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 11		Rs
ADMINISTRATIVE EXPENSES		
Salary and allowances	8,676,831	14,659,672
Audit Remuneration		
- As Auditor	10,000	10,000
- For Tax Audit	5,000	5,000
- For certification	4,000	5,000
Bank Charges	48,767	122,103
Travelling & Conveyance	2,283,418	4,851,255
Legal & Professional Charges	647,185	6,437,454
Listing Fees	47,285	186,200
Donations	10,000	
Insurance		10,154
Repairs & Maintenance	323,064	2,340,650
Rent, Rates & Taxes	2,663,003	2,823,654
Rights Issue Expenses (Amortised)	242,076	
Communication	859,906	783,836
Printing & Stationery	1,251,998	451,232
Seminars Meeting & Subscriptions Exps	222,315	
Share Transfer Expenses		81,518
Postage & Courier	168,072	
Staff Welfare	765,346	945,493
Conveyance	115,631	
Consultancy - Overseas	744,436	
Security Charges	555,753	
Other expenses	736,098	790,808
	20,380,183	34,504,029

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 12		Rs
SELLING AND DISTRUBUTION EXPENSES		
Business Promotion Expenses		479,721
Advertisement	643,744	426,512
	643,744	906,233

SCHEDULE	As at 31-Mar-06	As at 31-Mar-05
SCHEDULE - 13	Rs	Rs
INTEREST		
Interest -others	122,874	-
	122,874	-

COLORCHIPS INDIA LIMITED
Schedule Annexed to and forming part of the Balance Sheet (Cont.)
SCHEDULE-14
NOTES ON ACCOUNTS

I. Significant Accounting Policies:

1. Accounting Convention

The financial statements have been prepared under the historical cost conventions in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India and Provisions of the Companies Act, 1956 as adopted consistently by the Company. The Company follows mercantile system of accounting to recognise all material revenue and expenses, including provisions/ adjustments for committed obligations and amounts determined as payable or receivable during the period under review.

2. Revenue Recognition

Revenue from Animation services consists primarily of revenue earned from services performed on a time and material basis. The related revenue is recognised as and when services are performed.

3. Expenditure

Expenses are accounted on accrual basis and provisions are made for all known losses and liabilities.

4. Fixed Assets

Fixed Assets are accounted at cost of acquisition, which is inclusive of inward freight, duties, taxes and other incidental expenses related to acquisition.

5. Depreciation

Depreciation on Fixed Assets has been provided on Straight-line method as per the rates specified under schedule XIV of the Companies Act, 1956. Depreciation on assets acquired during the year has been provided on pro-rata basis.

6. Inventories

Inventories are valued at lower of cost or net realisable value.

7. Foreign Exchange Transactions

Transactions in Foreign Currencies are recorded at the exchange rates prevailing on the date of transaction and exchange differences arising from foreign current transactions are recognised in the profit and loss account. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange at the balance sheet date and resultant gain or loss is recognised in the profit and loss account. Non-monetary assets and liabilities are translated at the rate prevailing on the date of transaction.

8. Taxes on Income

Deferred Tax is accounted by computing the tax effect on timing differences, being tax difference between taxable income and accounting income that originate in one period and are reversible in one or more subsequent periods.

9. The expenditure incurred on rights issue of shares during the year is amortised equally over a period of 5 years.

10. Retirement Benefits

Contributions in respect of Employees Provident Fund and Pension Fund are made to fund administered and managed by the Government of India and are charged as incurred on accrual basis.

11. There are no dues to SSI units outstanding for more than 30 days as on 31st March 2006..

II. Notes on Accounts:

1. Contingent liabilities - NIL -

2. Auditors' Remuneration	(Amount in Rs.)	2004-05
Statutory Audit fee	10,000	10,000
Taxation and other matters	9,000	10,000

3. Related party Disclosures

(i) Names of the Related Parties

(a) Key Management Personnel During the Year

- Dr. Sudhish S Rambhotla - Chairman and Managing Director
- Y. Suryanarayana - Executive Director
- William Bill Buck - Director
- Y. Kasipathy - Director
- KCH.A.V.S.N.Murthy - Director
- Dr. Chandra Bhushan - Director

(b) Related Party relationship of parties where transactions have taken place during the year / period Associate Companies

- Colorchips Entertainment and Media Ltd (CCEML)
- Colorchips Animation park Ltd (CAPL)
- Ravikanth Portfolio Services Pvt. Ltd (RKPL)

Particulars	CCEML	CAPL	RKPL
Purchases	1,98,90,000		Nil
Accounts Payables	Nil	7,60,84,086	Nil
Investments	8,00,00,000	Nil	Nil
4. Earnings in Foreign Currency	2005-06	2004-05	
Income from Services	7,19,90,000	5,18,11,030	
5. Expenditure in Foreign Currency	2005-06	2004-05	
a. Travel	16,98,642	29,13,492	
b. Professional Services	9,64,436	—	
c. Animation Services	23,07,400	—	
d. Marketing Services	6,70,850	—	
e. Others	19,51,284	—	

6. Quantitative Details:

The Company is engaged in the development of 2D and 3D animation Services. The production and sale of such services can not be expressed in any generic unit. Hence it is not possible to give the quantitative details of sales and the information as required under Paragraphs 3 and 4C of Part II of Schedule VI to the Companies Act, 1956.

7. In accordance with AS 22 – Accounting for Taxes on Income, the deferred tax liability as at 31st March, 2006 comprises the following:

Particulars	(Amount in Rs.)
Deferred Tax Liability	
On account of depreciation (earlier years)	9,86,607
On account of depreciation (current year)	24,46,355
Total Deferred Tax Liability	34,32,962

8. Accounting balances of sundry debtors / creditors, Loans and advances are subject to confirmation.
9. Previous figures have been regrouped and reclassified wherever necessary to conform to current years classification. Figures have been rounded off to the nearest rupee.

As per our report of even date attached

For and on behalf of Board Directors

For S N Murthy & Co
Chartered Accountants

P V S N Murthy
Proprietor
M.No 21862

Dr. SUDHISH S.RAMBHOTLA
Chairman & Managing Director

Y SURYANARAYANA
Executive Director

Place : Hyderabad
Date : 31st July 2006

S.N. Murthy & Co
Chartered Accountant

1-8-30, Upstairs,
Chikkadapally
Hyderabad – 20
Tel. No. 27660168

AUDITORS CERTIFICATE ON CASH FLOW STATEMENT

We have examined annexed Cash Flow Statement of Colorchips India Limited for the year ended 31st March 2006. The statement has been prepared by the Company in accordance with the requirement of clause No 32 of Listing Agreement with Stock exchanges and is based on and in agreement with the corresponding Profit and loss Account and the Balance Sheet of the Company covered by our report of even date to the members of the company.

Date : 31st July 2006
Place: Hyderabad

For **S N Murthy & Co**
Chartered Accountants

P.V.S.N Murthy
Proprietor
M.No 21862

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006

Description	(Rs.) As at 31-Mar-06	(Rs.) As at 31-Mar-05
A. Cash Flow from operating activities		
Net profit/loss after taxation and extraordinary items	7,230,114	7,335,728
Adjustment for :		
Interest Income	-	-
Depreciation	9,956,564	9,854,063
Speculation Profit		
Dividend Misc. Income		
Loss on Sale of Assets		
Loss on Sale of Investments		
Income tax for the Earlier Years		
Preliminary & Issue Expenses W/off	127,728	118,728
Deferred Tax & FBT Liability	(3,529,756)	
Operating profit before working capital changes	13,784,649	17,308,519
Adjustment for:		
Increase/Decrease in inventory	(71,892,387)	(39,234,802)
Increase/Decrease in Trade & Other Recevables	32,401,239	(14,281,835)
Increase/Decrease in Current Liabilities	39,326,415	24,407,661
Cash generation from operating activity	13,619,916	(11,800,457)
Direct Taxes paid	-	-
Net Cash from operating activity	13,619,916	(11,800,457)
B. Cash flow from investing activities		
Profit on Sale of investments	-	-
Profit on Sale of Fixed Assets	-	-
Fixed Assets Written Back	2,729,850	11,604,336
Depreciation Written Back on Sold Assets	(2,729,810)	
Assets Acquired	(824,865)	(4,187,517)
Increase / Decrease in investments	(80,000,000)	
Net cash from investing activity	(80,824,825)	7,416,819
C Cash Flow From Financing Activities		
Increase / Decrease in Unsecured Borrowings	-	-
Increase in Share Captial	67,333,253	5,850,000
Interest Received	-	-
Dividend & Misc. Income	-	-

Net Cash Flow from Financing activities	67,333,253	5,850,000
Net Increase / (decrease) in cash & Cash equivalents (A+B+C)	128,344	1,466,362
Cash and cash equivalents as at the beginning of the year (01-Apr-05)	5,012,152	3,545,790
Cash and cash equivalents as at the end of the year (31-Mar-06)	5,140,496	5,012,152
Net Flow As shown above	128,344	1,466,362

As per our report of even dated attached

For S N Murthy & Co
Chartered Accountants

For and on behalf of Board Directors

P V S N Murthy
Proprietor
M.No 21862

Dr. SUDHISH S.RAMBHOTLA
Chairman & Managing Director

Y SURYANARAYANA
Executive Director

Place : Hyderabad
Date : 31st July 2006

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE
PART IV OF SCHEDULE VI TO THE COMPANIES ACT ,1956 (AS AMENDED)**

REGISTRATION DETAILS

Registration Number	11129
State code	'01
Balance Sheet Date	31-03-2006

CAPITAL RAISED DURING THE YEAR(AMOUNT IN RS .THOUSAND)

Public Issue	Nil
Right Issue	68773.5
Bonus Issue	Nil
Preferential Issue	Nil

POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

(Amount in Rs.Thousands)

Total Liabilities

Total Assets

SOURCE OF FUNDS

Paid up Capital	204880
Reserves & Surplus	1570
Secured Loans	Nil
Unsecured Loans	Nil

APPLICATION OF FUNDS

Net fixed Assets	26511
Investment	80000
Net current Assets	86054
Miscellaneous Expenditure	155
Accumalated Loss	6879

PERFORMANCE OF COMPANY (AMOUNT IN RS.THOUSAND)

Turnover includes other Income	100327
Total Expenditure	93097
Profit Befroe Tax	7230
Profit after Tax	3700
Earning Per Share	0.02
Dividend Rate (%)	Nil

GENERAL NAMES OF PRINCIPAL PRODUCTS / SERVICES OF THE COMPANY

(As per monetary terms)

Animation

- 2D Animation
- 3D Animation
- Web Animation
- Post Production and SFX
- CG Imagery and Modelling
- Video Games
- Training in 2D Classical Animation
- 3D Computer - based training

Features Syndication

- Cartoon based Features Syndication
- Electronic News Bulletin
- Customized Supplements
- Print and Digital Publishing

Product Design

- Complete Web Designing
- Commercial Data Transfer

COLOR CHIPS (INDIA) LIMITED
Plot No.16, Road No.5, Jubilee Hills, Hyderabad – 500 033

16th ANNUAL GENERAL MEETING

Attendance Slip
[To be filled in by shareholder]

Folio No. Client Identity No. D.P. Identity No. No. Of Shares

HEREBY RECORD MY PRESENCE AT THE 16TH ANNUAL GENERAL MEETING OF THE COMPANY AT FAMOUS FUNCTION HALL 8-2-237/A/2,BESIDE SAVERA FUNCTION PALACE, YOUSUFGUDA CORNER, HYDERABAD – 500 045 ON FRIDAY 29TH SEPTEMBER 2006 AT 11.00 AM.

Name of the member/proxy:

Signature of member/proxy:

Note:1. A member/proxy attending the meeting must complete this attendance slip and hand it over at the entrance.

COLOR CHIPS (INDIA) LIMITED
Plot No.16, Road No.5, Jubilee Hills, Hyderabad – 500 033

16th ANNUAL GENERAL MEETING

PROXY FORM

[To be filled in by shareholder]

Folio No. Client Identity No. D.P. Identity No. No. Of Shares

I/We _____ being a member(s) of Color Chips (India) Limited, hereby appoint _____ in the dist of _____ or failing him _____ in the dist of _____ as my/our proxy to vote for me/us on my/our behalf at the 16th Annual General Meeting the of the company to be held at Famous Function Hall 8-2-237/A/2,Beside Saver a Function Palace, Yousufguda Corner, Hyderabad – 500 045 at 11.00 am and at any adjournment thereof.

Signed this _____ day of _____ 2006.

Name:

Address:

Affix
Revenue
Stamp



COLORCHIPS (INDIA)LIMITED

Plot No.16, Road No.5, Jubilee Hills, Hyderabad - 500 033.

Tel. No. 040-23550268, 23544862-4

Fax : 040-23559333 www.colorchipsindia.com