

BOARD OF DIRECTORS

Shri Manmohan Shetty
Chairman & Managing Director

Ms. Pooja Shetty
Wholetime Director

Shri Berjis Desai (w.e.f. October 7, 2005)
Director

Shri Gautam Doshi (w.e.f. October 7, 2005)
Director

Shri Karan Johar (w.e.f. October 7, 2005)
Director

Shri Shripal Morakhia (w.e.f. October 7, 2005)
Director

COMPANY SECRETARY

Ms. Kirti Desai

AUDITORS

BSR & Co. (a member of KPMG)
Chartered Accountants

BANKERS

HDFC Bank
Bank of Baroda

SUBSIDIARIES

Entertainment One (India) Limited

Reliance Unicom Limited

Gemini Exhibitors Limited

Mukta Adlabs Digital Exhibition Private Limited

REGISTERED OFFICE

Adlabs Films Limited
Film City Complex
Goregaon (East), Mumbai 400 065
Phone: (022) 2842 33 33/44 88
Fax: (022) 2842 22 11
Email: info@adlabsfilms.com
Website: www.adlabsfilms.com

REGISTRAR & TRANSFER AGENTS

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills
Compound, L.B.S Marg,
Bhandup, Mumbai 400 078
Phone: (022) 2596 3838
Fax: (022) 2594 6969

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FINANCIAL HIGHLIGHTS

BRIEFS ON INCOME

(Rs. in million)

For Year Ending	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01
Sales	1,034.58	858.56	753.43	740.72	569.12	463.93
other Income	97.47	16.99	35.63	39.82	40.74	27.41
PBDIT	484.00	393.24	336.37	321.60	208.38	180.80
PBDT	475.13	377.41	322.90	311.13	198.64	178.48
PBT	386.36	322.86	278.08	268.62	160.78	169.64
Tax	123.30	116.17	101.66	102.09	57.40	46.22
Profit after tax(PAT)	263.06	206.69	176.42	166.53	103.38	123.41
Dividend-Equity	45%	40%	50%	40%	25%	21%
No. of Equity Shares	39,800,750	21,500,750	21,500,750	21,500,750	21,500,750	21,500,750
EPS (Basic)	8.33	9.61	8.21	7.75	4.81	5.74
EPS (Diluted)	8.02	9.61	8.21	7.75	4.81	5.74

BRIEFS ON SOURCES AND APPLICATION OF FUND

As on	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01
Assets						
Gross Block	1,079.88	853.49	800.62	719.09	698.62	530.99
Net Block	781.30	639.03	634.31	597.60	619.58	489.47
Capital WIP	2,279.90	61.81	11.33	20.06	9.31	32.65
Investments	4,424.07	130.22	133.41	0.50	–	–
Inventory	13.03	9.35	6.12	7.17	8.31	13.14
Receivables	447.57	362.58	320.42	284.69	234.36	138.45
Other Current Assets	1,849.73	831.53	564.12	552.83	463.49	540.97
Misc. Expenditure	–	0.59	11.53	21.63	32.40	42.74
Total	9,795.61	2,035.11	1,681.24	1,484.48	1,367.45	1,257.42
Liabilities						
Equity Share Capital	199.00	107.50	107.50	107.50	107.50	107.50
Reserves	3,186.78	1,065.53	940.93	825.29	707.27	646.23
Total Debt	4,651.05	241.46	143.05	116.09	150.50	74.08
Deferred Tax Liability	70.41	78.28	68.57	52.37	35.37	–
Creditors and Acceptances	187.96	182.90	156.41	164.72	219.43	257.17
Other current liab/prov.	1,500.40	359.44	264.78	218.51	147.38	172.44
Balance Sheet Total(BT)	9,795.61	2,035.11	1,681.24	1,484.48	1,367.45	1,257.42

NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of Adlabs Films Limited will be held on Saturday, the July 29, 2006 at 11.00 a.m at Rangsharda Natyamandir, K.C. Marg, Bandra Reclamation, Bandra (West), Mumbai 400050 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the audited Balance Sheet as at March 31, 2006, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Ms. Pooja Shetty, who retires by rotation and being eligible offers herself for re-appointment.
4. To appoint a Director in place of Shri Berjis Desai, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint M/s. BSR & Co., Chartered Accountants as the Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration to be decided by the Board of Directors.

SPECIAL BUSINESS

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

"RESOLVED THAT Shri Karan Johar, who was appointed as an Additional Director with effect from October 7, 2005 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and Article 132 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, and in respect of whom a Notice has been received from a Member in writing, under Section 257 of the said Act, proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
7. To consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Gautam Doshi, who was appointed as an Additional Director with effect from October 7, 2005 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and Article 132 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, and in respect of whom a Notice has been received from a Member in writing, under Section 257 of the said Act, proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
8. To consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Shripal Morakhia, who was appointed as an Additional Director with effect from October 7, 2005 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and Article 132 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, and in respect of whom a Notice has been received from a Member in writing, under Section 257 of the said Act, proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
9. To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 31 and all other applicable provisions of the Companies Act, 1956, the Articles of Association of the Company be and is hereby altered by inserting the following new Article No. 5a be inserted after the existing Article No.5.

'5a. The Company may by special resolution reduce or adjust in any manner, subject to any authorizations and approvals required by Law-

 - (a) its Share Capital
 - (b) any Capital Redemption Reserve Account
 - (c) any Securities Premium Account

Notwithstanding the above any amounts standing to the credit of the Securities Premium Account may also be utilized other than for capitalization, for any other purposes as in accordance with the provision of law'.

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds matters and things, as it may, in its absolute discretion, deem necessary, expedient or proper and to settle any questions, difficulties or doubts that may arise in this regard."

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

"RESOLVED THAT pursuant to Sections 78, 100 to 103 and all other applicable provisions, if any, of the Companies Act, 1956, and Article 5a of the Articles of Association, the approval of the Company be and is hereby accorded for the utilization of the balance standing in the Securities Premium Account of the Company in the following manner:

- (a) To adjust the excess of Book Value of the assets of the Radio Business of the Company transferred to Reliance Unicom Limited ("RUL") over the Book Value of liabilities transferred, as reduced by an amount of Rs 100 Crores which shall be recorded as receivable from RUL, and/or
- (b) To adjust the excess, if any, of Book Value of liabilities of Entertainment One (India) Limited transferred over the Fair Value of assets taken over, and/or
- (c) To adjust the excess, if any, of Book Value of liabilities of the Digital Cinema Business of Mukta Adlabs Digital Exhibition Private Limited over the Book Value of assets taken over.

"RESOLVED FURTHER THAT the utilization, as aforesaid, shall be effected as an integral part of the composite scheme of Amalgamation and Arrangement between the Company and Entertainment One (India) Limited and Reliance Unicom Limited and Mukta Adlabs Digital Exhibition Private Limited and their respective shareholders and creditors, which scheme shall be subject to the approval of the Honorable High Court of Judicature at Bombay and/or any other authority as may be applicable.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds matters and things, as it may, in its absolute discretion, deem necessary, expedient or proper and to settle any questions, difficulties or doubts that may arise in this regard at any stage without requiring the Board to secure any further consent or approval of the Members of the Company to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution."

Registered Office
Filmcity Complex,
Goregaon (East),
Mumbai 400 065

By Order of the Board

Kirti Desai
Company Secretary

Mumbai,
April 23, 2006

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 BE A MEMBER OF THE COMPANY.
2. The instrument appointing proxy to be effective should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the meeting, to be effective.
3. 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 here to.
4. All documents referred in the accompanying notice are open for inspection at the Registered Office of the Company on all the working days, except Saturday between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
5. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, July 25, 2006 to Friday, July 28, 2006 (both days inclusive).
6. The dividend, on equity shares, as recommended by the Board of Directors, if declared at the meeting, will be paid on or after July 29, 2006 to those Members whose names appear on the Company's Register of Members after giving effect to all valid share transfers in physical form lodged with the Company on or before Friday, July 28, 2006 or in respect of shares held in electronic form to those Members whose names appear in the Statement of Beneficial Ownership furnished by the Depositories for this purpose.
7. SEBI has made it mandatory to use Electronic Clearing Services (ECS) facility wherever possible, for payment of dividend. In order to enable the Company to remit dividend through ECS, members are requested to provide details of bank account indicating the name of the bank, branch, account number and 9 digit MICR code (as appearing on the cheque). It is advisable to attach a photocopy of the cheque leaf / cancelled cheque leaf. The said information has to be submitted on or before July 20, 2006 to Company's Registrar and Share Transfer Agents Intime Spectrum Registry Limited if the shares are held in physical mode and to the concerned Depository Participant (DP), if the same are held in demat mode. Payment through ECS shall be subject to availability of ECS Centres and timely furnishing of complete and correct information by Members.

8. Members are requested to inform any change in their addresses immediately so as to enable the Company or its Registrar and Share Transfer Agents to send communication at their correct addresses.
9. Members are requested to direct all correspondence relating to shares to the Company's Registrar and Share Transfer Agents, Intime Spectrum Registry Limited at C-13, Pannalal Silk Mills Compound, L.B.S Marg, Bhandup, Mumbai 400 078.
10. Members / Proxies attending the meeting are requested to complete the enclosed attendance slip and handover the same at the entrance of the Meeting Hall. Members holding shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of members attending the meeting.
11. Members/proxies should bring along with them the Annual Report copy at the time of attending the Meeting.
12. Queries on accounts and operations of the Company, if any, may please be sent to the Company at least seven days in advance so that required information may be made available at the meeting.
13. Re-appointment / Appointment of Directors: At the ensuing Annual General Meeting, Ms. Pooja Shetty and Shri Berjis Desai, Directors of the Company retire by rotation and being eligible offer themselves for re-appointment. Shri Karan Johar, Shri Gautam Doshi and Shri Shripal Morakhia, additional directors hold office upto this Annual General Meeting and are proposed to be appointed as Directors under Section 257 of the Companies Act, 1956. The information or details pertaining to these Directors, to be provided in terms of Clause 49 of the Listing Agreement is furnished in the Statement on the Corporate Governance published elsewhere in this Annual Report.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 setting out all the material facts relating to special business:

Item Nos. 6, 7 and 8

Shri Karan Johar, Shri Gautam Doshi and Shri Shripal Morakhia were appointed as Additional Directors of the Company with effect from October 7, 2005 in accordance with the provisions of Section 260 of the Companies Act, 1956, and Article 132 of the Articles of Association of the Company. Pursuant to Section 260 of the Companies Act, 1956, the above Directors hold office upto the date of ensuing Annual General Meeting. The Company has received notice(s) from a member of the Company under Section 257 of the Companies Act, 1956, proposing their respective candidature for the office of the Director.

Keeping in view the experience and qualification of the aforesaid persons, your Directors considered it to be in the interest of the Company, if they are appointed as Directors of the Company, liable to retire by rotation as per the provisions of the Companies Act, 1956.

The Directors recommend the Resolution to the Members for their acceptance.

The aforesaid Directors, may be deemed to be concerned or interested in the resolution relating to their respective appointments.

None of the other Directors of the Company in any way are interested.

Item Nos. 9 and 10

The Board of Directors of the Company at their meeting concluded on 23 April 2006, have subject to approval of the Honourable High Court at Mumbai, approved the composite scheme of Amalgamation and Arrangement between the Company ("Adlabs" or "the Company") and Entertainment One (India) Limited ("EOIL") and Reliance Unicom Limited ("RUL") and Mukta Adlabs Digital Exhibition Private Limited ("MADEL") and their respective shareholders and creditors ("the Scheme") which *inter alia* provides for:-

- Demerger of the "Radio Business" of Adlabs on a going concern basis into RUL with effect from April 1, 2006. In consideration for the demerger, RUL will issue 2 (Two) equity shares of Rs 5 each fully paid-up for every 1 (One) equity share of Rs 5 each held in Adlabs.
- Distribution of RUL Equity Shares received by Reliance Land Private Limited (RLPL) pursuant to the demerger of Radio Business of Adlabs into RUL to shareholders of Reliance Capital Limited (RCL) in the ratio of 1 (One) Equity Share of Rs 5 each fully paid-up of RUL for every 6 (Six) Equity Shares of Rs 10 each fully paid-up held by the shareholders of RCL and 1 (One) Equity Share of Rs 5 each fully paid-up of RUL for every 6 (Six) RCL warrants

- Amalgamation of EOIL, a wholly owned subsidiary of Adlabs with Adlabs with effect from April 1, 2005.
- Demerger of "Digital Cinema Business" of MADEL, a wholly owned subsidiary of Adlabs, on a going concern basis into Adlabs with effect from April 1, 2005.

Clauses 6.1.2, 6.1.6 and 6.1.10 of the Scheme provide for the utilization of the Securities Premium Account of the Company in the following manner:

- To adjust the excess of Book Value of the assets of the Radio Business of the Company transferred to RUL over the Book Value of liabilities transferred, as reduced by an amount of Rs 100 Crores which shall be recorded as receivable from RUL,
- To adjust the excess, if any, of Book Value of liabilities of EOIL transferred over the Fair Value of assets taken over, and
- To adjust the excess, if any, of Book Value of liabilities of the Digital Cinema Business of MADEL over the Book Value of assets taken over

The utilization, as aforesaid, shall be effected as an integral part of the Composite Scheme of Amalgamation and Arrangement between the Company and Entertainment One (India) Limited and Reliance Unicom Limited and Mukta Adlabs Digital Exhibition Private Limited and their Respective Shareholders and Creditors.

Section 78(1) of the Companies Act, 1956, provides that the utilization of the Securities Premium Account for purposes other than those specified in Section 78(2) shall require compliance with the provisions as all applicable for capital reduction, i.e. under Sections 100–103 of the Companies Act, 1956. Reduction of Capital is permitted by Section 100 inter alia on the condition that reduction is authorized by the Articles of Association of the Company. Presently, the Articles of Association of the Company do not deal with the subject of reduction of capital. It is therefore, necessary to amend the Articles of Association of the Company to inter alia authorize reduction of capital.

Accordingly, Members' approval is sought under Section 31 of the Companies Act, 1956 by way of special resolution to alter the Articles of Association of the Company as proposed in Item no. 9 of the Notice. None of the Directors of the Company is interested in the Resolution, except as shareholders in general.

Further the proposed utilization of Securities Premium Account of the Company as aforesaid would be deemed to be a capital reduction, which requires the approval of the shareholders of a company by way of a special resolution in terms of Section 78 read with Section 100 of the Companies Act, 1956. Accordingly, approval is sought for capital reduction as proposed in Item No.10 of the Notice.

The capital reduction will be carried out as part of the Scheme and the Scheme shall be subject to sanction of the Honorable High Court of Judicature at Bombay and/or approval of such other regulatory authority as may be required according to the laws in force.

The detailed terms and other relevant features of the Scheme have been appropriately described in the Explanatory Statement under Section 393 of the Companies Act, 1956, which has been enclosed along with the notice convening the meeting of the Equity Shareholders pursuant to the Order of the High Court of Judicature at Bombay on the June 23, 2006.

The Directors recommend the Resolution to the Members for their acceptance.

None of the Directors of the Company are interested or concerned in the said resolution, except as shareholders in general.

Registered Office
Filmcity Complex,
Goregaon (East),
Mumbai 400 065

By Order of the Board

Kirti Desai
Company Secretary

Mumbai,
April 23, 2006

CHAIRMAN'S STATEMENT

Dear Shareholders,

It's been an exciting and eventful year for all of us at Adlabs. In my last communication to you I expressed our keen interest in tapping potent areas of the entertainment business and I am happy to inform you that we have exceeded our expectations.

The Film processing business has been satisfactory with addition of facilities at Chennai and shortly at Kolkata. The Company is on its way to transform itself from a leading 'processing lab' to a larger 'services' Company. This would include the entire 'production services' space encompassing processing, digital post-production, equipment rentals and studios.

We have signed contracts with some of the leading directors like Ramesh Sippy, Ram Gopal Varma, Prakash Jha, Vipul Shah to make multiple films on a regular basis. The effort has been to build relations with some of the top producers and directors of the country so that they would work with us exclusively and continuously give us a flow of films in the coming years. While focusing on international film business, we have signed co-production deal with well known Hollywood film producer Ashok Amritraj's Hyde Park Entertainment to produce multiple films on a regular basis.

Toward distribution of films, the Company has acquired the overseas distribution rights of prestigious blockbusters and this division is expected to add substantial revenue to the Company in the coming year. The Company has opened its own distribution office in the US and the UK with the film 'KRRISH' which has opened with stupendous box office collections.

The multiplex business currently spreads across 7 cities, 40 screens in 10 properties and is expected to grow rapidly to 80 screens in 20 properties. This remains a strong focus area of the Company and is likely to see significant expansion of capacity including digital theatre systems in the coming years.

We have recently forayed in to the animation sector for developing good quality animation content by setting up a division to develop this business for the Company. We are happy to associate with Superstar Rajnikanth as the lead for our first animation venture.

New FM Radio Licenses were being granted by the Government of India. The Company was granted 45 FM Radio Operation Licenses in various parts of the country including all metros. The operations are expected to commence this year.

As you are aware, it is proposed to de-merge Radio business to an independent Company to have the increased value to the shareholders.

As part of the Reliance - Anil Dhirubhai Ambani Group (Reliance - ADA Group), Adlabs will always strive for excellence, and we deeply value your support.

Thank you,

Mumbai, June 26, 2006

Manmohan Shetty
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE

The Indian entertainment industry exhibits a confluence of creativity and commerce. The creativity, in the form of content continues to be of critical importance and the same when combined with entrepreneurial spirit and professional management has the potential to redefine industry standards. All these have resulted in the emerging trend of corporatisation, film financing, content development, operational control thereby creating an entertainment economy that is mature, transparent and balanced.

On account of liberalisation of the foreign investment guidelines, favourable demographics, the entertainment industry has shown a higher growth than that of the economy. Consumer spending has jumped due to increase in the disposable incomes over the years. Foreign investment has been drawn into the industry as has been evident by an array of strategic stakes acquired by overseas players in different segments of the entertainment business.

Barriers to entry are diminishing. Emerging digital platforms for distribution of film, television, music and radio will enable technology savvy and integrated companies to unlock new revenue streams. The exhibition industry is undergoing a radical change following the advent of multiplexes and digital cinema. As film viewing becomes a holistic entertainment experience, the multiplexes are now being built in combination with shopping complexes, gaming zones and food courts. Your Company is encashing on the boom in this emerging environment. There exists an opportunity to cater to the budget audiences by developing low-cost cinemas and providing a decent movie going experience. Your company appreciates the need to enter this space and is implementing a plan to expand its audiences and thereby increase the box office revenues.

Going forward, the large media and entertainment conglomerates are expected to bring in professional management and global best practices. Following dynamic improvements in technology on offer, convergence will be the critical aspect in the growth of the Indian entertainment industry. On account of proliferation of mass media, consumers are getting more aware and specific of their requirements; the industry is gearing to cater to the various audiences.

Your Company will not only be concentrating on its businesses of processing and distribution but shall also endeavor to enter into new and promising segments such as distribution, television, production of animation and provide a one-stop shop that can cater and provide solutions to all kinds of entertainment demands of the market.

COMPANY'S FINANCIAL PERFORMANCE

During 2005-06, the highlights of the financial performance of Adlabs Films Limited are as follows

	(Rs in lakh)		
Income Stream	2003-04	2004-05	2005-06
Film processing activity and traded goods	5,719.76	6,525.09	6573.69
Theatre Operations	1,814.49	1,950.99	2527.95
Film Distribution	–	–	531.19
Film Production	–	109.51	712.97
Other Income	356.30	169.93	974.67
Total income	7,890.55	8,755.52	11,320.47

Segment wise Analysis

1. Film Processing:

Adlabs enjoys a leadership position in film processing business and has maintained its revenues on a year on year basis. Income from processing amounted to Rs 4,314 lakh, while income from Traded Goods amounted to Rs 2,259 lakh. In line with the geographical expansion plans for the processing business, the Company has commenced its operations in Chennai and a facility in Kolkata is expected to be operationalised shortly. The Company has been upgrading its facilities on an ongoing basis to provide quality services to its customers.

2. Exhibition Business

The Exhibition business of the company which is the thrust area for expansion has posted good growth with revenue growing to Rs 2,528 lakh, up by 30% as compared to the previous year. The Company during the fiscal year was operating 31 screens in 8 properties. EBIDTA margins continue to be the highest in the industry despite low fourth quarter occupancies on account of few big banner releases.

3. Film Production and Overseas Distribution

The film production division had an excellent box office performance in 2005-06, with 4 of the 5 films being declared hits. Barring 'Dil Jo Bhi Kahe' all the rest namely 'Waqt', 'Apaharan', 'Bluffmaster' and 'Taxi No 9211' fared very well, ensuring an impeccable record for this division. The film production division accounted for Rs. 992 lakh of net income in 2005-06. The Company has been able to firmly establish itself as one of the leading film co-production companies in the country.

BUSINESS OUTLOOK

A detailed discussion on the business outlook is included in the Directors' Report to the Members.

OPPORTUNITIES & THREATS

Opportunities:

The upswing in the industry will be driven by consolidation, increased corporatisation and eventual integration of various components of the value chain viz. production, distribution, exhibition and the allied businesses. The share of movies produced by large, organised houses will grow from the current level of 25-30% to more than approximately 50% in the next 2-3 years.

Increase in revenue per movie shall be driven by a sustained increase in overseas viewership markets. Average costs of film making are also likely to reduce arising out of greater economies of scale and improvement in quality of management, better accountability and stringent cost controls. The other positive factors that will sustain the momentum are the emerging trends like corporatisation, focus on marketing, increased attention to customer experience and stressing on the need to focus on tailoring film product as per customer needs and preferences. There is also a reduced dependence on the mainstream Bollywood genre on account of the growing popularity of cross over films that have the potential to radically change the structure and functioning of the industry going forward.

With increase in the film production activity worldwide, processing companies can explore opportunities for outsourcing to India. To ensure that quality is not compromised, these players would ally with established and reputed companies. This would entail additional and diversified business for domestic players.

Threats:

It is often felt that the current regulatory framework is a hindrance to growth. Multiple approvals to set up multiplexes, high entertainment taxes after the initial tax holiday in some states are some of the factors of concern for the exhibition business.

Over the last few years the shelf life of films has reduced considerably. This means that the success or failure of movie now depends largely on its performance in the opening weeks. Piracy is one of the reasons for adverse impact on legitimate revenue sharing in film production. With rapid growth in home video segment coupled with right pricing and timing of the product, the potential upside from this avenue also could be significant in the time to come and could thus provide a stiff competition to the Company business.

RISKS AND MITIGATION THEREOF

1) FILM PROCESSING:

Digital projection technology may slowly replace traditional celluloid projection technology in cinemas. To remain competitive we may be required to make incremental capital investments in such new technology. As technology evolves the Company's investment could be rendered obsolete. Further if the advanced digital cinema business becomes technologically and financially viable, it may affect the demand for movie prints thus impacting the film processing business.

The Company has already identified the potential of the digital revolution and has taken concrete steps to face the threat. All the same, the traditional print business has a long way to go and no immediate threat is foreseen. The Company is constantly monitoring technological innovations and adapting the same on establishment of viability thereof

2) FILM EXHIBITION:

The Company is in the process of establishing additional cinemas and installing additional screens in existing cinemas throughout India. A new cinema property faces several risks such as delays in the scheduled implementation of the proposed projects for various reasons, including construction delays, delays in receipt of government approvals or delays in delivery of equipment by suppliers. The Company's ability to attract the public to its cinemas depends on the popularity and quality of the films shown. If the film industry fails to produce films which have widespread audience appeal then the number of patrons attending the cinemas will decline, which will adversely affect the Group's business and results of operations. Anti-piracy laws are not adequately enforced in India, which may reduce the number of cinema patrons in the future and have a material adverse effect on the Group's revenues and results of operations. The withdrawal of or refusal to grant entertainment tax incentives or the effects of entertainment tax may have materially adverse effect on the Company's operations and financial conditions and may also affect its decision to proceed with the establishment of new cinemas. Further, the Company and its subsidiaries, do not own many of its properties which house its cinemas and the Company only has certain contractual rights viz. a viz. the property owners and these contracts can be terminated if obligations under these contracts are not fulfilled. Also, the business

plan is subject to frequent change due to highly competitive and dynamic industry in which the Company operates. Historically, the Company's business is seasonal and its results of operations fluctuate from quarter-to-quarter.

The Company has a dedicated projects team that focuses on timely completion of signed properties. Having established multiple properties across the country, the Company is in a position to control the execution and completion to a large extent. With advent of professional entities such as Adlabs into film production, the industry is getting streamlined and is all set to roll out quality movies on a consistent basis thus feeding compelling content to the movie goer.

3) FILM PRODUCTION:

The Company collaborates with various external providers to produce films and as such, its film production business is subject to any adverse developments affecting such external providers.

Creativity is not a quantifiable resource. As such there is no assurance that the films produced shall be successful at the box office. The Company faces competition within the Indian film sector and may in the future face competition from international entertainment businesses if they enter the Indian film sector. It also faces competition from other sectors of entertainment industry and these sectors compete for public spending and advertising revenue.

The company is managing the entire movie making business professionally with tight controls and checks and balances including insurance against cost over runs & project delays.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company has advanced accounting package which has in built security provisions. The Company has introduced checks at various levels to monitor expenses and outflows. Further internal auditors are appointed to carry audit assignments and also to periodically review transactions and effectiveness of internal control systems.

FINANCIAL PERFORMANCE

The Company's financial performance is discussed in details under the head "Review of Operations" in Directors' Report to the Members.

HUMAN RESOURCES

Human resources is an important capital asset. Over the years the Company has built up a resource strength of high caliber employees and is continuously facilitating their assessment procedure to enable itself to progress rapidly. The Company's employee relations continued to be harmonious during the year under review. The total number of employees as at the year end are 425.

On behalf of the Board

Date : April 23, 2006
Place: Mumbai

Manmohan Shetty
Chairman and Managing Director

REPORT ON CORPORATE GOVERNANCE

Introduction

During the year 2005-06, Clause 49 of the Listing Agreement which pertains to Corporate Governance was revised and the date for its implementation and ensuring compliance thereof was revised to January 1, 2006. A report on the implementation of the Corporate Governance requirements of the Listing Agreement by the Company is furnished herewith:-

1. Company's Philosophy on Code of Corporate Governance

The Company ensures that the Board and the management of the Company are fully apprised of the affairs of the Company which is aimed at assisting them in the efficient conduct of Company's business so as to meet Company's obligation to the stakeholders. The Company reaffirms its commitment to adhere to Corporate Governance in its relentless pursuit to attain highest standards of Corporate values and ethics. This is done with the objective of generating long-term economic value for the shareholders. The Company has complied with the provisions of Clause 49 of the Listing Agreement entered into with the Stock Exchanges, which deals with the Corporate Governance requirements.

2. Board of Directors

Composition of Board of Directors

The composition of Board is in accordance with the requirements set forth by Clause 49 in this regard. The Directors possess experience in various fields that encompass film and entertainment, law, banking, accounting and finance. The Board consists of 6 Directors of which 2 are Executive Directors and 4 are Non-Executive Directors. The Chairman and Managing Director is an Executive Director and the Board consists of three independent Directors.

Board Meetings

Thirteen Board Meetings were held during the year 2005-06 on the following dates:

April 18, 2005	June 30, 2005	October 7, 2005	March 27, 2006
April 21, 2005	July 29, 2005	October 27, 2005	
April 29, 2005	August 8, 2005	December 8, 2005	
May 24, 2005	August 24, 2005	January 20, 2006	

The names of Members of the Board of Directors, their attendance at the Company's Board Meetings and Last Annual General Meeting, the number of Directorships / Committee Memberships in other Companies during the year, are given below:

Name of Director	Category of Directorship	Board Meetings held during the tenure of director	Attendance at Board Meetings	Attendance at the last AGM (29.09.05)	Number of Directorship in other public limited companies as on March 31, 2006	No. of Committee positions held in other public limited companies as on March 31, 2006	
						Chairman	Member
Shri Manmohan Shetty	CMD	13	13	Yes	6	None	None
Shri Vasanji Mamania ¹	WTD	9	8	Yes	3	N/A	N/A
Ms. Pooja M. Shetty	WTD	13	12	Yes	3	None	None
Shri Pradeep Guha ¹	NED (I)	9	3	No	2	N/A	N/A
Shri Berjis Desai	NED (I)	13	3	No	9	None	7
Shri Chandir Gidwani ¹	NED (I)	9	7	Yes	3	N/A	N/A
Shri Shripal Morakhia ¹	NED (I)	5	1	N.A.	2	None	None
Shri Karan Johar ¹	NED (I)	5	1	N.A.	None	None	None
Shri Gautam Doshi ¹	NED (NI)	5	3	N.A.	8	1	6

- Notes:**
1. Shri VasANJI MAMANIA, Shri Pradeep Guha, Shri Chandir Gidwani ceased to be as Directors with effect from October 7, 2005. Shri Shripal Morakhia, Shri Karan Johar, Shri Gautam Doshi were appointed as Additional Directors on October 7, 2005 and they shall hold office till the date of the Annual General Meeting.
 2. Category Of Directorship:
CMD-Chairman and Managing Director
WTD-Wholetime Director
NED (NI)- Non-Executive Director and Non Independent
NED (I) - Non-Executive Director and Independent

Information on Directors appointment / re-appointment

Brief resume of Directors being re-appointed / appointed at the ensuing Annual General Meeting, nature of their expertise in specific functional areas and names of the companies in which they hold directorship (except directorship held in Private Limited companies and Section 25 companies) and the membership of committees of the board is furnished hereunder:

Ms. Pooja Shetty is a Wholetime Director on the Board of Adlabs Films Limited. She has created a niche for herself in the industry by spearheading the Company's successful foray into Film Exhibition. Ms. Pooja has been responsible for setting up the world's largest IMAX dome theatre and the 4 screen multiplex at Wadala, Mumbai. Today, besides handling Strategic Planning and Operations of the divisions' Multiplexes, Ms. Pooja also oversees New Business Development for the Exhibition division and New Business Ventures of the group. Ms. Pooja is also a member of the Uttar Pradesh Development Council - Entertainment Committee and a member of the CII Committee on the Entertainment Industry. Ms. Pooja is a Director in Prime Focus Ltd., Gemini Exhibitors Ltd., Entertainment One (India) Ltd.

Shri Berjis Desai is a graduate in Arts and holds Master's degree in Law from the University of Cambridge, England. He is a Solicitor and Advocate by profession and is currently the Managing Partner in J.Sagar Associates, Advocates and Solicitors. Shri Desai specializes in Mergers and Acquisitions, Derivatives, Financial Laws, International Business Law and International Commercial Arbitration, Shri Desai is a Director in Sterlite Industries (India) Ltd., Praj Industries Limited, Onward Technologies Limited, Emcure Pharmaceuticals Limited, Centrum Finance Limited, 3D PLM Software Solutions Limited, National Organic Chemicals Industries Limited, Piramyd Retail Limited and BP Ergo Limited.

Shri Karan Johar is amongst a young group of Indian filmmakers who have brought about a fresh and modern outlook to Hindi commercial Cinema. His directorial debut, at age 25, was 'Kuch Kuch Hota Hai', a landmark movie that was appreciated both critically and commercially in India and the world over. Karan Johar began his involvement in films by being involved in the scripting of Aditya Chopra's 'Dilwale Dulhaniya Le Jayenge'. The huge appeal of this movie to mass audiences everywhere caused Karan Johar to then write his own script, 'Kuch Kuch Hota Hai', which became his directorial debut. This period also saw Karan Johar assist his father, Yash Johar, in the production of his film 'Duplicate', as well as contribute to Yash Chopra's making of 'Dil To Pagal Hai'. Karan Johar followed up this success with his second film, the multi starrer 'Kabhi Khushi Kabhie Gham', which broke box office records all over the world with its release in 2001. And then in 2004, Dharma Productions released another successful movie 'Kal Ho Na Ho', which was written by Karan Johar. With such blockbuster releases, Dharma Productions has achieved an enviable position in its fraternity, and a unique expectancy from its adulating fans across the world.

Shri Gautam Doshi is currently Group Managing Director, Reliance Anil Dhirubhai Ambani Group and Director, Reliance Infocomm Limited as well as on the Board of a number of Public Limited Companies. Shri Doshi started out as a practicing Chartered Accountant and partner of M/s. Bansi S. Mehta between 1978 and 1991. He was elected for three consecutive terms to the Western India Regional Council of The Institute of Chartered Accountants of India and was its Chairman for the year 1982-83. Shri Doshi was elected for two consecutive terms to the Council of the Institute of Chartered Accountants of India between 1991 and 1997. Shri Doshi joined RSM & Co. as a partner in 1997 and continued as a partner and also as a Director of Ambit Corporate Finance Pte Ltd. till 2005. Shri Doshi is a Director in Garware Polyester Ltd., Kojam Fininvest Ltd., Sterlite Industries (India) Ltd., Sonata Investments Ltd., Reliance Communications Infrastructure Ltd., Reliance Infocomm Ltd. and Reliance Life Insurance Company Ltd.

Shri Shripal Morakhia worked with the President of New York Stock Exchange as Executive Assistant after obtaining his Masters Degree in Administration, during 1979-1980. Shri Morakhia has also been on the Board of The Bombay Stock Exchange Limited, as Director in 1988-89. Shri Morakhia was chosen by Business India under the aegis of a survey as amongst "Stars 2000: A who's who of business leaders for the next century". Shri Morakhia is also Chairman of iDream Production Pvt. Ltd., which is actively involved in media activities in India and overseas, with a focus on film production and distribution. Shri Morakhia is a Director of Sharekhan Limited.

3. AUDIT COMMITTEE

Composition, Meeting and attendance during the year

The Board of Directors re-constituted the Audit Committee on October 7, 2005. Its present composition is as follows. Shri Berjis Desai-Chairman, Shri Gautam Doshi and Shri Shripal Morakhia.

Of the three members, Shri Berjis Desai, Chairman and Shri Shripal Morakhia are Independent Directors. All members are financially literate and Shri Gautam Doshi and Shri Shripal Morakhia have accounting and/or related financial management expertise. The representatives from the Statutory Audit firm, Internal Audit firm, the Chief Financial Officer and G.M-Accounts are invitees to the Committee meetings. Ms. Kirti Desai, Company Secretary, acts as the Secretary to the Committee.

During the financial year under review, four meetings of the Audit Committee were held i.e on April 29, 2005, August 24, 2005, October 27, 2005 and January 20, 2006. The following are the details of attendance :

Name of Director	Chairman / Member	Category	No. of Meetings attended
Shri Berjis Desai	Chairman	Non-Executive and Independent Director	1
Shri Pradeep Guha ²	Member	Non-Executive and Independent Director	2
Shri Chandir Gidwani ²	Member	Non-Executive and Independent Director	2
Shri Shripal Morakhia ¹	Member	Non-Executive and Independent Director	1
Shri Gautam Doshi ¹	Member	Non-Executive and Non-Independent Director	2

Notes:

1. Appointed as Member of Audit Committee with effect from October 7, 2005.
2. Ceased to be Member of Audit Committee with effect from October 7, 2005.

Terms of reference

The powers and terms of reference of the Audit Committee are as mentioned in Clause 49II(C) and 49II(D) of the Listing agreement and are briefly described below:

- 1 To oversee the Company's financial reporting process and ensuring that the quarterly/annual financial statements are true, correct and credible.
- 2 To recommend to the Board appointment, re-appointment, replacement and removal of statutory auditor and fixation of their remuneration, approve payment for any other services rendered by the statutory auditors.
- 3 To review financial reports with particular reference to matters included in the Directors' Responsibility Statement in terms of Section 217 (2AA) of Companies Act, 1956, changes in accounting policies, practices, reasons for the same.
- 4 To review the major accounting entries, significant adjustment in financial statements, compliance with listing and other legal requirements, disclosures of related party transactions and qualifications by auditors in the draft audit report.
- 5 To hold periodical discussion with Statutory Auditors and Internal Auditors of the Company concerning the accounts of the Company, internal control systems, scope of audit and observations of the Statutory/Internal Auditors.
- 6 To review compliance with internal control system.
- 7 To make recommendation to the Board on any matter relating to financial management of the Company, including the Audit Report.

The Audit Committee reviews, besides other items, the Management Discussion and Analysis Report, report on significant related party transactions, letter on internal controls and weaknesses by the statutory auditors and internal audit reports.

4. REMUNERATION COMMITTEE

Composition

The Board of Directors reconstituted the Remuneration Committee on October 7 2005. Its current composition is as follows:

Names	Positions held	Category
Shri Shripal Morakhia ¹	Chairman	Non-Executive and Independent Director
Shri Berjis Desai	Member	Non-Executive and Independent Director
Shri Karan Johar ¹	Member	Non-Executive and Independent Director

Its scope of work ranges from nominating Directors on the Board, evaluating performance of Executive Directors and laying down guidelines for their remuneration package or compensation. During the year 2005-06 the Remuneration Committee Meeting was held on August 24, 2005. All Members attended the Meeting.

Notes:

1. Appointed as Member of Remuneration Committee with effect from October 7, 2005.
2. Shri Chandir Gidwani and Shri Pradeep Guha ceased to be Members of the Remuneration Committee with effect from October 7, 2005.

The details of the remuneration paid to the Managing Director, Wholetime Directors and Non-Executive Directors during the year ended March 31, 2006 are given below.

(Rupees)

Name of the Director	Position Held	Salary	Perquisites and Allowances	Sitting fees	Total
Shri Manmohan Shetty	Chairman & Managing Director	36,00,000	22,58,400	Nil	58,58,400
Shri VasANJI MamanIA (3)	Wholetime Director	18,67,742	11,84,400	Nil	30,52,142
Miss Pooja Shetty	Wholetime Director	18,00,000	11,42,400	Nil	29,42,400
Shri Berjis Desai	Non-Executive Director	Nil	Nil	45,000	45,000
Shri Pradeep Guha (5)	Non-Executive Director	Nil	Nil	70,000	70,000
Shri Chandir Gidwani (5)	Non-Executive Director	Nil	Nil	1,50,000	1,50,000
Shri Shripal Morakhai (4)	Non-Executive Director	Nil	Nil	15,000	15,000
Shri Karan Johar (4)	Non-Executive Director	Nil	Nil	10000	10,000
Shri Gautam Doshi (4)	Non-Executive Director	Nil	Nil	40,000	40,000

Notes:

1. Shri Manmohan Shetty, Managing Director has service contract for a period of five years with notice period of six months by either party. No severance fees are payable under the contract.
2. Ms. Pooja Shetty, Whole-time Director has service contract for a period of three years with notice period of six months by either party. No severance fees are payable under the contract.
3. Shri VasANJI MamanIA was a Whole-time Director upto October 7, 2005. The remuneration paid to him in this capacity till the said date is accordingly reflected in the table above.
4. Shri Gautam Doshi, Shri Shripal Morakhia and Shri Karan Johar were appointed as Additional Directors on October 7, 2005 and they shall hold office till the date of the Annual General Meeting.
5. Shri Pradeep Guha and Shri Chandir Gidwani ceased to be Directors with effect from October 7, 2005.
6. Currently Company does not have stock option scheme for any of its Directors.
7. The sitting fee payable to the Non-Executive Directors for attending Board Meetings was revised from Rs. 20,000/- to Rs. 10,000/- per meeting with effect from the Board meeting held on October 7, 2005. The fees for the Audit Committee meetings continue to remain at Rs. 5,000/- per meeting.
8. Other than sitting fees, no payments are made to Non Executive Directors.

5. SHAREHOLDERS / INVESTOR'S GRIEVANCES COMMITTEE

Composition

The Shareholders/Investor's Grievance Committee was re-constituted on October 7, 2005. The members of the Shareholders/Investor's Grievance Committee are as follow:

Name	Position held	Category
Shri Gautam Doshi	Chairman	Non-Executive and Non-Independent Director
Ms. Pooja Shetty	Member	Whole-time Director
Shri Shripal Morakhia	Member	Non-Executive and Independent Director

Ms. Kirti Desai, Company Secretary, is the Compliance Officer.

Notes:

1. Shri Chandir Gidwani and Shri Pradeep Guha ceased to be Members of the Committee with effect from October 7, 2005.

Terms of reference

- a. Review the existing investor redressal system and suggest measures for improvement.
- b. Resolution of investor grievances/complaints.

The Company had held four Investor Grievance Committee meetings during the year ended on March 31, 2006. These were held on April 4, 2005, July 7, 2005, October 6, 2005, January 5, 2006. All Members were present at the above meetings.

During the year, the Company received 90 complaints from shareholders, relating to matters regarding non receipt of dividend warrants posted by the Company, change of address and bank details, request for revalidation of expired dividend warrants and all of these have been attended to. At the close of the financial year there was no complaint remaining unattended to.

SHARE TRANSFER COMMITTEE

The Board of Directors reconstituted the Share Transfer Committee on October 7, 2005. The current composition is as follows: Shri Manmohan Shetty, Chairman and Ms. Pooja Shetty, Whole-time Director. The Company Secretary Ms. Kirti Desai acts as the Secretary to the Committee. The physical transfer and other requests from shareholders are processed by the Registrar and Transfer Agents viz. Intime Spectrum Registry Limited. The Committee meets at least once a month to approve the physical transfer of shares, transmission of physical shares, issue of duplicate share certificate, etc.

There was no pending transfer at the close of the financial year.

6. GENERAL BODY MEETINGS

The Company's last three Annual General Meetings were held as follows:

Date	Venue	Time	No. of Special resolutions passed
Sept. 29, 2005	Adlabs Films Limited, Filmcity Complex, Goregaon (East), Mumbai 400050	2.30 p.m	None
Sept. 28, 2004	Rangsharda Natyamandir, K.C Marg, Bandra Reclamation, Bandra (West), Mumbai 400 050	3.30 p.m	None
Sept. 23, 2003	Rangsharda Natyamandir, K.C Marg, Bandra Reclamation, Bandra (West), Mumbai 400 050	3.30 p.m	1

The Company also held two Extraordinary General Meetings as follows:

Date	Venue	Time	No. of Special resolutions passed
July 26, 2005	Rangsharda Natyamandir, K.C Marg, Bandra Reclamation, Bandra (West), Mumbai 400 050	3.00 p.m	2
May 14, 2005	Adlabs Films Limited, Film City Complex, Goregaon (East), Mumbai 400 065	11.00 a.m	3

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

Resolution passed through Postal Ballot

During 2005-06, consent of Members of the Company was sought by special resolution, through postal ballot, in respect of the following:

- 1 To increase Authorised Share Capital of the Company under Section 16, 94 of the Companies Act, 1956 and alteration of Clause V of Capital Clause of the Memorandum of Association.
- 2 To alter Article 3 of the Articles of Association for the increase in authorised share capital under Section 31 of the Companies Act, 1956.
- 3 To amend Clause III (C) - Other Objects Clause of the Memorandum of Association of Company by insertion of sub-clauses 86 to 91 under Section 17 of the Companies Act, 1956.
- 4 To carry out all businesses as specified in Clause III (C) under Other Objects of the Memorandum of Association of Company under Section 149 (2A) of the Companies Act, 1956.
- 5 Issue of securities in the international market in one or more currencies to persons/entities whether or not Members of the Company under Section 81 1(A) of the Companies Act, 1956.

The results of the Postal Ballot announced on January 12, 2006 for matters stated above requiring Members' approval by Special Resolution are as follows:

Particular	Special Resolution No.				
	1	2	3	4	5
Total Postal Ballots received	306	306	306	306	306
Number of Invalid Postal Ballots received	59	59	59	59	59
Number of valid Postal Ballots received	247	247	247	247	247
Number of Votes in favour of the Resolution	83,19,554	83,19,594	83,19,332	83,19,433	83,19,303
Number of Votes against the Resolution	556	556	757	657	807

The said Special resolutions were approved by requisite majority.

The postal ballot process was undertaken in accordance with the provisions of Section 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001.

Shri Janak Pandya, Practicing Company Secretary was appointed as Scrutinizer for conducting the Postal Ballot process.

7. Disclosures

All transactions with related parties including transactions of material nature between the Company and its promoters, directors, management, their subsidiaries or relatives etc. are disclosed in the Notes to the Accounts forming part of the Annual Report. There were no materially significant related party transactions during the year having conflict with the interests of the Company.

During the last three years there were no penalties or strictures imposed on the Company by SEBI, Stock Exchange or any statutory authority on any matter related to capital market.

The Company has reviewed the Non-mandatory requirements under Clause 49 and these shall be adopted/complied by the Company needbased. The Remuneration Committee which is a Non-Mandatory requirement has been constituted on April 29, 2004 and the details on this have been mentioned earlier in this Report.

8. Means of Communication

The quarterly unaudited financial results and the annual audited financial results are normally published in the widely circulating national and local newspapers viz. "The Economic Times", "Maharashtra Times", "Free Press Journal" and "Navshakti".

The Company's financial results and official press releases, if any, thereon are being displayed on Company's website "www.adlabsfilms.com".

Further, in compliance with the requirements of the Listing Agreement, the Company has also posted the Financial Results, Shareholding pattern and other required data on the website of SEBI's Electronic Data Information and Retrieval (EDIFAR) System maintained by National Informatics Center.

9. General Shareholder Information

i 19th Annual General Meeting

Date	:	July 29, 2006
Time	:	11.00 a.m
Venue	:	Rangsharda Natyamandir, K.C Marg, Bandra Reclamation, Bandra West, Mumbai 400 050

ii Financial Calendar

Accounting Year	:	April to March
First Quarter Results	:	Mid July
Second Quarter Results	:	End October
Third Quarter Results	:	End January
Full year Audited Results	:	End April/May
Annual General Meeting	:	July

iii **Date of Book Closure**

Tuesday, July 25, 2006 to Friday, July 28, 2006, both days inclusive.

iv **Dividend Payment Date** : On or before August 5, 2006.

v **Listing on Stock Exchanges**

The Company's equity shares are listed on:

- | | |
|---|---|
| i) Bombay Stock Exchange Limited
Phiroze Jeejeebuoy Towers,
Dalal Street, Mumbai 400 001. | ii) National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai 400 051. |
|---|---|

The Company's Zero Coupon Foreign Currency Convertible Bonds due 2011 are listed on:

- i) Singapore Exchange Securities Trading Limited, 2 Shenton Way, #19-00, SGX Centre 1, Singapore 068804

The annual listing fees have been paid to the Exchanges as applicable.

As already mentioned in the last Annual Report, during the year 2005-06, 35,00,000 Equity Shares of the Company allotted to Foreign Institutional Investors on May 24, 2005 were listed and admitted on Bombay Stock Exchange Limited for trading in dematerialized form on August 8, 2005 and on National Stock Exchange of India Limited on August 10, 2005. The listing fees in respect of these shares are also paid by the Company.

During the year, 1,10,00,000 Equity Shares of the Company as allotted to Reliance Land Private Limited were listed and admitted on Bombay Stock Exchange Limited for trading in dematerialized form with effect from November 9, 2005 and on the National Stock Exchange of India Limited with effect from November 16, 2005. The listing fees in respect of these shares have been paid by the Company.

The Company had on August 8, 2005 allotted 38,00,000 warrants convertible into equity shares to Reliance Land Private Limited at a issue price of Rs.175.20 per warrant entitling the holder to subscribe to one equity share of face value Rs.5/- each against each warrant. On March 31, 2006 Company allotted 38,00,000 equity shares against conversion of these 38,00,000 warrants to Reliance Land Private Limited, the Promoters of the Company.

The Company raised Euro 84 million through issue of Zero percent Foreign Currency Convertible Bonds (FCCBs) due 2011. The conversion price of the Bonds having a five year maturity period and zero coupon was fixed at Rs. 543.42 ie. a premium of 50% to the volume weighted average price of Company's shares on the day prior to its issue at the Bombay Stock Exchange Limited (BSE). The Bonds are listed on The Singapore Exchange Securities Trading Limited. The Company has not received any conversion requests against this as on March 31, 2006.

vi **Stock Code**

Stock Exchange Mumbai : 532399

National Stock Exchange Limited : ADLABSFILM

ISIN Number for NSDL & CDSL : INE540B01015

vii **Market Price Data**

The high/low market price of the Company's shares in each month during the last financial year 2005-06 was:

Month	BSE Sensex	BSE		NSE	
		High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2005	6154.44	148.60	118.00	139.05	131.70
May	6715.11	177.90	144.10	163.29	154.02
June	7193.85	240.60	154.50	181.95	169.33
July	7635.42	329.70	241.00	294.41	271.84
August	7805.43	379.00	293.00	341.95	321.73
September	8634.48	364.70	276.20	342.83	322.43
October	7892.32	323.40	250.00	301.90	283.06
November	8788.81	337.50	270.20	306.96	294.29
December	9397.93	392.00	316.15	363.07	345.78
January 2006	9919.89	374.90	324.05	351.16	335.73
February	10370.24	474.00	340.75	402.57	378.08
March	11279.96	439.00	374.00	413.93	395.33

viii Registrar & Share Transfer Agent

Intime Spectrum Registry Limited,
C-13, Pannalal Silk Mills Compound,
L.B.S Marg, Bhandup, Mumbai-400 078
Tel : (22) 25963838
Fax: (22) 25946969

ix Share Transfer System

The share transfers which are received in physical form are processed by the Registrar and Share Transfer Agent viz. Intime Spectrum Registry Limited and approved by the Share Transfer Committee. The Committee normally meets once a month and the transfer is effected and share certificates despatched within the time limit prescribed under the Listing Agreement.

x Distribution of shareholding

Distribution of Shareholding as on March 31, 2006

Share holding of nominal value of	Share Holders		Share Amount	
	Rs.	Number	In Rs.	% to Total
Upto - 5,000	9,207	96.12	54,55,910	2.74
5,001 - 10,000	165	1.72	12,67,200	0.64
10,001 - 20,000	85	0.89	12,59,705	0.63
20,001 - 30,000	45	0.47	11,23,865	0.56
30,001 - 40,000	13	0.14	4,48,125	0.23
40,001 - 50,000	22	0.23	10,56,890	0.53
50,001 - 1,00,000	15	0.15	11,12,225	0.56
1,00,001 and above	27	0.28	18,72,79,830	94.11
Total	9,579	100	19,90,03,750	100

Shareholding pattern as on March 31, 2006

Category of Shareholders	No. of Shareholders	No. of Shares held	% of holding
Promoters	2	2,18,55,000	54.91
Directors & Relatives	2	82,91,334	20.83
Financial Institutions & Banks	2	15,750	0.04
Mutual Funds & UTI	8	20,64,455	5.19
FII's	7	44,46,956	11.17
NRIs/OCBs	69	64,910	0.16
Private Corporate Bodies	487	6,47,242	1.63
Public	8,557	23,27,048	5.85
Clearing Members Transit Position	167	88,055	0.22
Total	9,301	3,98,00,750	100

xi Dematerialisation of Shares and Liquidity

The Company's shares are held in dematerialised form to the extent of 90.31% by National Securities Depository Limited and Central Depository Services (India) Limited. Out of public and other non-promoter holdings of 1,79,45,750 equity shares of the Company as on March 31, 2006, 1,78,88,057 equity shares were in dematerialised form.

The Promoters viz. Reliance Anil Dhirubhai Ambani Group hold 2,18,55,000 equity shares representing 54.91% of the paid up capital of the Company. Of these, 1,80,55,000 were held in dematerialized form while the balance 38,00,000 equity shares allotted on March 31, 2006 are in the process of being issued in demat form.

xii Outstanding GDRS/Warrants/Convertible Instruments

- 1) The Company had issued and allotted on August 8, 2005 on preferential basis, 38,00,000 Warrants to Reliance Land Private Limited with an option to get allotted one Equity Share per Warrant on or before expiry of 18 months from the date of allotment. These Warrants were converted into Equity Shares of face value Rs.5/- each at a premium of Rs.170.20 per share on March 31, 2006.

The Company is in the process of obtaining approval for listing and trading of shares.

- 2) On January 25, 2006, the Company issued and allotted ₹4,00,000 Zero Coupon Convertible Bonds due 2011 which unless previously redeemed, converted, repurchased or cancelled will be redeemed at 121.679 per cent of its principal amount on maturity.

The Conversion price of each Bond shall be Rs.543.42 per share with a fixed rate of exchange on conversion of Rs.54.26= ₹1.00. At the given price, the share capital of the Company on conversion of the Bonds shall stand increased by 83,87,325 shares. The Bonds are convertible by the holders into shares at any time on or after March 7, 2006.

xiii Plant Locations

I) Film Processing Laboratory:

Film City Complex,
Goregaon (East),
Mumbai.

No. 9-A, Kumaran Colony,
Main Road, Vadapalani,
Chennai.

II) Multiplex Division:

Imax Adlabs

Bhakti Park, Near Anik Bus Depot,
Wadala Anik Link Road,
Wadala, Mumbai.

Divya Adlabs

Purab Paschim Plaza,
Trimurti Chowk,
Opp. Trimurti Post Office
CIDCO Scheme 4,
Nasik.

Gold Adlabs

Mariplex,
Marigold Complex,
Kalayani Nagar,
Pune.

Fame Adlabs

Plot No. 621, Oshiwara,
Andheri Link Road,
Andheri (West), Mumbai.

R -Adlabs

Runwal Multiplex,
R Mall, 3rd Floor,
L.B.S Marg, Near Mulund Naka,
Mulund West, Mumbai.

Huma Adlabs

Huma Adlabs Multiplex,
Huma Mall,
Next to Tata House,
L.B.S Marg, Kanjurmarg (W),
Mumbai.

The multiplexes listed above are owned/operated by companies which are joint venture/subsidiaries of Adlabs Films Limited.

Besides the Company has signed a number of lease deals for multiplexes with various property developers at different locations, the addresses of which are not mentioned here.

xiv Address for Correspondence

Shareholders:

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L.B.S Marg, Bhandup, Mumbai 400 078
Tel : (22) 259 63838
Fax: (22) 259 46969

Others:

Adlabs Films Limited
Film City Complex
Goregaon (East) Mumbai 400 065
Tel. : 2842 3333 / 4488
Fax : 2842 2211

xv Code of Conduct

The Board has formulated a code of conduct for the Board members and senior management of the Company. The same has also been posted on the Website of the Company. All Board members and senior management personnel have affirmed their compliance with the code as on March 31, 2006.

It is hereby affirmed that all Directors and Senior management personnel have complied with the code of conduct framed by the Company and a confirmation to that effect has been obtained from Directors and Senior management members.

xvi CEO/CFO Certification

A certificate from the Chairman and Managing Director and the Chief Financial Officer on the financial statements of the Company was placed before the Board.

Date : April 23, 2006
Place : Mumbai.

Manmohan Shetty
Chairman & Managing Director

CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE

REGISTRATION NO. : 11-45446

NOMINAL CAPITAL : Rs. 30,00,00,000/-

To

The Members
Adlabs Films Limited,
Filmcity Complex,
Goregaon (East),
MUMBAI 400065.

We have examined all relevant records of **ADLABS FILMS LIMITED** (the company) for the purpose of certifying compliance of conditions of Corporate Governance proposed under the Clause 49 of the Listing Agreement entered with Stock Exchanges Mumbai & NSE for the financial year ended March 31, 2006. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of certification.

The compliance of the conditions of the Corporate Governance is the responsibility of the management. Our examination was limited to the procedure and implementation thereof. This Certificate is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

In our opinion and to the best of our information and according to the explanations given to us of the accompanying Corporate Governance Report prepared by the Company, we certify that the company has complied with the mandatory conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement

In our opinion and to the best of our information and according to the explanations given to us with respect to non-mandatory conditions of the accompanying Corporate Governance Report prepared by the Company, we certify that the company has complied with the non-mandatory conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement to the extent disclosed in the Corporate Governance Report forming part of the Annual Report for the Financial Year ended March 31, 2006.

For D. A. Kamat & Co.

NAME :	D.A. KAMAT
Membership No. :	FCS 3843
Certificate of Practice No. :	4965
DATE :	April 22, 2006
PLACE:	MUMBAI.

DIRECTORS' REPORT

TO THE MEMBERS,

Your Directors have pleasure in presenting the Nineteenth Annual Report and the Audited Accounts of the Company for the year ended March 31, 2006.

Financial Results

	(Rs. in lakh)	
	2005-06	2004-2005
Income		
Film Processing and Traded Goods	6,573.69	6,525.09
Theatre Operations	2,527.95	1,950.99
Film Distribution	531.19	—
Share of net income from film production	712.97	109.51
Other Income	974.67	169.93
	11,320.47	8,755.52
Expenditure		
Profit Before Depreciation, Interest & Tax	6,480.43	4,823.17
Interest	4,840.04	3,932.35
Depreciation	88.73	158.26
	887.76	545.50
Profit Before Tax	3,863.55	3,228.59
Tax		
Tax	1,232.97	1,150.11
Short provision for tax in respect of earlier years	—	11.55
	2,630.58	2,066.93
Profit After Tax	2,630.58	2,066.93
Balance brought forward from previous year	1,129.11	89.88
Total	3,759.69	2,156.81
Appropriations		
General Reserve	264.00	206.70
Proposed Dividend	895.52	720.01
Dividend Tax	125.59	100.98
Balance Carried Forward	2,474.58	1,129.11
	3,759.69	2,156.81

Operations

The total income from operations of the Company for the year ended March 31, 2006 was higher at Rs 11,320 lakh recording an increase of 29.29 per cent over the previous year. The income from film processing was steady at Rs.6,574 lakh while income from the exhibition business rose by 29.58 per cent to Rs.2,528 lakh.

The contribution by Film Production and Distribution to the total income was Rs.1,244 lakh. The overall Net Profit of the Company rose by 21.43 per cent.

Profit for the year was higher, among other reasons, due to excellent box office performance of the films co-produced by the Company as well as due to commencement of operations at new multiplex properties.

During the year, the Company went a step further in the entertainment value chain by venturing into overseas distribution of films. This business has also contributed to the income stream in this year.

Dividend

Your Directors have recommended a dividend of 45 per cent (Rs.2.25 per Equity Share) for the year ended March 31, 2006 and hereby seek your approval for the same. The total outgo on account of dividend to be paid to shareholders will be Rs.1,021 lakh (inclusive of Corporate Tax on Dividend) as against Rs.820 lakh paid in the previous year.

Business Review

The financial year 2005-06 presented an exciting business environment and the Company continued to focus on its strategy of consistent growth. The entertainment industry has been performing well and the Company has consolidated existing businesses as well as endeavoured to exploit newer avenues in this space.

The Company had formulated a geographical expansion plan for its traditional business of Film Processing. Accordingly, the operations in Chennai (in association with Vijaya Labs) have gathered momentum, while plans for a presence in Kolkata have progressed and these facilities are expected to take off soon. The film processing division has met with the standards of the prestigious Kodak 'Imagecare Program' for Negative Processing. This has been a prestigious achievement for the lab.

The Company's total multiplexes stood at 8 with 31 screens. Further, the Company has signed multiple properties spread across India as part of its aggressive expansion strategy. Among the notable launches during the year was an IMAX multiplex at Ghaziabad. The margins from the exhibition business continue to rank among the best in the industry.

The film production division of the Company also made headway with co-production agreements executed with leading Bollywood film makers. Films released during the year including Waqt, Apaharan, Bluffmaster and Taxi No 9211 were successful at the box office and bagged awards at various fora.

In the second half of the year, the Company made a foray into the overseas distribution business of Hindi films and acquired the overseas rights of leading films due for release in 2006-07 including Krish, Jaaneman, Baabul, Guru, 36 China Town, among others.

During the year, the Company won the maximum number of licenses (permissible for a single player) for operating FM Radio stations across the country.

Composite Scheme of Amalgamation and Arrangement

Adlabs had participated in the bidding of the FM Radio licenses initiated by the Ministry of Information and Broadcasting and won 45 licenses. The bids conducted in January and February 2006 across the Metros and the four regions were held in five stages.

The size of the Radio industry in India is estimated at Rs. 300 crores. Out of the share of total ad spend in the country, Radio accounts for approximately 2 per cent. This is expected to show a substantial rise in the coming years. The FM radio operations are expected to commence this fiscal and Company has managed to attract the best talents in the industry to spearhead this business.

The radio business envisaged by the Reliance-Anil Dhirubhai Ambani Group promises tremendous growth and with a view to exploring the potential of this business to the fullest, provide focused leadership and management attention, it is proposed to demerge the radio business of Adlabs Films Limited to a separate company viz. Reliance Unicom Limited (RUL).

Further in order to streamline and simplify the structure of the Film Production Business and Exhibition, it is proposed to merge Entertainment One (India) Limited (EOIL), a wholly owned subsidiary of Adlabs with the Company and demerge the Digital Cinema Business of Mukta Adlabs Digital Exhibition Private Limited (MADEL).

The Appointed Dates for the above transactions are as follows:

1. For the transfer and vesting of Radio Business into RUL, April 1, 2006 or such other date as the High Court of Judicature at Bombay ("High Court") may direct / fix;
2. For amalgamation of EOIL with the Company, April 1, 2005 or such other date as the High Court may direct / fix; and
3. For the transfer and vesting of Digital Cinema Business of MADEL into the Company, April 1, 2005 or such other date as the High Court may direct / fix.

Pursuant to the demerger scheme for the radio business proposed under the Composite Scheme of amalgamation and arrangement being effective, the shareholders of Adlabs Films Limited shall be entitled to receive two shares of RUL of Face value Rs.5/- each against one share of Face value Rs.5/- each held in Adlabs Films Limited. These shares shall be listed and admitted to trading on the National Stock Exchange Limited and Bombay Stock Exchange Limited.

Further, upon the scheme being effective and the passing of the order by the High Court, the entire business and undertaking of EOIL shall be transferred and vested in Adlabs and EOIL shall be dissolved.

Subsidiaries

As required under Section 212 of the Companies Act, 1956, the audited statement of accounts along with the report of the Board of Directors and the respective Auditor's Report thereon of all the subsidiaries for the year ended March 31, 2006 are annexed together with the statement relating to the Company's interest in the subsidiary companies.

Issue of Foreign Currency Convertible Bonds

During the year, the Company successfully raised Euro 84 million through issue of Foreign Currency Convertible Bonds (FCCBs). The issue received overwhelming response from the investor community. This offering has enabled your Company to raise funds from overseas market on attractive terms and pricing with a yield to maturity of 4 per cent per annum. The conversion price of these Bonds, having a five year maturity period and zero coupon, was fixed at Rs. 543.42 i.e. a premium of 50 per cent to the volume weighted average price of Company's shares on the day prior to the issue at Bombay Stock Exchange Limited (BSE). The Bonds are listed on The Singapore Exchange Securities Trading Limited.

Conversion of Warrants

The Company had on August 8, 2005 issued and allotted on preferential basis, 38,00,000 Warrants to Reliance Land Private Limited with an option to receive one Equity Share per Warrant on or before expiry of 18 months from the date of allotment. These Warrants were converted into Equity Shares of Rs.5/- each at a premium of Rs.170.20 per share on March 31, 2006.

As a result, the paid up equity share capital of the Company stands increased to 3,98,00,750 equity shares of Rs.5/- each.

After conversion, the shareholding of Reliance Land Private Limited in the Company is now 2,06,00,000 Equity shares ie.51.76 per cent of the equity share capital. The total promoters holdings stand at 54.91 per cent of the equity share capital.

Business Outlook

Overall: During the past five years there has been a rise in overall consumption levels of Indian consumers and the key growth driver are rising income levels, fallen interest rates resulting in high spending power, changing demographic profile and changing lifestyles. This has resulted in increased expenditure on leisure, entertainment and the retail sector and effectively led to a visible boom in the entertainment sector. The trend is further expected to continue. This demand for entertainment shall also accelerate the exhibition, content, distribution and music business.

Company: The gradual growth in corporatization is also streamlining the movie business. With the continuous experimentation in content, there are newer windows of opportunities for the Company's businesses. Along with the strong backing of the diversified Reliance-Anil Dhirubhai Ambani Group, the Company is well geared to take leadership position in all its business segments.

The multiplex rollout is expected to gather mass in 2006-07 with the launch of landmark properties such as Metro in South Mumbai. Box office collections are expected to rise substantially on account of newer properties as well as a line up of impressive releases this year. Over the last few years especially, Bollywood movies have gained enormous popularity in the overseas markets. The Company has acquired overseas rights of forthcoming big releases and performance of this division is expected to show a quantum leap over the previous year.

Awards and Achievements

Very recently, the processing lab has met all the 'Imagecare Program' entrance standards of Kodak for Camera Negative Processing. Thus, the processing laboratory of Adlabs has now joined the elite club of processing laboratories worldwide adhering to such high standards of film processing.



This positions Adlabs among those entities that strive for the most efficient practices and the highest quality in motion picture film handling and processing.

The Company will retain market leadership in this field of business through this on-going technical improvement and up-gradation.

The Company won the Trophy for Best Exhibitor at 11th Annual Screen Awards.

Directors

In accordance with the provisions of the Companies Act, 1956 and the Article of Association, Ms. Pooja Shetty and Shri Berjis Desai retire by rotation and being eligible, offer themselves for reappointment.

Shri Gautam Doshi, nominee Director of Reliance-Anil Dhirubhai Ambani Group, Shri Karan Johar, Shri Shripal Morakhia were appointed as Additional Directors of the Company to hold office upto the conclusion of the ensuing Annual General Meeting. The Company received Notice under Section 257 of the Companies Act, 1956 from Members proposing the appointment of Shri Gautam Doshi, Shri Karan Johar and Shri Shripal Morakhia respectively as Directors of the Company.

During the year, Shri VasANJI MamanIA, Shri Pradeep Guha, Shri Chandir Gidwani resigned with effect from October 7, 2005. The Board placed on record its sincere appreciation towards the contribution made by them.

A brief profile, expertise and details of other directorships of these Directors have been furnished in the section on Corporate Governance elsewhere in the Annual Report.

Directors' Responsibility Statement

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

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- that the Directors have selected such accounting policies and applied them consistently and made judgements 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 ended March 31, 2006 and of the profit of the Company for that year.
- that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that the Directors have prepared the annual accounts on a going concern basis.

Consolidated Financial Statements

The Audited Consolidated Financial Statements for the year ended March 31, 2006 are annexed to this Report. The reports and standalone audited accounts of subsidiary companies viz. Entertainment One (India) Ltd., Gemini Exhibitors Ltd. and Reliance Unicom Limited along with statement pursuant to Section 212 of the Companies Act, 1956 containing full details of the performance also form part of the Annual Report.

Auditors

M/s. BSR & Co., Chartered Accountants, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and are eligible for reappointment. The Company has received letters from M/s. BSR & Co., Chartered Accountants, to the effect that their reappointment if made, would within the prescribed limits under Section 224 (1B) of the Companies Act 1956 and they are not disqualified for such reappointment within the meaning of the Section 226 of the said Act.

The Notes on Accounts referred to in the Auditors Report are self-explanatory and therefore do not call for any further comments.

Management Discussion and Analysis

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the Management Discussion and Analysis Report is annexed hereto and forms part of the Report.

Disclosure of Particulars

As required under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, the relevant information regarding conservation of energy, technology absorption, foreign exchange earnings and outgo is given in annexure to this report.

Particulars of Employees

As required by the provisions of the Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended, the name and other particulars of the employees as set out in the Annexure to the Directors' Report. However, as per the provisions of the Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any Shareholder interested in obtaining such particulars may write to the Company at its Registered Office.

Corporate Governance

The Company has complied with the mandatory provisions on Corporate Governance as prescribed in revised Clause 49 of the listing agreement entered into with the Stock Exchanges. A Report on Corporate Governance compliance along with a certificate of compliance from a Practising Company Secretary, D.A. Kamat & Co. is included as part of the Annual Report. The Company has implemented a Code of Conduct for all its Board Members and senior management of the Company who have affirmed compliance thereto. The said Code of Conduct has also been posted on the Company's website.

Acknowledgements

Your Directors express their appreciation for the contribution made by employees and their dedicated service and commitment to the Company's growth. It also thanks its clients, suppliers, strategic alliance partners, banks, financial institutions and shareholders for their continuous patronage towards the Company's operations and business endeavours.

On behalf of the Board

Date : April 23, 2006
Place: Mumbai.

Manmohan Shetty
Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT DISCLOSURE OF PARTICULARS

Information pursuant to Companies (Disclosure of particulars in the report of the Board of Directors), Rules 1988.

CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION:

The Company was engaged in processing & trading activities and had no direct manufacturing activities during the year under review.

No particulars are therefore furnished in this report in relation to the conservation of energy and technology absorption as required under section 217(1)(e) of the Companies Act, 1956.

FOREIGN EXCHANGE EARNING AND OUTGO:

The details of foreign exchange earnings and outgo are mentioned in note 9 and 10 of schedule 22 to the accounts forming part of the balance sheet.

On behalf of the Board

Date : 23 April 2006
Place: Mumbai.

Manmohan Shetty
Chairman & Managing Director

AUDITORS' REPORT

To the Members of Adlabs Films Limited

We have audited the attached balance sheet of Adlabs Films Limited ('the Company') as at March 31, 2006 and the related profit and loss account and cash flow statement of the Company 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.

We 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in note 15 of schedule 22 to the financial statements in respect of sundry debtors and loans and advances aggregating to Rs.400 million and Rs 430 million respectively, the management is in the process of obtaining external confirmations and reconciling the balances as at March 31, 2006. Accordingly, we are unable to comment on the adequacy of provision required, if any, relating to the sundry debtors and loans and advances and the consequent impact, if any, on the profit for the year ended March 31, 2006 and the reserves as at March 31, 2006.

- 1 As required by the Companies (Auditor's Report) Order, 2003 ('CARO') issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, ('the Act') we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 2 Further to our comments in the Annexure referred to above, *and subject to our comments above* we report that:
 - a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - d) 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 Act;
 - e) On the basis of written representations received from directors of the Company as at March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - f) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006;
 - ii) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For BSR & Co.
Chartered Accountants

Akeel Master
Partner
Membership No: 46768

Mumbai
23 April 2006

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in the Auditors' report to the members of Adlabs Films Limited ('the Company') on the accounts for the year ended March 31, 2006)

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and location of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of two years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) Fixed assets disposed off during the year were not substantial, and therefore, do not affect the going concern assumption.
- (ii) (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures for the 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.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Act.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weakness in the internal control system.
- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of all contracts or arrangements that need to be entered into the register maintained under section 301 of the Act have been so entered.
- (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements referred to in (a) above and exceeding the value of Rs 5 lakh in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Act for any of the products manufactured/services rendered by the Company.
- (ix) (a) According to the information and explanations given to us and on the basis of our examination of the records, the Company has been generally regular in depositing with the appropriate authorities undisputed statutory dues including Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs Duty, Cess and other material statutory dues. As informed to us, the Company did not have any dues on account of Excise Duty and Investor Education and Protection Fund.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at March 31, 2006 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the following dues of income-tax and excise duty have not been deposited by the Company on account of disputes:

Name of the Statute	Nature of the Dues	Amount (Rs. '000)	Period to which the amount relates Assessment Year	Forum where dispute is pending
Income Tax Act, 1961.	Tax and interest on disallowances	4,372	A. Y. 1993-1994	Income Tax Appellate Tribunal
		15,054	A. Y. 1995-1996	
		29	A. Y. 1998-1999	
		1,478	A. Y. 1999-2000	
Central Excise Act, 1944	Duty and penalty	30,627	1998 – 2002	Central Excise and Service tax Appellate Tribunal (CESTAT)
		6,074	2002-2003	
		4,099	2003	
		7,128	2003-2004	
		4,109	2004-2005	

- (x) 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.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks. There were no debentures due for repayment during the year. The Company did not have any outstanding dues to any financial institution.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) According to information and explanations given to us, the terms and conditions on which the Company has given guarantee for loan taken by a subsidiary from bank, which was discharged during the year, were not prejudicial to the interest of the Company.
- (xvi) In our opinion and according to information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Act.
- (xix) According to the information and explanations given to us, the Company has not issued any secured debenture during the year.
- (xx) The management has disclosed the end use of money raised by public issues (Refer note 16 of Schedule 22) and the same has been verified by us.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For BSR & Co.
Chartered Accountants

Mumbai
23 April 2006

Akeel Master
Partner
Membership No: 46768

BALANCE SHEET AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	<i>Schedule</i>	2006	2005
SOURCES OF FUNDS			
Shareholder funds			
Share capital	<i>2</i>	199,004	107,504
Reserves and surplus	<i>3</i>	3,186,777	1,065,528
		<u>3,385,781</u>	<u>1,173,032</u>
Loan funds			
Secured loans	<i>4</i>	51,803	241,462
Unsecured loans	<i>5</i>	4,599,248	-
		<u>4,651,051</u>	<u>241,462</u>
Deferred tax liabilities (net)	<i>6</i>	70,407	78,281
		<u>8,107,239</u>	<u>1,492,775</u>
APPLICATION OF FUNDS			
Fixed assets			
Gross block	<i>7</i>	1,079,876	853,491
Less : Accumulated depreciation		298,576	214,457
Net block		<u>781,300</u>	<u>639,034</u>
Capital work in progress		2,279,902	61,808
		<u>3,061,202</u>	<u>700,842</u>
Investments			
	<i>8</i>	4,424,067	130,219
Current assets, loans and advances			
Interest accrued on investment		4,686	-
Inventories	<i>9</i>	13,034	9,354
Sundry debtors	<i>10</i>	447,571	362,583
Cash and bank balances	<i>11</i>	135,081	21,895
Loans and advances	<i>12</i>	1,709,966	809,630
		<u>2,310,338</u>	<u>1,203,462</u>
Current liabilities and provisions			
Current liabilities	<i>13</i>	187,964	182,903
Provisions	<i>14</i>	1,500,404	359,438
		<u>1,688,368</u>	<u>542,341</u>
Net current assets		621,970	661,121
Miscellaneous expenditure (to the extent not written - off or adjusted)			
Deferred revenue expenditure		-	593
		<u>8,107,239</u>	<u>1,492,775</u>
Significant accounting policies			
Notes to the accounts	<i>1</i> <i>22</i>		

The schedules referred to above form an integral part of the balance sheet

As per our report attached

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place : Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Pooja M Shetty Wholetime Director

Gautam Doshi Director

Berjis Desai Director

Kirti Desai Company Secretary

Mumbai : 23 April 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

(Currency :Indian Rupees in thousand)

	<i>Schedule</i>	2006	2005
INCOME			
Theatrical exhibition	<i>15</i>	252,795	195,099
Film processing and trading	<i>16</i>	657,369	652,509
Film distribution		53,119	-
Film production		71,297	10,951
Other income	<i>17</i>	97,467	16,993
		<u>1,132,047</u>	<u>875,552</u>
EXPENDITURE			
Direct operational expenses	<i>18</i>	401,524	338,491
Personnel cost	<i>19</i>	63,430	53,349
Other operating and general administrative expenses	<i>20</i>	183,089	90,478
Interest	<i>21</i>	8,873	15,826
Depreciation / amortisation	<i>7</i>	88,776	54,550
		<u>745,692</u>	<u>552,694</u>
Profit before tax		386,355	322,858
Less : Provision for tax			
- Current tax		130,000	105,300
- Deferred tax (credit)/charge		(7,873)	9,710
- Fringe benefit tax		1,170	-
- Short provision for earlier years		-	1,155
		<u>263,058</u>	<u>206,693</u>
Profit after tax		263,058	206,693
Accumulated balance brought forward		112,911	8,988
		<u>375,969</u>	<u>215,681</u>
Appropriation			
Transfer to general reserve		26,400	20,670
Proposed dividend		89,552	72,002
Dividend tax		12,559	10,098
Balance carried to balance sheet		247,458	112,911
		<u>375,969</u>	<u>215,681</u>
Basic earnings per share (Refer note 19 of schedule 22)		8.33	9.61
Diluted earnings per share (Refer note 19 of schedule 22)		8.02	9.61
Significant accounting policies	<i>1</i>		
Notes to the accounts	<i>22</i>		

The schedules referred to above form an integral part of the profit and loss account.

As per our report attached

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place : Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Pooja M Shetty Wholetime Director

Gautam Doshi Director

Berjis Desai Director

Kirti Desai Company Secretary

Mumbai : 23 April 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
A. Cash flow from operating activities		
Net profit before tax	386,355	322,859
Adjustment for:		
Depreciation and amortisation	88,776	54,550
Interest expense	8,873	15,826
Interest income	(6,256)	(6,062)
Dividend income	(14,310)	(6,249)
Loss on sale of fixed assets	2,830	736
Profit on sale of investments	(42,461)	-
Miscellaneous expenditure written off	594	10,940
Unrealised foreign exchange loss	27,254	-
Provision for gratuity	1,690	583
Operating profit before working capital changes	453,345	393,183
Increase in sundry debtors	(84,988)	(42,165)
Increase in loans and advances	(751,985)	(129,862)
Increase in inventories	(3,680)	(3,235)
Increase in trade and other payable	5,062	31,448
Cash generated from operation	(382,246)	249,369
Taxes paid (net of refunds)	(148,351)	(102,547)
Net cash flow used in operating activities (A)	<u>(530,597)</u>	<u>146,822</u>
B. Cash flow from investing activities		
Purchase of fixed assets	(535,953)	(110,847)
Proceeds from sale of fixed assets	3,488	360
Purchase of investments	(4,067,343)	(75,600)
Proceeds from sale of investments	4,075,804	-
License fee paid for FM radio licenses	(1,919,502)	-
Interest income (net of TDS)	1,569	6,062
Dividend income	14,310	6,249
Acquisition of subsidiary companies	(500)	-
Net cash flow used in investing activities (B)	<u>(2,428,127)</u>	<u>(173,776)</u>
C. Cash flow from financing activities		
Proceeds from fresh issue of share capital (including share premium)	3,117,960	-
Payment for share issue expenses	(22,313)	-
Proceeds from long term borrowings	31,542	129,647
Proceeds from issue of bonds (FCCB)	4,571,994	-
Payment for bond issue expenses	(55,751)	-
Repayment of loans	(221,201)	(47,061)
Interest paid	(8,873)	-
Dividend (including dividend tax) paid	(82,100)	(60,777)
Net cash flow from financing activities (C)	<u>7,331,258</u>	<u>21,809</u>
Net increase in cash and cash equivalent (A+B+C)	<u>4,372,534</u>	<u>(5,145)</u>
Cash and cash equivalents as at beginning of the year	21,895	27,040
Cash and cash equivalents as at end of the year	<u>4,394,429</u>	<u>21,895</u>
	<u>4,372,534</u>	<u>(5,145)</u>
Cash and cash equivalents at year end comprises:		
Cash on hand	1,452	689
Balances with scheduled banks		
- Deposit accounts	100,301	20,301
- Current accounts	33,328	905
Liquid investment in mutual funds	4,259,348	-
	<u>4,394,429</u>	<u>21,895</u>

As per our report attached

For BSR & Co.
Chartered Accountants
Akeel Master
Partner
Membership No: 46768
Place : Mumbai
Date : 23 April 2006

For and on behalf of the Board
Manmohan Shetty Chairman & Managing Director
Pooja M Shetty Wholetime Director
Gautam Doshi Director
Berjis Desai Director
Kirti Desai Company Secretary

Mumbai : 23 April 2006

(Currency : Indian Rupees in thousand)

Background

Adlabs Films Limited (the 'Company') was incorporated in 1987 as a private limited company. The Company is engaged in film processing, film exhibition, film distribution and film production. The film production business is conducted through the wholly owned subsidiary Entertainment One (India) Ltd ('Entertainment One').

On August 8, 2005, following shareholder approval granted at an Extraordinary General Meeting (EGM) held on July 26, 2005, the Company allotted 11,000,000 equity shares and 3,800,000 warrants to Reliance Land Private Limited ('Reliance Land') on a preferential basis, which has since been converted into equity shares, making Reliance Land the holding company which is part of Reliance-Anil Dhirubhai Ambani Group ('Reliance-ADA Group').

SCHEDULE - 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of accounting

The financial statements are prepared and presented under the historical cost convention on the accrual basis of accounting and in accordance with the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956 (the 'Act'), to the extent applicable.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in India ("Indian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities on the date of financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

3. Fixed assets and depreciation/ amortisation

a. Tangible assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Cost includes freight, duties, taxes (other than those recoverable from tax authorities) and other incidental expenses related to the acquisition/ construction and installation of the fixed assets for bringing the asset to its working condition for its intended use. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Depreciation on fixed assets relating to the multiplex and digital projection system is provided pro-rata to the period of use, under the straight line method, at the rates prescribed in Schedule XIV of the Act, which, in management's opinion, reflects the estimated useful lives of those fixed assets.

Depreciation on fixed assets not relating to the multiplex and digital projection system is provided pro-rata to the period of use, under the written down value method, at the rates prescribed in Schedule XIV of the Act which, in management's opinion, reflects the estimated useful lives of those fixed assets.

Individual assets costing up to Rs 5,000 are depreciated fully in the year of acquisition.

Assets that have been retired from active use and held for disposal are stated at the lower of their net book value and net realisable value. Those assets are not subjected to further depreciation.

b. Intangible assets

Intangible assets, all of which have been acquired and are controlled through custody or legal rights are capitalised at cost, where they can be reliably measured. Where capitalised, intangible assets are regarded as having a limited useful economic life and the cost is amortised over the lower of useful life and 10 years.

Application software purchased, which is not an integral part of the related hardware, is shown as intangible assets and amortised on a straight line basis over its useful life, not exceeding five years, as determined by management.

Film rights comprise negative rights and distribution rights in films and are for a contractually specified mode of exploitation, period and territory and are stated at cost less accumulated amortisation. Cost of film rights comprises original purchase price/ minimum guarantee. Cost is ascertained on specific identification basis where possible. In case multiple films/ rights are acquired for a consolidated amount, cost is allocated to each film/right based on management's best estimates.

The individual film forecast method is used to amortise the cost of film rights acquired. Under this method, costs are amortised in the proportion that gross revenues realised bear to management's estimate of the total gross revenues expected to be received. If estimates of the total revenues and other events or changes in circumstances indicate that a right has a fair value that is less than its unamortised cost, a loss is recognised for the excess of unamortised cost over the film right's fair value

(Currency : Indian Rupees in thousand)

In respect of unreleased films, payments towards films distribution rights are classified under capital advances as the amounts are refundable in the event of non release of the film.

4. Impairment

In accordance with AS 28-Impairment of Assets, where there is an indication of impairment of the Company's asset, the carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any impairment. The recoverable amount of the assets (or where applicable that of the cash generating unit to which the asset belongs) is estimated as the higher of its net selling price and its value in use. An impairment loss is recognised whenever the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment loss is recognised in the profit and loss account.

5. Investments

Long-term investments are carried at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long-term investments and is determined separately for each individual investment.

Current investments are carried at lower of cost and fair value, computed individually for each investment.

6. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in first-out (FIFO) basis.

Consumables and stores and spares except for inventory of xenon lamps are charged to the profit and loss account upon purchase.

7. Retirement benefits

The Company's contribution to provident fund, which is a defined contribution scheme, is charged to the profit and loss account.

Leave encashment, which is a defined benefit scheme, is accrued based on an actuarial valuation carried out by an independent actuary at the balance sheet date.

Provision for gratuity, which is a defined benefit is made on the basis of actuarial valuation carried out by an independent actuary at the balance sheet date and is funded through a scheme administered by the Life Insurance Corporation of India ('LIC').

8. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Sales are recorded net of sales tax. Amount of entertainment tax and service tax collected is shown as a reduction from the revenue.

Revenue from film processing/ printing and trading

Revenue from processing/ printing of cinematographic films is recognised upon completion and dispatch of the processed/ printed film to the customer and acceptance thereof by the customer. Revenue is recognised net of trade discount.

Sale of traded goods is recognised when the risks and rewards of ownership are passed on to the customer. Revenue is recognised net of trade discounts.

Theatrical exhibition and related income

Sale of tickets

Revenue from theatrical exhibition is recognised on the date of the exhibition of the films and comprises proceeds from sale of tickets, gross of taxes. As the Company is the primary obligor with respect to exhibition activities, the share of distributors in these proceeds is separately disclosed as exhibition costs.

Sale of food and beverages

Revenue from sale of food and beverages is recognised upon sale and delivery at the counter.

Advertisement/ sponsorship revenue

Revenue from advertisements, sponsorship and events is recognised on the date of the exhibition of the advertisement/ event or over the period of the contract, as applicable.

Share of net income from film production

Share of net income from film production is recognised as per the terms and condition of the agreement with the subsidiary company.

(Currency : Indian Rupees in thousand)

Income from distribution rights

In case of overseas distribution, distribution rights of motion pictures, satellite rights and video rights etc revenue is recognised on the date of the exhibition or based on management's estimate of exploitation of such rights as per the underlying agreements with distributors and assignees.

Interest income

Interest income is recognised on a time proportion basis.

Dividend income

Dividend income is recognised when the right to receive dividend is unconditional at the balance sheet date.

9. Foreign currency transaction

Transactions denominated in foreign currency are recorded at the exchange rate prevailing on the date of transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the profit and loss account of the year, except that exchange difference related to acquisition of imported fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities in foreign currency, which are outstanding as at the year-end and not covered by forward contracts, are translated at the year-end at the closing exchange rate and the resultant exchange differences are recognised in the profit and loss account except those related to acquisition of imported fixed assets which are adjusted in the carrying amount of the related fixed assets.

10. Taxation

Income-tax expense comprises current tax expense and fringe benefit tax computed in accordance with the relevant provision of the Income Tax Act, 1961 and deferred tax charge or credit.

Current tax provision is made based on the tax liability computed after considering tax allowances and exemptions, in accordance with the Income Tax Act, 1961. Deferred tax charge or credit and the corresponding deferred tax liability or asset is recognised for timing differences between the profits/ losses offered for income taxes and profits/ losses as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down/up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

11. Share issue / FCCB issue expenses and premium on redemption

Hitherto, share issue expenses incurred until 31 March 2004 were amortised over a period of five years and those expenses incurred on or after 1 April 2004 were charged to the profit and loss account in the year of issue. With effect from 1 April 2005, share / FCCB issue expenses incurred and premium payable on FCCB are adjusted in the year of issue against the Securities Premium Account.

12. Provisions and contingencies

Provisions comprise liabilities of uncertain timing or amount. Provisions are recognised when the Company recognises it has a present obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated.

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 an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Loss contingencies arising from claims, litigation, assessment, fines, penalties, etc. are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Contingent assets are not recognised in the financial statement.

13. Leases

Lease rentals in respect of assets acquired on operating lease are recognised in the profit and loss account as incurred.

14. Earnings per share ('EPS')

Basic EPS is computed using the weighted average number of equity shares outstanding during the year. Diluted EPS is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the year except where the results would be anti-dilutive.

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
2 Share capital		
<i>Authorised</i>		
60,000,000 (2005: 24,000,000) equity shares of Rs.5/- each	300,000	120,000
	<u>300,000</u>	<u>120,000</u>
<i>Issued, subscribed and paid up capital</i>		
39,800,750 (2005: 21,500,750) equity share of Rs.5/- each fully paid up	199,004	107,504
<i>Of the above:</i>		
- 17,000,000 (2005: 17,000,000) equity shares of Rs. 5/- each fully paid up were allotted as bonus share on capitalisation of general reserves;		
- 20,600,000 (2005: Nil) equity shares of Rs.5/- each fully paid up are held by Reliance Land Private Limited; the holding company		
	<u>199,004</u>	<u>107,504</u>
	<u>199,004</u>	<u>107,504</u>
3 Reserves and surplus		
<i>Securities premium account</i>		
At the commencement of the year	506,017	506,017
Additions during the year	3,026,460	-
Less : Share / FCCB issue expenses	78,064	-
Less : Provision for premium on redemption of FCCB (Refer Note 16 of Schedule 22)	988,094	-
	<u>2,466,319</u>	<u>506,017</u>
<i>General reserve</i>		
At the commencement of the year	446,600	425,930
Transferred from profit and loss account	26,400	20,670
	<u>473,000</u>	<u>446,600</u>
Balance in profit and loss account	247,458	112,911
	<u>3,186,777</u>	<u>1,065,528</u>
	<u>3,186,777</u>	<u>1,065,528</u>
4 Secured loans		
From bank for		
- Term loan	-	152,180
- Cash credit	49,980	89,082
- Others (Refer Note 3 of Schedule 22)	1,823	200
	<u>51,803</u>	<u>241,462</u>
	<u>51,803</u>	<u>241,462</u>
5 Unsecured loans		
Zero Coupon Foreign Currency Convertible Bonds ('FCCB')	4,599,248	-
	<u>4,599,248</u>	<u>-</u>
	<u>4,599,248</u>	<u>-</u>
Repayable within 1 year - Nil (2005: Nil) (Refer Note 16 of Schedule 22)		

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
6 (A) Deferred tax asset		
<i>Arising on account of timing difference in:</i>		
Provision for leave encashment and gratuity	500	500
Loss on sale of asset	953	–
Unrealised foreign exchange loss	9,174	–
	<u>10,627</u>	<u>500</u>
(B) Deferred tax liability		
<i>Arising on account of timing difference in:</i>		
Depreciation	81,034	78,781
	<u>81,034</u>	<u>78,781</u>
Net deferred tax liability	<u>70,407</u>	<u>78,281</u>

7 Fixed Assets

Particulars	Gross Block				Accumulated Depreciation / Amortisation				Net Block	
	As at 01 April 2005	Additions during the year	Deductions during the year	As at 31 March 2006	As at 1 April 2005	Charge for the year	Depreciation on assets sold / discarded	As at 31 March 2006	As at 31 March 2006	As at 31 March 2005
Intangible assets										
Distribution rights	–	82,585	–	82,585	–	25,219	–	25,219	57,366	–
Negative rights	–	5,290	–	5,290	–	3,518	–	3,518	1,772	–
Computer software	1,185	355	–	1,540	237	308	–	545	995	948
Tangible assets										
Leasehold land *	22,573	–	–	22,573	–	–	–	–	22,573	22,573
Buildings:										
Leasehold	35,108	–	–	35,108	8,096	2,701	–	10,797	24,311	27,012
Freehold	235,697	20,917	–	256,614	29,399	8,296	–	37,695	218,919	206,298
Air conditioner plant	35,271	13,214	–	48,485	12,063	2,022	–	14,085	34,400	23,208
Electrical installation	50,325	19,082	–	69,407	18,350	3,070	–	21,420	47,987	31,975
Plant and machinery	167,359	13,299	–	180,658	51,886	16,606	–	68,492	112,166	115,473
Theatrical equipments	256,951	32,575	18	289,508	76,716	19,695	–	96,411	193,097	180,235
Furniture and fixtures	34,738	40,457	6,180	69,015	11,894	4,896	2,651	14,139	54,876	22,844
Vehicles	14,284	9,587	4,778	19,093	5,816	2,445	2,006	6,255	12,838	8,468
Total	853,491	237,361	10,976	1,079,876	214,457	88,776	4,657	298,576	781,300	639,034
Previous year	800,616	60,672	7,797	853,491	166,305	54,550	6,398	214,457	639,034	
Capital work in progress (including capital advances) **									2,279,902	61,808

* Leasehold land in excess of 99 years is not depreciated as this is deemed ownership

** Amount of intangible asset included in capital work in progress (CWIP) Rs. 165,550 (2005 : Nil) (refer note 3(b) of schedule 1). CWIP includes 1,919,502 (2005 : Nil) as payment towards one time entry fee and related payments for license to operate FM radio Channels in 45 stations.

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
8 Investments		
Long term (non-trade, unquoted and at cost)		
<i>A Government securities</i>		
National saving certificates (Pledged with State government authorities)	8,200	7,100
<i>B Investment in shares in</i>		
<i>(a) Subsidiary companies</i>		
Entertainment One India Limited 5,000 (2005: 5,000) equity shares of Rs.100/- each fully paid up	500	500
Gemini Exhibitors Limited 50,000 (2005: 50,000) equity shares Rs.10/- each fully paid up	500	500
Reliance Unicom Limited 50,000 (2005: Nil) equity shares of Rs.10/- each fully paid up	500	–
<i>(b) Joint Venture</i>		
Swanston Multiplex Cinemas Private Limited 390,000 (2005: 389,922) equity shares of Rs 10/- each fully paid up (Refer Note 18 of Schedule 22)	70,006	70,000
Runwal Multiplex Private Limited 49,050 (2005: 49,110) equity shares of Rs 100/- each fully paid up (Refer Note 18 of Schedule 22)	4,905	4,911
Divya Shakti Marketing Private Limited 100,000 (2005: Nil) equity shares of Rs 10/- each fully paid up	32,900	–
Cineplex Private Limited 50,000 (2005: 50,000) equity shares of Rs.10/- each fully paid up	500	500
Mukta Adlabs Digital Exhibition Private Limited 500 (2005: 500) equity shares of Rs 100/- each fully paid up	50	50
<i>(c) Others</i>		
Prime Focus Limited 964,000 (2005: 964,000) equity shares of Rs 5/- each fully paid up	46,658	46,658
Total long term investment	164,719	130,219
Current investments (non-trade, unquoted and at lower of cost and fair value)		
<i>(d) Investment in mutual funds</i>		
Reliance Liquid Fund - Cash Plan - Weekly Dividend Option	2,234	–
Reliance Fixed Maturity Fund - Monthly Plan XI - Series II - Growth Option	500,000	–
Reliance Liquid Fund - Weekly Dividend Reinvestment Option	3,757,114	–
Total current investments	4,259,348	–
	4,424,067	130,219

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

1 Unutilised monies out of the issue of FCCB, aggregating Rs. 500,000 and Rs. 3,150,000 has been temporarily invested in units of Reliance Fixed Maturity Fund Plan XI Growth Option and Reliance Liquid Fund - Weekly Dividend Reinvestment Option respectively.

2 The following investments were acquired and sold during the year:

Particulars	No.of Units	Face Value	Purchase Amount
Canfloating Rate Short Term Dividend Fund	2,959,514	10	30,000
Chola Liquid Institutional Dividend Reinvestment Plan	2,004,982	10	20,083
HDFC Cash Management Fund - Savings Plan- Daily Dividend Reinvestment	4,249,450	10	45,199
HSBC Cash Fund - Dividend	2,955,268	10	30,123
JM Financial Mutual Fund- Dividend Option Reinvestment	2,988,939	10	30,304
Kotak Flexi Debt Scheme - Dividend	2,999,247	10	30,335
LICMF Liquid Fund - Dividend Plan	4,151,621	10	45,161
Punjab National Bank - Principal Income Fund Short Term Plan Dividend Reinvestment Monthly	4,505,319	10	45,728
PBPAD Prudential ICICI Blended Plan A - Dividend	984,464	10	10,011
PBPBD Prudential ICICI Blended Plan B- Dividend	992,604	10	10,013
Prudential ICICI Institutional Short Term Plan -Dividend- Fortnight	7,381,979	10	80,998
Prudential ICICI Liquid Plan -Dividend- Daily	1,689,392	10	20,022
Prudential ICICI Short Term Plan -Dividend Reinvestment- Fortnightly	4,247,375	10	45,499
Reliance Fixed Maturity Fund- Monthly Plan X - Series II - Dividend Option	50,000,000	10	500,000
Reliance Liquid Fund - Cash Plan - Weekly Dividend Option	91,533,895	10	999,853
Reliance Liquid Fund - Weekly Dividend Reinvestment Option	9,992,805	10	100,015
Reliance Liquidity Fund - Growth Option	197,381,472	10	1,990,000
		2006	2005
9 Inventories			
Stores & spares		1,132	-
Chemical stock		5,924	2,838
Food and beverages		1,583	1,021
Negative film rolls		4,395	5,495
		<u>13,034</u>	<u>9,354</u>
10 Sundry debtors			
<i>Unsecured and considered good</i>			
- Debts outstanding for a period exceeding six months		331,387	254,596
- Other debts		116,184	107,987
		<u>447,571</u>	<u>362,583</u>
11 Cash and bank balances			
Cash on hand		1,452	689
<i>Balance with scheduled banks</i>			
On current accounts		33,328	905
On fixed deposit account		100,301	20,301
		<u>135,081</u>	<u>21,895</u>

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
12 Loans and advances		
<i>(Unsecured and considered good)</i>		
Loans and advances to subsidiaries	468,834	250,358
Loans and advances to joint ventures	92,577	–
Advances recoverable in cash or in kind or for value to be received	636,102	257,759
Deposits	76,739	14,151
Advance tax, tax deducted at source and advance fringe benefit tax	435,714	287,362
	<u>1,709,966</u>	<u>809,630</u>
Loans and advances include:		
<i>A</i> Receivable from company under the same management:		
Entertainment One Limited	315,441	205,637
(Maximum balance outstanding during the year Rs 350,792 (2005: Rs 205,637)		
Gemini Exhibitors Limited	52,893	44,721
(Maximum balance outstanding during the year Rs.59,753 (2005: Rs.44,721)		
Reliance Unicom Limited	100,500	–
(Maximum balance outstanding during the year Rs.100,500 (2005: Nil)		
<i>B</i> Receivable from private company in which directors are directors		
Runwal Multiplex Private Limited	15,555	39,215
(Maximum balance outstanding during the year Rs 39,215 (2005: Rs 39,215)		
Divya Shakti Marketing Private Limited	21,792	52,162
(Maximum balance outstanding during the year Rs 52,162 (2005: Rs 52,162)		
Cineplex Private Limited	55,230	–
(Maximum balance outstanding during the year Rs 55,230 (2005: Nil)		
13 Current liabilities		
Sundry creditors for goods and services:		
- Due to small scale industrial undertakings	1,969	2,515
- Due to other creditors	63,723	109,680
Sundry creditors for expenses	60,402	31,535
Advance payments by customers	61,275	38,706
Unclaimed dividend *	595	467
	<u>187,964</u>	<u>182,903</u>
Refer Note 4 of Schedule 22 for names of small scale industrial undertakings to whom company is indebted for a period of more than 30 days.		
* No amounts due and outstanding for credit to Investor education and protection fund		
14 Provisions		
Taxation	402,970	271,800
Premium on redemption of FCCB	988,094	–
Proposed dividend	89,552	72,002
Tax on proposed dividend	12,559	10,098
Gratuity	1,691	–
Leave encashment	5,538	5,538
	<u>1,500,404</u>	<u>359,438</u>

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
15 Theatrical exhibition		
Sale of tickets for multiplex/Imax	189,821	140,888
Less: Entertainment tax	15,197	2,025
	<u>174,624</u>	<u>138,863</u>
Facilities provided at multiplex/Imax	21,125	18,108
Food and beverages	57,046	38,128
	<u>252,795</u>	<u>195,099</u>
16 Film processing and trading		
Processing of films	453,938	432,393
Less: Service tax	48,050	40,215
	<u>405,888</u>	<u>392,178</u>
Trading income	251,481	260,331
	<u>657,369</u>	<u>652,509</u>
17 Other income		
<i>Dividend income from:</i>		
- Joint venture companies	-	6,249
- Current investments	14,310	-
<i>Interest income from:</i>		
- Loans and advances (TDS: Rs 3,277; 2005: Nil)	27,914	4,452
- Bank and other deposits (TDS: Rs.1,351; 2005: Rs.335)	6,255	1,610
Profit on sale of investments (net)	42,461	-
Bad debts recovered	-	2,643
Miscellaneous income	6,527	2,039
	<u>97,467</u>	<u>16,993</u>
18 Direct operational expenses		
<i>Theatrical exhibition operations</i>		
Film cost	11,415	5,349
Distributors' share	43,632	33,568
Electricity, power and water charges	17,863	12,864
Print and publicity expenses	1,560	-
Cost of food and beverage sold	24,371	18,372
	<u>98,841</u>	<u>70,153</u>
<i>Film processing operations</i>		
Chemical consumed	32,428	49,413
Consumables	5,669	4,874
Processing charges	21,467	7,279
Electricity, power and water charges	8,922	8,813
Cost of raw films sold	197,316	181,410
Freight, coolie and cartage	1,167	1,091
Effluent treatment charges	278	262
Rent, rates and taxes	14,364	15,196
	<u>281,611</u>	<u>268,338</u>
<i>Film distribution operations</i>		
Producers' share	21,072	-
	<u>21,072</u>	<u>-</u>
	<u>401,524</u>	<u>338,491</u>

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
19 Personnel cost		
Salaries, wages and bonus	56,379	48,184
Contribution to provident fund	3,104	2,963
Gratuity	1,690	273
Leave encashment	1,092	1,287
Staff welfare expenses	1,165	642
	<u>63,430</u>	<u>53,349</u>
20 Other operating and general administrative expenses		
Advertisement	23,078	10,379
Bank charges	3,326	1,318
Business promotion	4,528	2,559
Rents, rates and taxes	29,047	12,713
Commission and brokerage	573	804
Traveling and conveyance	7,742	5,344
Deferred revenue expenses (written off)	1,312	1,105
Donation	406	146
Insurance	9,083	8,452
Legal and professional fees	17,387	5,868
Loss on sale of assets (net)	2,831	736
Miscellaneous expenses	5,668	2,637
Printing, postage and telephone	8,033	4,996
Repairs and maintenance		
- Building	4,766	1,708
- Machinery	2,711	1,131
- Others	23,558	3,960
Facility maintenance charges	11,525	16,787
Share issue expenses written off	-	9,835
Foreign exchange loss (net)	27,515	-
	<u>183,089</u>	<u>90,478</u>
21 Interest		
On fixed loan	4,985	11,099
On other loans	3,888	4,727
	<u>8,873</u>	<u>15,826</u>

(Currency : Indian Rupees in thousand)

SCHEDULE - 22

NOTES TO THE ACCOUNTS

1. Contingent Liabilities

On account of	2006	2005
Disputes with income tax department		
In respect of appeals filed by the Income Tax Department against the decision of CIT (Appeals) for the Assessment Year (A.Y.) 1993-1994, 1998-1999 and 1999-2000	5,879	40,362
In respect of Company's appeals pending before Income Tax Appellate Tribunal for A.Y. 1995-1996.	15,054	12,016
Dispute with excise department		
Disputed Central Excise demand pending with the Central Excise Appellate Tribunal in respect of the film processing division	52,037	47,928
Entertainment tax		
The Company shall be liable to pay the entertainment tax in the event that the multiplexes do not continue operations for a period of 10 years from the respective dates from which they commenced their operations	177,574	Unascertained
Bank guarantees	14,807	12,370

Note:

The amounts are excluding penalty and interest, if any, that could be levied at the time of final conclusion.

2. Commitments

On account of		
Estimated amount of contract remaining to be executed on capital account and not provided for net of advances	51,344	143,931

3. Secured Loans

From banks

Term loans are secured by equitable mortgage of immovable and movable properties of the Company situated at Wadala (Mumbai), hypothecation of moveable properties at proposed multiplexes, digital projection system & sub-titling machines. The loan is counter guaranteed by the Managing Director and one of the erstwhile Whole Time Director of the Company.

The car loans are secured by hypothecation of vehicles acquired on Equitable Monthly Installment (EMI) system.

Cash credit is secured by deferred payment note, hypothecation of book-debts, stocks of chemicals.

4. Names of the Small Scale Industrial Undertakings to whom the Company owes any sum outstanding for more than 30 days are as under.

- (a) Cine Labs
- (b) Elico Limited
- (c) Rajendra Chemicals Private Limited
- (d) Shree Shakti Industries
- (e) Shree Sainath Photochem

This information is determined to the extent such parties have been identified on the basis of information available with the Company, which has been relied upon by the auditors

(Currency : Indian Rupees in thousand)

5. Remuneration to Directors

(i) Remuneration to managing director and whole-time directors:

	2006	2005
Salary	10,902	13,500
Contribution to provident fund	872	1,080
Perquisites	68	79
	<u>11,842</u>	<u>14,659</u>

The above does not include gratuity and leave encashment benefits as the provision for these are determined for the Company as a whole and therefore separate amount for the directors are not available. No commission is paid to directors and hence disclosure under section 198 of the Act is not made.

6. Other miscellaneous expenses include remuneration to auditors as below

Auditors' remuneration (including service tax wherever applicable)

	2006	2005
Audit fees	1,000	
Other attestation fee	1,290	–
Taxation	150	–
Reimbursement of out of pocket expenses	85	–
TOTAL	<u>2,525</u>	<u>–</u>

Remuneration paid to erstwhile auditors

Audit fees-statutory	–	220
Audit fees - tax	–	55
Other services	575	180
TOTAL	<u>575</u>	<u>455</u>

7. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956

	In Units	2006		2005	
		Qty	Value	Qty	Value
Turnover-processing and printing	feet	270,325	405,888	261,829	392,178
Turnover-traded goods	cans	22,785	225,966	20,569	233,636
Theatre operation income		NA	252,795	NA	195,099
Food and beverage sales					
Packaged food items	Pieces ('000)	400	14,955		
Bottled beverages	Pieces ('000)	499	17,129		
Others			24,963		

(Currency : Indian Rupees in thousand)

Quantitative details of traded goods-raw stock (negative) and food and beverages

	In Units	2006		2005	
		Quantity.	Value	Quantity	Value
Negative film rolls					
Opening stock	Cans	601	5,495	529	4,217
Purchases	Cans	22,820	196,216	20,641	182,689
Closing stock	Cans	636	4,395	601	5,495
Food and beverages					
<i>Opening stock</i>					
Packaged food items	Pieces ('000)	11	43		
Bottled beverages	Pieces ('000)	11	412		
Other	–		566		
<i>Purchases</i>					
Packaged food items	Pieces ('000)	962	14,468		
Bottled beverages	Pieces ('000)	567	6,872		
Others			3,593		
<i>Closing stock</i>					
Packaged food items	Pieces ('000)	10	58		
Bottled beverages	Pieces ('000)	109	758		
Others			767		

Considering that manual records were maintained for food & beverages in the previous year it is impracticable to provide comparative quantitative details.

	2006	2005
8. Value of Imports (CIF)		
i) Film cost	874	3,360
ii) Components and spare-parts	5,749	4,708
iii) Capital goods	30,773	9,108
9. Expenditure in foreign currency on account of		
i) Technical know-how	3,513	2,446
ii) Traveling	216	258
iii) Professional fees	52,851	–
iv) Others	41,309	17,782
10. Earnings in foreign currency		
i) Film distribution income	72,388	–

11. Disclosure for operating lease

The Company is obligated under non-cancelable leases for multiplex projects which are renewable on a periodic basis at the option of both, the lessor and lessee. Rental expenses under non-cancelable operating lease accrue from the commencement of commercial operations.

The future minimum lease payments in respect of non-cancelable operating leases as at 31 March 2006, for agreements entered into are as follows:

Period	Minimum lease payment	
	2006	2005
Amount due within one year from the balance sheet date	19,350	210
Amount due in the period between one year and five years	77,400	870
Amount due after five years	193,500	4,820
	<u>290,250</u>	<u>5,900</u>

(Currency : Indian Rupees in thousand)

12. Disclosure of Segment Reporting under AS 17

	Film Processing and trading		Theatrical exhibition		Film production and distribution		Radio broadcasting		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue										
Operating revenue	667,971	625,814	252,795	195,099	152,329	10,951	–	–	1,073,095	831,864
Internal segment sales	(10,603)	–							(10,603)	–
Net revenue	657,368	625,814	252,795	195,099	152,329	10,951	–	–	1,062,492	831,864
Other income									69,554	43,688
Total segment revenue	657,368	625,814	252,795	195,099	152,329	10,951			1,132,046	875,552
Result (profit before interest and corporate expenses)										
Segment result	276,943	298,797	2,447	28,936	99,053	10,951	–	–	378,443	338,684
Unallocated corporate expenses										
Operating profit									378,443	338,684
Interest expenses									(8,873)	(15,826)
Other unallocable income									16,785	–
Income tax									(123,297)	(116,166)
Net profit									263,058	206,692
Other Information										
Segment assets (refer note below)	1,007,929	803,825	1,138,210	675,801	833,904	205,637	2,020,502	–	5,000,545	1,685,263
Unallocated corporate assets									4,359,348	–
Total assets									9,359,893	1,685,263
Segment liabilities	84,203	452,638	64,914	26,297	46,076	–	–	–	195,193	478,935
Unallocated corporate liabilities									5,741,256	–
Total liabilities									5,936,449	478,935
Capital expenditure	36,198	50,916	251,464	60,234	248,291	–	1,919,502	–	2,455,455	111,150
Depreciation and amortisation	24,862	22,595	38,688	31,955	25,226	–	–	–	88,776	54,550
Total assets exclude:										
Advance tax and tax deducted at source									435,713	287,362
Total liabilities exclude:										
Provision for taxation (including net deferred tax liability)									473,378	271,800

Film processing and trading operations primarily comprise of processing of raw exposed films, colour correction, editing, copying and printing of positive exhibition prints and trading in raw film rolls. Other income primarily comprise of realisation from sale of silver extracted from film processing.

Theatrical exhibition operations comprise of multiplex/lmax cinema exhibition, range of activities/services offered at multiplex cinema centers and catering food and beverages.

Film distribution operation represents acquisition of movie rights for overseas distribution for a fixed period and exploitation thereof. These rights generally include as a package, theatrical rights, video and television rights.

Film production represent share of net income for the year from Entertainment One (India) Limited, a wholly owned subsidiary on movies produced/ co-produced or in which it has invested. The share of net income is based on the underlying agreement between the Company and Entertainment One (India) Limited.

Radio broadcasting represents the amount paid to Ministry of Information and Broadcasting (MIB), Government of India towards One Time Entry Fee and related payments for licence to operate FM radio channels in 45 stations. The board of directors in their meeting dated 22 April, 2006 approved a composite scheme of amalgamation and arrangement pursuant to which the radio business segment shall be de-merged into Reliance Unicom Limited.

(Currency : Indian Rupees in thousand)

13. Disclosure of Related Party under AS 18**Related Party Relationship***Parties where control exists***Holding Company**

Reliance Land Private Limited

Subsidiary Companies

Entertainment One (India) Limited

Gemini Exhibitors Limited

Runwal Multiplex Private Limited (until 31 August 2005)

Reliance Unicom Limited

*Other related parties with whom transactions have taken place during the year***(a) Significant Shareholders, Key Management Personnel and their relatives**

Manmohan Shetty

Pooja Shetty

Vasanji Mamania (until 7 October 2005)

(b) Joint Ventures

Divyashakti Marketing Private Limited

Cineplex Private Limited

Swanston Multiplex Cinemas Private Limited (with effect from 1 September 2005)

Runwal Multiplex Private Limited (with effect from 1 September 2005)

Mukta Adlabs Digital Exhibition Limited.

Related Party Transactions

Transactions	Holding company	Subsidiary companies	Significant shareholders, Key management personnel and their relatives	Enterprises over which Key management personnel have significant influence	Joint ventures
Rendering of services	–	10,030 (1,260)	–	Nil (31,928)	735 (Nil)
Receiving of services	–	15,000 (Nil)	–	Nil (760)	–
Managerial remuneration	–	–	11,842 (14,659)	–	–
Dividend paid	–	–	16,582 (33,875)	–	–
Premium on key managerial policy	–	–	6,537 (6,537)	–	–
Loan given	–	1,00,500 (Nil)	–	–	–
Loan received back	–	8,250 (Nil)	–	–	–
Finance given for film production	–	509,554 (205,637)	–	–	–
Finance for multiplex	–	16,422 (103,360)	–	Nil (53,065)	2,509 (Nil)
Advances for business conducting agreement	–	–	–	Nil (2,975)	–
Issue of shares	2,592,960 (Nil)	–	–	–	–
Purchase of shares	–	–	NIL (70,000)	–	–
Outstanding balance as on 31 March 2006	–	468,833 (250,856)	NIL (-35,000)	Nil (9,279)	92,577 (Nil)

Previous year figures are given in brackets.

(Currency : Indian Rupees in thousand)

14. Share issue expenses

During the year, share issue expense of Rs 22,312 has been adjusted against securities premium account. Had these being charged to profit and loss account the profit for the year would have been lower by Rs 22,312 and correspondingly the securities premium account higher by the said amount.

15. Sundry debtors and loans and advances

The management is in the process of obtaining external confirmations and reconciling balances relating to sundry debtors and loans and advances aggregating Rs.400,351 and Rs 429,723 respectively as at 31 March 2006. Accordingly, the need to make provision for doubtful debts/loans and advances, if any, will be assessed upon completion of the exercise mentioned hereinabove.

16. Foreign Currency Convertible Bonds

During the year the Company ('Issuer') issued Zero Coupon Foreign Currency Convertible Bonds ('Bonds') aggregating Euro 84 million (Rs. 4,571,994). The Bonds are convertible at any time on or after 7 March 2006 and upto the close of the business on 19 January 2011 by the holders of the Bonds ('the Bondholders') into newly issued equity shares of the Company with full voting rights with par value of Rs 5 each of the issuer ('Shares') at an initial conversion price (as defined in Terms and Conditions of the Bonds) of Rs 543.42 per share with a fixed rate of exchange on conversion of Rs 54.26=EUR 1.00. The conversion price is subject to adjustment in certain circumstances. The Bonds are listed on the Singapore Exchange Securities Trading Limited (the 'SGX ST').

The Bonds may be redeemed, in whole but not in part at the option of the Issuer at any time on or after 25 January 2009 and on or prior to 26 January 2011 subject to satisfaction of certain conditions. Unless previously redeemed, converted or purchased and cancelled, the bonds will mature on 26 January 2011 at 121.679 per cent of the principal amount.

During the year ended 31 March 2006 there has been no conversion of the Bonds into Shares.

Premium payable on redemption of FCCB Rs. 988,094 has been fully provided for and has been charged to securities premium account. In the event that the conversion option is exercised by the holders of FCCB in the future, the amount of premium charged to the securities premium account will be suitably adjusted in the respective years.

(Currency : Indian Rupees in thousand)

The uses of the proceeds of the FCCB issue as at 31 March 2006 is as under:

Purpose	Uses of funds as projected in the offer document	Actual funds used as at 31 March 2006
a. New cinema complexes		–
b. Expansion / modernisation of existing cinema complexes		122,450
c. Expansion / modernisation of film processing facilities		–
d. Film distribution		32,000
e. Film production		61,511
f. New entertainment medium (Radio)		650,282
g. Other purposes allowed under Indian laws		–
h. FCCB issue expense		55,751
	4,571,994	921,994

17. Premium on redemption of Foreign currency convertible bonds (FCCB)

Opening balance	Nil
Add: Provision for the year *	988,094
Less: Amounts utilised during the year	Nil
Less: Unutilised amounts reversed during the year	Nil
Closing balance	988,094

* Premium payable on redemption of FCCB Rs. 988,094 has been fully provided for and has been charged to securities premium account. The bonds are convertible at any time on or after 7 March 2006 and upto the close of business on 19 January 2011 by the bondholders.

(Currency : Indian Rupees in thousand)

18. Investments

The Company has on 31 August 2005 divested a part of its stake in Runwal Multiplex Private Limited ('RMPL'). Consequently RMPL has become a jointly controlled entity with effect from 1 September 2005.

The Company has on 31 August 2005 acquired additional shares of Swanston Multiplex Cinemas Private Limited ('SMCPL'), which was an associate entity. Consequently SMCPL has become a jointly controlled entity with effect from 1 September 2005.

19. Earning per Share

Particulars	2006	2005
No of shares at the beginning of the year	21,500,750	21,500,750
Fresh issue of shares	18,300,000	–
Total number of equity shares outstanding at year end	39,800,750	21,500,750
Equity shares outstanding for 365 days	21,500,750	21,500,750
Equity shares outstanding for 311 days	2,982,192	–
Equity shares outstanding for 235 days	7,082,192	–
Equity shares outstanding for 1 day	10,411	–
Weighted average number of equity shares outstanding during the year for Basic EPS	31,575,545	21,500,750
Add: Potential equity shares		
Upon conversion of Equity Share Warrants	1,204,834	–
Weighted average number of equity shares outstanding during the year for Dilutive EPS	32,780,379	–
Net profit after tax available for equity shareholders for Basic and Dilutive EPS	263,058	206,693
Basic Earnings Per Share	8.33	9.61
Dilutive Earnings Per Share	8.02	9.61
Nominal value per share	5	5

20. The figures of previous year, which were audited by a firm of Chartered accountants other than BSR & Co., have been regrouped and reclassified wherever necessary to conform to current year's presentation.

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place : Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Pooja M Shetty Wholetime Director

Gautam Doshi Director

Berjis Desai Director

Kirti Desai Company Secretary

Mumbai : 23 April 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. State Code
 Balance Sheet Date
 Date Month Year

II. Capital raised during the period (Amount in Rs. thousands)

Public Issue
 Bonus Issue
 Right Issue
 Private Placement

III. Position of mobilisation & deployment of funds (Amounts in Rs. thousands)

Total Liabilities Total Assets
 Sources of Funds
 Paid-up Capital
 Secured Loans
 Deferred tax liability
 Reserves & Surplus
 Unsecured Loans
 Application of Funds
 Net Fixed Assets
 Net Current Assets
 Accumulated Losses
 Investment
 Misc. Expenditure

IV. Performance of Company (Amounts in Rs. thousands)

Turnover
 Profit/Loss before tax
 Total Expenditure
 Profit/Loss after Tax
 (Please tick Appropriate box + for Profit - for Loss)
 Earnings per Share (Basic) in Rs.
 Dividend %

Balance Sheet Abstract and Company's General Business Profile (Continued)

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)

Product Description

P	R	O	C	E	S	S	I	N	G	&	P	R	I	N	T	I	N	G	O	F		
C	I	N	E	M	A	T	O	G	R	A	P	H	I	C			F	I	L	M	S	

Item Code No. (ITC Code)

Product Description

T	R	A	D	I	N	G		O	F		N	E	G	A	T	I	V	E		S	T	O	C	K
---	---	---	---	---	---	---	--	---	---	--	---	---	---	---	---	---	---	---	--	---	---	---	---	---

For and on behalf of the Board
Manmohan Shetty Chairman & Managing Director
Pooja M Shetty Wholetime Director
Gautam Doshi Director
Berjis Desai Director
Kirti Desai Company Secretary

Mumbai : 23 April 2006

AUDITOR'S REPORT

To the Board of Directors of

Adlabs Films Limited on the consolidated financial statements of Adlabs Films Limited and its subsidiaries

We have examined the attached consolidated balance sheet of Adlabs Films Limited ('the Company') and its subsidiaries, as listed in note 2 of schedule 1 to the Consolidated financial statements (collectively referred to as 'the Group'), as at 31 March 2006 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date.

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 conducted our audit in accordance with generally accepted auditing standards in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of subsidiaries (Entertainment One (India) Limited, Gemini Exhibitors Limited and Reliance Unicom Limited) and joint ventures (Runwal Multiplex Private Limited and Divya Multiplex Private Limited) whose financial statements reflect the Group's share of total assets of Rs. 660 million as at 31 March 2006 and the Group's share of total revenues of Rs. 139 million and net cash outflows amounting to Rs.116 million for the year ended on that date as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of these subsidiaries and joint venture is based solely on the report of the other auditors.

As explained in note 10 of schedule 22 to the financial statements in respect of sundry debtors and loans and advances of Adlabs Films Limited aggregating to Rs.400 million and Rs 430 million respectively, the management is in the process of obtaining external confirmations and reconciling the balances as at March 31, 2006. Accordingly, we are unable to comment on the adequacy on provision required, if any, relating to the sundry debtors and loans and advances and the consequent impact, if any, on the profit for the year ended March 31, 2006 and the reserves as at March 31, 2006.

Subject to our comments above, we report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, AS 23 – Accounting for Investment in Associates in Consolidated Financial Statements and AS 27 – Financial Reporting of Interest in Joint Ventures issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiaries and joint ventures included in the consolidated financial statements.

On the basis of the information and explanation given to us and on consideration of the separate audit reports on individual audited financial statements of the components, we are of the opinion that:

- (a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of the Group as at March 31, 2006; and
- (b) the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of the Group for the year then ended; and
- (c) the Consolidated Cash flow statements gives a true and fair view of the consolidated cash flows of the Group for the year then ended.

For BSR & Co.
Chartered Accountants

Mumbai
23 April 2006

Akeel Master
Partner
Membership No: 46768

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	Schedule	2006	2005
SOURCES OF FUNDS			
Shareholder funds			
Share capital	2	199,004	107,504
Reserves and surplus	3	3,224,462	1,083,688
		<u>3,423,466</u>	<u>1,191,192</u>
Minority interest		–	68,249
Loan funds			
Secured loans	4	112,455	276,717
Unsecured loans	5	4,615,628	–
		<u>4,728,083</u>	<u>276,717</u>
Deferred tax liabilities (net)	6	78,236	86,159
		<u>8,229,785</u>	<u>1,622,317</u>
APPLICATION OF FUNDS			
Fixed assets			
Gross block	7	1,252,333	1,008,590
Less : Accumulated depreciation		332,890	227,028
Net block		919,443	781,562
Capital work in progress		2,279,902	61,808
		<u>3,199,345</u>	<u>843,370</u>
Goodwill		66,163	950
Investments	8	4,384,436	166,482
Current assets, loans and advances			
Interest accrued on investment		4,687	–
Inventories	9	58,328	9,533
Sundry debtors	10	576,357	368,377
Cash and bank balances	11	253,566	28,657
Loans and advances	12	1,460,396	827,748
		<u>2,353,334</u>	<u>1,234,315</u>
Less: Current liabilities and provisions			
Current liabilities	13	231,637	249,300
Provisions	14	1,541,967	374,220
		<u>1,773,604</u>	<u>623,520</u>
Net current assets		579,730	610,795
Miscellaneous expenditure (to the extent not written - off or adjusted)			
Deferred revenue expenditure		111	720
		<u>8,229,785</u>	<u>1,622,317</u>
Significant accounting policies	1		
Notes to the accounts	22		

The schedules referred to above form an integral part of the balance sheet.

As per our report of even date attached.

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place: Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Pooja M Shetty Wholetime Director

Gautam Doshi Director

Berjis Desai Director

Kirti Desai Company Secretary

Mumbai, 23 April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	<i>Schedules</i>	2006	2005
INCOME			
Theatrical exhibition	15	410,074	316,102
Film processing and trading	16	657,369	652,509
Film distribution		53,118	–
Film production		91,993	12,686
Other income	17	98,641	11,302
		<u>1,311,195</u>	<u>992,599</u>
EXPENDITURE			
Direct operational expenses	18	450,430	381,039
Personnel cost	19	76,201	59,056
Other operating and general administrative expenses	20	250,863	109,871
Interest	21	15,943	15,911
Depreciation/amortisation	7	99,745	62,013
		<u>893,182</u>	<u>627,890</u>
Profit before taxation and minority interest		418,013	364,709
Less : Provision for tax			
- Current tax		143,260	120,075
- Deferred tax (credit)/charge		(6,941)	12,319
- Fringe benefit tax		1,493	–
- Short provision for earlier years		167	1,155
		<u>280,034</u>	<u>231,160</u>
Profit after tax		280,034	231,160
Share in Associates		10,127	3,822
Minority interest		(9,272)	(16,804)
Prior period adjustment		(427)	–
		<u>280,462</u>	<u>218,178</u>
Profit after tax		280,462	218,178
Accumulated balance brought forward (refer schedule 3)		129,804	12,275
		<u>410,266</u>	<u>230,453</u>
Appropriation			
Transfer to general reserve		26,400	20,670
Proposed dividend		89,551	72,002
Dividend tax		12,560	10,098
Balance carried to balance sheet		281,755	127,683
		<u>410,266</u>	<u>230,453</u>
Basic earnings per share (Refer note 13 of schedule 22)		8.93	10.15
Diluted earnings per share (Refer note 13 of schedule 22)		8.60	10.15
Significant accounting policies	1		
Notes to the accounts	22		

The schedules referred to above form an integral part of the profit and loss account.

As per our report of even date attached.

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place: Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Pooja M Shetty Wholtime Director

Gautam Doshi Director

Berjis Desai Director

Kirti Desai Company Secretary

Mumbai, 23 April 2006

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
A. Cash flow from operating activities		
Net profit before tax	418,013	364,709
Adjustment for:		
Depreciation and amortisation	99,745	62,013
Interest expense	15,943	15,911
Interest income	(6,563)	(6,062)
Dividend income	(14,310)	–
Loss on sale of fixed assets	3,400	711
Profit on sale of investments	(42,461)	–
Miscellaneous expenditure written off	609	10,941
Unrealised foreign exchange loss	27,254	–
Provision for gratuity and leave encashment	1,745	584
Operating profit before working capital changes	503,375	448,807
Increase in sundry debtors	(207,980)	(45,970)
Increase in loans and advances	(458,290)	(244,990)
Increase in inventories	(48,796)	(3,191)
Decrease in liabilities	(17,453)	44,198
Cash generated from operation	(229,144)	198,854
Taxes paid (net of refunds)	(174,358)	(117,405)
Net cash flow used in operating activities (A)	(403,502)	81,449
B. Cash flow from investing activities		
Purchase of fixed assets (Refer notes to Schedule 7)	(696,358)	(111,766)
Proceeds from sale of fixed assets (Refer notes to Schedule 7)	91,527	360
Purchase of investments (net)	83,855	(117,539)
License fee paid for FM radio licenses	(1,919,502)	–
Interest income (net of TDS)	6,564	6,062
Dividend income	14,310	6,249
Effect of change of subsidiary/associate (Refer note 2 of schedule 1)	(53,915)	–
Net cash flow used in investing activities (B)	(2,473,519)	(216,634)
C. Cash flow from financing activities		
Proceeds from fresh issue of share capital (including share premium)	3,117,960	164,499
Payment for share issue expenses	(22,313)	–
Proceeds from issue of bonds (FCCB)	4,571,994	–
Payment for bond issue expenses	(55,751)	–
Repayment of loans	(147,882)	(31,475)
Interest paid (net of TDS)	(20,630)	(15,911)
Dividend (including dividend tax) paid	(82,100)	(60,777)
Net cash flow from financing activities (C)	7,361,278	56,336
Net increase in cash and cash equivalent (A+B+C)	4,484,257	(78,849)
Cash and cash equivalents as at beginning of the year	28,657	107,506
Cash and cash equivalents as at end of the year	4,512,914	28,657
Cash and cash equivalents at year end comprises:		
Cash on hand	3,447	1,516
<i>Balance with scheduled banks</i>		
In current accounts	148,426	6,827
In fixed deposit	101,693	20,314
Liquid investment in mutual funds	4,259,348	–
	4,512,914	28,657

As per our report of even date attached.

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place: Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty

Chairman & Managing Director

Pooja M Shetty

Wholetime Director

Gautam Doshi

Director

Berjis Desai

Director

Kirti Desai

Company Secretary

Mumbai, 23 April 2006

SCHEDULE – 1

(Currency : Indian Rupees in thousand)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**1. Basis of consolidation**

The consolidated financial statements relate to Adlabs Films Limited ('the Company / Parent Company'), its subsidiary companies, joint ventures and associates. The Company along with its subsidiaries, associates and joint ventures constitute 'the Group'.

The financial statements of the subsidiaries, associates and joint venture companies used in the consolidation are drawn upto the same reporting date as of the Company i.e. year ended 31 March 2006.

The financial statements of the Group are prepared and presented under the historical cost convention on the accrual basis of accounting and in accordance with the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956 (the 'Act') to the extent applicable.

2. Principles of consolidation

The consolidated financial statements are prepared in accordance with AS 21 – 'Consolidated Financial Statements' issued by ICAI. Consolidated financial statements are prepared using uniform policies for transactions and other events in similar circumstances except where it is not practicable to do so. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the Parent Company for its independent financial statements. The consolidated financial statements have been consolidated on the following basis.

Subsidiaries

The excess of cost to the Parent Company of its investment in subsidiaries over its portion of equity in the subsidiaries at the respective dates on which investments in such subsidiaries was made is recognised in the financial statements as goodwill. The Parent Company's portion of equity in the subsidiaries is determined on the basis of the book values of assets and liabilities as per the financial statements of the subsidiaries as on the date of the investment.

The financial statements of the Parent Company and its subsidiaries 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 unrealized profits in full.. The amounts shown in respect of reserves/accumulated losses comprise the reserve/accumulated losses as per the balance sheet of the Parent Company and its share in the post-acquisition increase/ decrease in the relevant reserve/accumulated losses of the subsidiaries.

Minority interest's share of profits or losses is adjusted against the income to arrive at the net income attributable to the shareholders. Minority interest's share of net assets is disclosed separately in the consolidated balance sheet.

The Company has on 31 August 2005 divested a part of its stake in Runwal Multiplex Private Limited ('RMPL'), which was a subsidiary entity. Consequently RMPL has become a jointly controlled entity with effect from 1 September 2005.

Joint venture entities

Interests in jointly controlled entities are accounted for using proportionate consolidation method.

During the year the joint venture entity Cineplex Private Limited (CPL) commenced the operation of its multiplex at Mangalore on 24 March 2006. The financial statement as on 31 March, 2006 of CPL has not been prepared and has not been considered for consolidation purposes. In view of the Company's Management, the Group's share of revenues, assets and related cash outflows are not material for consolidation purposes. Further the financial statement of Mukta Adlabs Digital Exhibition Limited (MADEL) has not been considered for consolidation purposes. The Group's share of total revenues, assets and net cash outflows in the joint venture is Rs. 9,301, Rs 2,503 and Rs. 1,930 respectively. In view of the Company's management, the group share of revenues, assets and related cash outflows are not material for consolidation purposes.

Associates

Interests in associate entity are accounted for using the equity method.

The Company has on 31 August 2005 acquired additional shares of Swanston Multiplex Cinemas Private Limited ('SMCPL'), which was the only associate entity. Consequently SMCPL has become a jointly controlled entity with effect from 1 September 2005.

The list of subsidiaries considered in these consolidated financial statements with percentage holding is summarized below:

Sr. No.	Name of the Subsidiary	Country of Incorporation	Date of Incorporation	Ownership Interest (%)	
				2006	2005
1	Entertainment One India Limited	India	29 October 2003	100%	100%
2	Gemini Exhibitors Limited	India	19 May 2003	100%	100%
3	Reliance Unicom Limited	India	27 December 2005	100%	–

(Currency : Indian Rupees in thousand)

The list of joint venture entities considered in these consolidated financial statements with percentage holding is summarized below:

Sr. No.	Name of the Joint Venture	Country of Incorporation	Date of Incorporation	Ownership Interest (%)	
				2006	2005
1	Swanston Multiplex Cinimas Private Limited	India	11 October 2001	50%	49.99%
2	Runwal Multiplex Private Limited	India	07 June 1993	50%	50.06%
3	Divya Shakti Marketing Private limited	India	21 October 1994	50%	50%
4	Cineplex Private Limited	India	16 March 2004	50%	50%
5	Mukta Adlabs Digital Exhibition Private Limited	India	04 September 2003	50%	50%

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in India ('Indian GAAP') requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities on the date of financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

4. Fixed assets and depreciation/ amortisation

a. Tangible assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Cost includes freight, duties, taxes (other than those recoverable from tax authorities) and other incidental expenses related to the acquisition/ construction and installation of the fixed assets for bringing the asset to its working condition for its intended use. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Depreciation on fixed assets relating to the multiplex and digital projection system is provided pro-rata to the period of use, under the straight line method, at the rates prescribed in Schedule XIV of the Act, which, in management's opinion, reflects the estimated useful lives of those fixed assets.

Depreciation on fixed assets not relating to the multiplex and digital projection system is provided pro-rata to the period of use, under the written down value method, at the rates prescribed in Schedule XIV of the Act which, in management's opinion, reflects the estimated useful lives of fixed assets.

Individual assets costing up to Rs 5,000 are depreciated fully in the year of acquisition. Assets that have been retired from active use and held for disposal are stated at the lower of their net book value and net realisable value. Those assets are not subjected to further depreciation.

b. Intangible assets

Intangible assets, all of which have been acquired and are controlled through custody or legal rights are capitalized at cost, where they can be reliably measured. Where capitalized, intangible assets are regarded as having a limited useful economic life and the cost is amortised over the lower of useful life and 10 years.

Application software purchased, which is not an integral part of the related hardware, is shown as intangible assets and amortised on a straight line basis over its useful life, not exceeding five years, as determined by management.

Film rights comprise negative rights and distribution rights in films and are for a contractually specified mode of exploitation, period and territory and are stated at cost less accumulated amortization. Cost of film rights comprises original purchase price/ minimum guarantee. Cost is ascertained on specific identification basis where possible. In case multiple films/ rights are acquired for a consolidated amount, cost is allocated to each film/right based on management's best estimates.

The individual film forecast method is used to amortize the cost of film rights acquired. Under such method, costs are amortized in the proportion that gross revenues realised bear to management's estimate of the total gross revenues expected to be received. If estimates of the total revenue and the other events or changes in circumstances indicate that a right has a fair value that is less than its unamortised cost, a loss is recognised for the excess of unamortised cost over the film right's fair value.

In respect of unreleased films, payments towards films distribution rights are classified under capital advances as the amounts are refundable in the event of nonrelease of the film.

5. Impairment of fixed assets

In accordance with AS 28-Impairment of Assets, where there is an indication of impairment of the Company's asset, the carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any

impairment. The recoverable amount of the assets (or where applicable that of the cash generating unit to which the asset belongs) is estimated as the higher of its net selling price and its value in use. An impairment loss is recognized whenever the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment loss is recognized in the profit and loss account.

6. Investments

Long-term investments are carried at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long-term investments and is determined separately for each individual investment.

Current investments are carried at lower of cost and fair value, computed individually for each investment.

7. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in first-out (FIFO) basis.

Consumables and stores and spares except for inventory of xenon lamps are charged to the profit and loss account upon purchase.

8. Retirement benefits

The group's contribution to provident fund, which is a defined contribution scheme, is charged to the profit and loss account.

Leave encashment, which is a defined benefit scheme, is accrued based on an actuarial valuation carried out by an independent actuary at the balance sheet date.

Provision for gratuity, which is a defined benefit is made on the basis of actuarial valuation carried out by an independent actuary at the balance sheet date and is funded through a scheme administered by the Life Insurance Corporation of India ('LIC').

9. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.. Sales are recorded net of sales tax. Amount of entertainment tax and service tax collected is shown as a reduction from the revenue.

Revenue from film processing/ printing and trading

Revenue from processing/printing of cinematographic films is recognised upon completion and dispatch of the processed/ printed film to the customer and acceptance thereof by the customer. Revenue is recorded net of trade discount.

Sale of traded goods is recognised when the risks and rewards of ownership are passed on to the customer. Revenue is recorded net of trade discounts.

Theatrical exhibition operations and related income

Sale of tickets

Revenue from theatrical exhibition is recognized on the date of the exhibition of the films and comprises proceeds from sale of tickets, gross of taxes. As the Company is the primary obligor with respect to exhibition activities, the share of distributors in these proceeds is separately disclosed as exhibition costs.

Sale of food and beverages

Revenue from sale of food and beverages is recognized upon sale and delivery at the counter.

Advertisement/ sponsorship revenue

Revenue from advertisements, sponsorship and events is recognized on the date of the exhibition of the advertisement/ event or over the period of the contract, as applicable.

Film production

Share of net income from film production is recognized as per the terms and condition of the agreement with the subsidiary company. In case of subsidiary company, revenue is recognized on the basis of conservative, estimate of future realization of each film base on its box office standings. In case of uncertainty, such value is not recognized at all.

Income from distribution rights

In case of overseas distribution, distribution rights of motion pictures, satellite rights and video rights etc., revenue is recognized on the date of the exhibition or based on management's estimate of exploitation of such rights as per the underlying agreements with distributors and assignees.

Interest income

Interest income is recognized on a time proportion basis.

Dividend income

Dividend income is recognised when the right to receive dividend is unconditional at the balance sheet date.

(Currency : Indian Rupees in thousand)

10. Foreign currency transaction

Transactions denominated in foreign currency are recorded at the exchange rate prevailing at the time of transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account of the year, except that exchange difference related to acquisition of imported fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities in foreign currency, which are outstanding as at the year-end and not covered by forward contracts, are translated at the year-end at the closing exchange rate and the resultant exchange differences are recognized in the profit and loss account except those related to acquisition of imported fixed assets which are adjusted in the carrying amount of the related fixed assets.

11. Taxation

Income-tax expense comprises current tax expense and fringe benefit tax computed in accordance with the relevant provision of the Income Tax Act, 1961 and deferred tax charge or credit.

Current tax provision is made based on the tax liability computed after considering tax allowances and exemptions, in accordance with the Income Tax Act, 1961. Deferred tax charge or credit and the corresponding deferred tax liability or asset is recognized for timing differences between the profits/ losses offered for income taxes and profits/ losses as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted at the Balance sheet date.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized.

12. Share issue / FCCB issue expenses and premium on redemption

Hitherto, share issue expenses incurred until 31 March 2004 were amortised over a period of five years and those expenses incurred on or after 1 April 2004 were charged to the profit and loss account in the year of issue. With effect from 1 April 2005, share / FCCB issue expenses incurred and premium payable on FCCB are adjusted in the year of issue against the Securities Premium Account.

13. Provisions and contingencies

Provisions comprise liabilities of uncertain timing or amount. Provisions are recognized when the Company recognizes it has a present obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated.

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 an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Loss contingencies arising from claims, litigation, assessment, fines, penalties, etc. are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Contingent assets are not recognized in the financial statement.

14. Leases

Lease rentals in respect of assets acquired on operating lease are recognised off to the Profit and loss account as incurred.

15. Earnings per share ('EPS')

Basic EPS is computed using the weighted average number of equity shares outstanding during the year. Diluted EPS is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the year except where the results would be anti-dilutive.

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
2 Share capital		
<i>Authorised</i>		
60,000,000 (2005: 24,000,000) equity shares of Rs.5/-each	<u>300,000</u>	<u>120,000</u>
<i>Issued, subscribed and paid up capital</i>		
39,800,750 (2005: 21,500,750) equity share of Rs.5/- each fully paid up	199,004	107,504
<i>Of the above:</i>		
- 17,000,000 (2005: 17,000,000) equity shares of Rs.5/- each fully paid up were allotted as Bonus share on capitalisation of General Reserve;		
- 20,600,000 (2005: Nil) equity shares of Rs.5/- each fully paid up are held by Reliance Land; the holding company	<u>199,004</u>	<u>107,504</u>
3 Reserves and surplus		
<i>Securities premium account</i>		
At the commencement of the year	506,017	506,017
Additions during the year	3,026,460	-
Less : Share / FCCB issue expenses	78,064	-
Less : Provision for premium on redemption of FCCB (Refer Note 11 of Schedule 22)	988,094	-
	<u>2,466,319</u>	<u>506,017</u>
<i>Capital reserve</i>	3,388	3,388
<i>General reserve</i>		
At the commencement of the year	446,600	425,930
Transferred from profit and loss account	26,400	20,670
	<u>473,000</u>	<u>446,600</u>
Balance in profit and loss account	281,755	127,683
	<u>3,224,462</u>	<u>1,083,688</u>
(Accumulated balance in profit and loss account brought forward is higher by Rs. 2,121 on account of change in status of a subsidiary to a joint venture during the year. Refer note 2 of schedule 1)		
4 Secured loans		
From bank for		
- Term loan	5,416	152,180
- Cash credit	49,980	89,081
- Overdraft	55,000	34,852
- Others	2,059	604
	<u>112,455</u>	<u>276,717</u>
(Refer Note 3 of Schedule 22)		
5 Unsecured loans		
Zero Coupon Foreign Currency Convertible Bonds ('FCCB')	4,599,248	-
Others	16,380	-
	<u>4,615,628</u>	<u>-</u>
Repayable within 1 year - Nil (2005: Nil) (Refer Note 11 of Schedule 22)		

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
6 (A) Deferred tax asset		
<i>Arising on account of timing difference in:</i>		
Provision for leave encashment and gratuity	500	500
Loss on sale of asset	953	-
Unrealised foreign exchange loss	9,173	-
Other provisions, etc.	1,367	-
	<u>11,993</u>	<u>500</u>
(B) Deferred tax liability		
<i>Arising on account of timing difference in:</i>		
Depreciation	90,229	86,659
	<u>90,229</u>	<u>86,659</u>
Net deferred tax liability (net)	<u>78,236</u>	<u>86,159</u>

7 Fixed assets

Particulars	Gross Block				Accumulated Depreciation / Amortisation				Net Block	
	As at 01 April 2005	Additions during the year	Deductions during the year	As at 31 March 2006	As at 01 April 2005	Charge for the year	Depreciation on assets sold / discarded / Adjustment	As at 31 March 2006	As at 31 March 2006	As at 31 March 2005
Intangible assets										
Distribution rights	-	82,585	-	82,585	-	25,219	-	25,219	57,366	-
Negative rights	-	5,290	-	5,290	-	3,518	-	3,518	1,772	-
Computer software	1,185	355	-	1,540	237	308	-	545	995	948
Tangible assets										
Leasehold land	22,573	-	-	22,573	-	-	-	-	22,573	22,573
Buildings:										
Leasehold	35,109	30,183	899	64,393	8,096	4,446	(7,820)	20,362	44,031	27,013
Freehold	341,386	40,453	52,844	328,995	35,417	11,453	3,203	43,667	285,328	305,969
Air conditioner plant	43,250	20,276	3,990	59,536	12,708	2,674	(1,226)	16,608	42,928	30,542
Electrical installation	58,749	24,122	4,212	78,659	19,311	3,941	204	23,048	55,611	39,438
Plant and machinery	167,359	13,299	-	180,658	51,886	16,606	-	68,492	112,166	115,473
Theatrical equipments	271,680	49,206	7,383	313,503	78,437	21,428	(2,529)	102,394	211,109	193,243
Furniture and fixtures	52,090	56,996	14,704	94,382	14,812	7,531	152	22,191	72,191	37,278
Vehicles	15,209	9,788	4,778	20,219	6,124	2,621	1,899	6,846	13,373	9,085
Total	1,008,590	332,553	88,810	1,252,333	227,028	99,745	(6,117)	332,890	919,443	781,562
Previous year	954,794	62,067	8,271	1,008,590	171,436	62,013	6,421	227,028	781,562	783,358
Capital work in progress (including capital advances)									2,279,902	61,808

Notes:

- Additions during the year includes Rs. 47,393 of Swaston Multiplex Cinemas Private Limited on account of conversion of associate to joint venture and Rs. 36,932 on account of new joint venture Divyashakti Marketing Private Limited.
 - Deductions during the year include Rs. 76,313 of Runwal Multiplex Private Limited on account of joint venture with Adlabs Films Limited.
 - Adjustment for the year includes Rs. 14,978 of Swaston Multiplex Cinemas Private Limited on account of conversion of associate to joint venture and Rs. 1,722 on account of new joint venture Divyashakti Marketing Private Limited.
 - Adjustment on assets sold/discarded include Rs. 2,501 of Runwal Multiplex Private Limited on account of joint venture of Adlabs Films Limited.
- * Leasehold land in excess of 99 years is not depreciated as this is deemed ownership
- ** Amount of intangible asset included in capital work in progress (CWIP) Rs. 165,550 (2005: Nil) (refer note 3 (b) of schedule 1). CWIP includes Rs. 1,919,501 (2005: Nil) as payment towards One Time Entry Fee and related payments for license to operate FM radio channels in 45 stations (refer note on composite scheme of amalgamation and arrangement in the directors report).

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
8 Investments		
Long term (non-trade, unquoted and at cost)		
<i>A Government securities</i>		
National saving certificates (Pledged with State government authorities)	8,200	7,100
<i>B Investment in shares in</i>		
Prime Focus Limited	46,658	46,658
964,000 (2005: 964,000) equity shares of Rs 5/- each fully paid up Cineplex Pvt. Ltd.	500	500
50,000 (2005: 50,000) equity shares of Rs.10/- each fully paid up Mukta Adlabs Digital Exhibition Pvt. Ltd.	50	50
500 (2005: 500) equity shares of Rs.100/- each fully paid up Investment in associates-Swanston	-	67,573
Investment in partnership firm	57,853	44,601
Total long term investment	<u>113,261</u>	<u>166,482</u>
Current investments (non-trade, unquoted and at lower of cost and fair value)		
<i>C Investment in mutual funds</i>		
Reliance Liquid Fund - Cash Plan - Weekly Dividend Option	2,234	-
Reliance Fixed Maturity Fund- Monthly Plan XI - Series II - Growth Option	500,000	-
Reliance Liquid Fund - Weekly Dividend Reinvestment Option	3,757,114	-
Others	11,827	-
Total current investments	<u>4,271,175</u>	<u>-</u>
	<u>4,384,436</u>	<u>166,482</u>

1 Unutilised monies out of the issue of FCCB, aggregating Rs 500,000 and Rs 3,150,000 has been temporarily invested in units of Reliance Fixed Maturity Fund-Monthly Plan XI-Growth Option and Reliance Liquid Fund - Weekly Dividend Reinvestment Option respectively.

2 The following investments were acquired and sold during the year

Particulars	No.of Units	Face Value	Purchase Amount
Canfloating Rate Short Term Dividend Fund	2,959,514	10	30,000
Chola Liquid Institutional Dividend Reinvestment Plan	2,004,982	10	20,083
HDFC Cash Management Fund - Savings Plan- Daily Dividend Reinvestment	4,748,611	10	50,203
HSBC Cash Fund - Dividend	2,955,268	10	30,123
JM Financial Mutual Fund- Dividend Option Reinvestment	2,988,939	10	30,304
Kotak Flexi Debt Scheme - Dividend	2,999,247	10	30,335
LICMF Liquid Fund - Dividend Plan	4,151,621	10	45,161
Panjab National Bank - Principal Income Fund Short Term Plan Dividend Reinvestment Monthly	4,505,319	10	45,728
PBPAD Prudential ICICI Blended Plan A - Dividend	984,464	10	10,011
PBPBD Prudential ICICI Blended Plan B- Dividend	992,604	10	10,013
Prudential ICICI Institutional Short Term Plan -Dividend- Fortnight	7,381,979	10	80,998
Prudential ICICI Liquid Plan -Dividend- Daily	1,689,392	10	20,022
Prudential ICICI Short Term Plan -Dividend Reinvestment- Fortnightly	4,247,375	10	45,499
Reliance Fixed Maturity Fund- Monthly Plan X - Series II - Dividend Option	50,000,000	10	500,000
Reliance Liquid Fund - Cash Plan - Weekly Dividend Option	91,533,895	10	999,853
Reliance Liquid Fund - Weekly Dividend Reinvestment Option	9,992,805	10	100,015
Reliance Liquidity Fund - Growth Option	197,381,472	10	1,990,000

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
9 Inventories		
Stores and spares	1,132	–
Chemical stock	5,924	2,838
Food and beverages	1,865	1,200
Negative film rolls	4,395	5,495
Film rights	45,012	–
	<u>58,328</u>	<u>9,533</u>
10 Sundry debtors		
<i>Unsecured</i>		
Debts outstanding for a period exceeding six months		
- Considered good	339,422	254,993
- Considered doubtful	89	–
	<u>339,511</u>	<u>254,993</u>
Other debts		
- Considered good	236,935	113,384
	<u>236,935</u>	<u>113,384</u>
	576,446	368,377
Less: Provision for doubtful debts	89	–
	<u>576,357</u>	<u>368,377</u>
11 Cash and bank balances		
Cash on hand	3,447	1,516
<i>Balance with scheduled banks</i>		
In current accounts	148,426	6,827
In fixed deposit	101,693	20,314
Dividend account		
	<u>253,566</u>	<u>28,657</u>
12 Loans and advances		
<i>(Unsecured and considered good)</i>		
Advances recoverable in cash or in kind or for value to be received	905,069	509,480
Deposits	76,972	14,272
Advance tax and tax deducted at source and advance fringe benefit tax	478,355	303,996
<i>(Unsecured and considered doubtful)</i>		
Advances recoverable in cash or in kind or for value to be received	209	–
Less: Provision for doubtful advances	209	–
	<u>1,460,396</u>	<u>827,748</u>
13 Current Liabilities		
Sundry Creditors for goods and services:		
- Due to small scale industrial undertakings	1,969	2,515
- Due to other creditors	66,178	111,105
Sundry creditors for expenses	75,545	34,107
Advance payments by customers	75,328	101,106
Unclaimed dividend	596	467
Other current liabilities	12,021	–
	<u>231,637</u>	<u>249,300</u>

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
14 Provisions		
Taxation	444,478	286,582
Provision for premium on redemption of FCCB	988,094	—
Proposed dividend	89,552	72,002
Tax on proposed dividend	12,560	10,098
Gratuity	1,716	—
Leave encashment	5,567	5,538
	<u>1,541,967</u>	<u>374,220</u>
15 Theatrical exhibition		
Sale of tickets for multiplex/Imax	314,237	236,815
Less: Entertainment tax	18,653	2,025
	<u>295,584</u>	<u>234,790</u>
Facilities provided at multiplex/Imax	32,636	22,993
Food and beverages	81,854	58,319
	<u>410,074</u>	<u>316,102</u>
16 Film processing and trading		
Processing of films	453,938	432,393
Less: Service Tax	48,050	40,215
	<u>405,888</u>	<u>392,178</u>
Trading income	251,481	260,331
	<u>657,369</u>	<u>652,509</u>
17 Other income		
<i>Dividend income from:</i>		
- Current investments	14,310	—
<i>Interest income from:</i>		
- Loans and advances to producers (TDS: Rs. 3,277 ; 2005: Nil)	27,914	4,452
- Bank and other deposits (TDS: Rs. 1,351 ; 2005: Rs 335)	6,273	2,168
- Others	290	—
Profit on sale of investments (net)	42,461	—
Bad debts recovered	—	2,643
Miscellaneous income	7,393	2,039
	<u>98,641</u>	<u>11,302</u>
18 Direct operational expenses		
<i>Theatrical exhibition operations</i>		
Film cost	11,415	5,349
Distributors' share	75,975	60,876
Electricity, power and water charges	25,051	17,857
Print and publicity expenses	1,834	1,804
Cost of food and beverage sold	33,472	26,807
	<u>147,747</u>	<u>112,693</u>

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : Indian Rupees in thousand)

	2006	2005
<i>Film processing operations</i>		
Chemical consumed	32,428	49,413
Consumables	5,669	4,874
Processing charges	21,467	7,279
Electricity, power and water charges	8,922	8,813
Cost of raw films sold	197,316	181,410
Rent, rates & taxes	14,364	15,204
Freight, coolie & cartage	1,167	1,091
Effluent treatment cost	278	262
	<u>281,611</u>	<u>268,346</u>
Film distribution operations		
Producers' share	21,072	—
	<u>21,072</u>	<u>—</u>
	<u>450,430</u>	<u>381,039</u>
19 Personnel cost		
Salaries, wages and bonus	68,832	53,458
Contribution to provident fund	3,155	3,228
Gratuity	1,695	273
Leave encashment	1,087	1,287
Staff welfare expenses	1,432	810
	<u>76,201</u>	<u>59,056</u>
20 Other operating and general administrative expenses		
Advertisement	32,119	13,182
Bank charges	3,526	2,042
Business promotion	4,975	3,080
Rent, rates and taxes	43,371	14,880
Commission and brokerage	573	804
Travelling and conveyance	10,677	7,156
Deferred revenue expenses (written off)	1,328	1,105
Donation	475	161
Insurance	9,883	8,939
Legal and professional fees	21,141	6,946
Loss on sale of assets (net)	3,400	736
Miscellaneous expenses	6,782	4,960
Printing, postage and telephone	9,640	4,186
Repairs and maintenance		
- Building	4,790	1,708
- Machinery	3,088	1,131
- Others	28,285	27,149
Share issue expenses written off	—	9,834
Bad debts	21,274	—
Provision for doubtful debts	299	—
Facility maintenance charges	17,722	1,872
Foreign exchange loss (net)	27,515	—
	<u>250,863</u>	<u>109,871</u>
21 Interest		
On fixed loans	12,055	11,126
On other loans	3,888	4,785
	<u>15,943</u>	<u>15,911</u>

SCHEDULE – 22

NOTES TO ACCOUNTS

1. Contingent Liabilities

On account of	2006	2005
Disputes with income tax department		
In respect of the Company appeals filed by the Income Tax Department against the decision of CIT (Appeals) for the Assessment Year (A.Y) 1993-1994, 1998-1999 and 1999-2000.	5,879	40,362
In respect of the Company appeals pending before Income Tax Appellate Tribunal for A.Y. 1995-1996.	15,054	12,016
Dispute with excise department		
Disputed Central Excise demand pending with the Central Excise Appellate Tribunal in respect of film processing division of the Company.	52,037	47,928
Entertainment tax		
The Company shall be liable to pay the entertainment tax in the event that the multiplexes do not continue operations for a period of 10 years from the respective dates from which they commenced their operations	177,574	Unascertained
Bank guarantees	14,807	12,370
Share of the contingent liabilities of the Joint Venture		
(i) Swanston Multiplex Cinemas Pvt. Ltd. (SMCPL) had received demand orders for payment of entertainment tax collected and not paid to the authorities aggregating Rs 19,811. SMCPL is currently under appeal against the said demand as it believes that the same is not payable, being exemption from payment available to it (SMCPL has received a stay order on payment of the said amount and has deposited a sum of Rs 2,000 pending settlement of the case). Based on a legal opinion obtained by SMCPL, no provision has been made in respect of the said demand raised by the Entertainment Tax Authority.	8,990	NIL
(ii) SMCPL is jointly and severally liable for loan availed by Adlabs Shringar Multiplex Cinemas Private Limited, of which IDBI has transferred the proportionate part of the loan in the name of SMCPL.	6,675	11,164
(iii) SMCPL shall be liable to pay entertainment tax in the event that the Multiplex does not continue operations for the period of ten years from 11 June 2002.	81,740	67,620

Note:

The amounts are excluding penalty and interest, if any, that could be levied at the time of final conclusion.

(Currency : Indian Rupees in thousand)

2. Commitment

On account of	2006	2005
Estimated amount of contract remaining to be executed on capital account and not provided for net of advances	51,344	143,931
Estimated amount of finance commitment remaining to be paid by the subsidiary company on account of film production.	158,857	126,529
Estimated amount of contract remaining to be executed in capital contribution in partnership firm by the subsidiary.	Nil	5,600

3. Secured Loans of the Company

From Bank

Term loans are secured by equitable mortgage of immovable and movable properties of the Company situated at Wadala (Mumbai), hypothecation of moveable properties at proposed multiplexes, digital projection system & sub-titling machines. The loans are counter guaranteed by the Managing Director and one of the erstwhile Whole time Director of the Company.

Loan taken by the subsidiary company are secured against fixed deposits. Term loan of Joint Venture Company is secured against hypothecation of whole of the joint venture company's present and future movable properties.

Vehicle loans are secured by hypothecation of vehicles acquired on Equitable Monthly Installment (EMI) system.

Cash credit is secured by deferred payment note, hypothecation of book-debts, stocks of raw material and chemicals.

4. Other miscellaneous expenses include remuneration to auditors as below:

Auditors' Remuneration (Including service tax wherever applicable)

Particulars	2006	2005
Audit fees	1,197 *	253
Other attestation fee	1,290	–
Taxation	150	6
Reimbursement of out of pocket expenses	98 *	–
Total	<u>2,735</u>	<u>259</u>
Remuneration paid to erstwhile auditors		
Audit fees-statutory	–	220
Audit fees – tax	–	55
Other services	575	180
Total	<u>575</u>	<u>455</u>

5. Disclosure for operating lease

The Company is obligated under non-cancelable leases for multiplex projects which are renewable on a periodic basis at the option of both, the lessor and lessee. Rental expenses under non-cancelable operating lease accrue from the commencement of commercial operations.

The future minimum lease payments in respect of non-cancelable operating leases as at 31 March 2006, for agreements entered into are as follows:

Period	Minimum lease payment	
	2006	2005
For Parent Company		
Amount due within one year from the balance sheet date	19,350	210
Amount due in the period between one year and five years	77,400	870
Amount due after five years	193,500	4,820
Total	<u>290,250</u>	<u>5,900</u>
For Joint Ventures (Group's share)		
Amount due within one year from the balance sheet date	10,433	9,129
Amount due in the period between one year and five years	30,429	–
Total	<u>40,862</u>	<u>9,129</u>

(Currency : Indian Rupees in thousand)

6. Disclosure of Segment Reporting under AS 17

	Film Processing		Theatre exhibition		Film distribution / Film Production		Radio broadcasting		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue										
Operating revenue	667,971	652,509	410,074	316,102	173,088	12,686			1,251,133	981,297
Internal segment sales	(10,603)								(10,603)	
Net revenue	657,368	652,509	410,074	316,102	173,088	12,686			1,240,530	981,297
Other income									70,727	11,302
Total segment revenue	657,368	652,509	410,074	316,102	173,088	12,686			1,311,257	992,599
Result (profit before interest and corporate expenses)										
Segment result	276,943	298,797	50,273	70691	75,856	(3,972)			403,072	365,516
Unallocated corporate expenses									—	—
Operating profit									403,072	365,516
Interest expenses									(15,943)	(15,910)
Other unallocable income									31,839	2,121
Income tax & fringe benefit tax									(137,812)	(133,549)
Short provision of earlier years									(167)	—
Share in associates									10,126	—
Minority interest									(9,272)	—
Net profit									281,843	218,178
Other Information										
Segment Assets (refer note below)	944,635	1,009,462	1,242,793	872,478	891,482	300,387	2,020,502	—	5,099,412	2,182,327
Unallocated corporate assets									4,425,511	
Total assets									9,524,923	
Segment Liabilities	84,203	452,638	106,866	99,761	124,884	98,557			315,953	650,956
Unallocated corporate liabilities									5,741,256	—
Total liabilities									6,057,209	
Capital Expenditure	36,198	50,916	261,043	61,554	249,578	74	1,919,502	—	2,466,321	112,544
Depreciation and amortisation	24,861	22,595	49,242	39,068	25,641	350	—	—	99,744	62,013
Total assets exclude:										
Advance tax and TDS									478,355	287,362
Total liabilities exclude:										
Provision for taxation (Including net deferred tax liability)									522,714	271,800

Note:

Film processing operations primarily comprise of processing of raw exposed films, colour correction, editing, copying and printing of positive exhibition prints and trading in raw film rolls. Other income primarily comprise of realization from sale of silver extracted from film processing.

Theatre exhibition operations comprise of multiplex/lmax cinema exhibition, range of activities/services offered at multiplex cinema centers and catering food and beverages.

Film distribution operation represents acquisition of movie rights for overseas distribution for a fixed period and exploitation thereof. These rights generally include as a package, theatrical rights, video and television rights.

Film production represent share of net income for the year from Entertainment One (India) Limited, a wholly owned subsidiary on movies produced/co-produced or in which it has invested. The share of net income is based on the underlying agreement between the Company and Entertainment One Limited.

Radio Broadcasting represents the amount paid to Ministry of Information and Broadcasting (MIB), Government of India towards One Time Entry Fee and related payments for license to operate FM radio channels in 45 stations. The board of directors in their meeting dated 23 April 2006 approved a composite scheme of amalgamation and arrangement pursuant to which the radio business segment shall be demerged into Reliance Unicom Limited. Refer note on composite scheme of amalgamation and arrangement in the director's report.

(Currency : Indian Rupees in thousand)

7. Disclosure of Related Party under AS 18

Related Party Relationship

Parties where control exists

Holding Company

Reliance Land Private Limited

Other related parties with whom transactions have taken place during the year

(a) Significant Shareholders, Key Management Personnel and their relatives

Manmohan Shetty

Pooja Shetty

Vasanji Mamanian (until 7 October 2005)

Praveen Nischol (in subsidiary company)

(b) Fellow subsidiary

M/s Gold Adlabs

(c) Other related parties with whom transactions have taken place during the year

Shringar Films Private Limited

M/s Shringar Films

Adlabs Shringar Multiplex Cinemas Private Limited

Praveen Nischol Production

Runwal Developers Private Limited

Related Party Transactions 2005-06

Transactions	Holding company	Significant shareholders, Key management personnel and their relatives	Fellow subsidiary	Other related parties
Rendering of services	–	–	132 (Nil)	Nil (31,928)
Receiving of services	–	–	–	15,452 (1,256)
Managerial remuneration	–	14,130 (14,659)	–	–
Dividend	–	16,582 (33,875)	–	–
Premium on key managerial policy	–	6,537 (6,537)	–	–
Loan received back	–	–	–	4,084 (Nil)
Finance given for film production	–	–	–	500 (Nil)
Finance for multiplex	–	–	–	Nil (53,065)
Advances for business conducting agreement	–	–	–	Nil (2,975)
Issue of shares	2,592,960 (Nil)	–	–	–
Purchase of shares	–	Nil (70,000)	–	–
Outstanding balance as on 31 March	–	Nil (-35,000)	–	1335 (9,435)

Previous year figures are given in brackets.

(Currency : Indian Rupees in thousand)

8. Interest in joint ventures

The Group's interests, in jointly controlled entities (incorporated Joint Ventures) are :

Name of the Company	Country of incorporation	% of ownership interest	% of ownership interest
Swanston Multiplex Cinimas Private Limited (refer note 2 of schedule 1)	India	50.00%	49.99%
Runwal Multiplex Private Limited (refer note 2 of schedule 1)	India	50.00%	50.06%
Divya Shakti Marketing Private limited	India	50.00%	—

The financial statements of the joint ventures are drawn upto 31 March 2006

Particulars	2006	2005
I Assets		
1. Fixed assets (including Capital work-in-progress)	136,121	—
2. Investments	11,827	—
3. Current assets, loans and advances		
a) Inventories	2,882	—
b) Sundry debtors	6,401	—
c) Cash and bank balances	6,155	—
d) Other current assets	—	—
e) Loans and advances	46,208	—
4. Deferred Revenue Expenditure	2	—
II Liabilities		
1. Shareholders' fund - reserves and surplus	47,261	—
2. Secured loans	5,500	—
3. Unsecured loans	16,380	—
4. Net deferred tax liability	9,195	—
5. Current liabilities and provisions		
a) Liabilities	18,260	—
b) Provisions	43,092	—
III. Income		
1. Sales (net of excise duty)	82,851	—
2. Other Income	1,173	—
IV Expenses		
1. Operating expenses	65,506	—
2. Depreciation	7,506	—
3. Interest	814	—
4. Profit before Taxation	10,198	—
5. Prior period Adjustments	427	—
6. Provision for Taxation (including deferred taxation)	4,922	—
7. Short provision for previous year	167	—
8. Profit after Taxation before minority interests	4,681	—
9. Minority Interests	—	—
10. Net Profit	4,681	—

(Currency : Indian Rupees in thousand)

Movement of the aggregate reserves of the joint ventures:

Reserves as at 1 April 2005	22,267	—
Add: Group share of profits for the year	24,994	—
Reserves as at 31 March 2006	47,261	—

9. Share issue expenses

During the year, share issue expense of the Company aggregating to Rs 22,312 has been adjusted against securities premium account. Had these being charged to profit and loss account the profit for the year would have been lower by Rs 22,312 and correspondingly the securities premium account higher by the said amount.

10. Sundry debtors and loans and advances

The management is in the process of obtaining external confirmations and reconciling balances relating to sundry debtors and loans and advances aggregating Rs.400,351 and Rs 429,723 respectively as at 31 March 2006. Accordingly, the need to make provision for doubtful debts / loans and advances, if any, will be assessed upon completion of the exercise mentioned hereinabove.

11. Foreign Currency Convertible Bonds

During the year the Company ('Issuer') issued Zero Coupon Foreign Currency Convertible Bonds ('Bonds') aggregating Euro 84 million (Rs 4,571,994). The Bonds are convertible at any time on or after 7 March 2006 and upto the close of the business on 19 January 2011 by the holders of the Bonds ('the Bondholders') into newly issued equity shares of the Company with full voting rights with par value of Rs 5 each of the issuer ('Shares') at an initial conversion price (as defined in Terms and Conditions of the Bonds) of Rs 543.42 per share with a fixed rate of exchange on conversion of Rs 54.26=EUR 1.00. The conversion price is subject to adjustment in certain circumstances. The Bonds are listed on the Singapore Exchange Securities Trading Limited (the 'SGXST').

The Bonds may be redeemed, in whole but not in part at the option of the Issuer at any time on or after 25 January 2009 and on or prior to 26 January 2011 subject to satisfaction of certain conditions. Unless previously redeemed, converted or purchased and cancelled, the bonds will mature on 26 January 2011 at 121.679 per cent of the principal amount.

During the year ended 31 March 2006 there has been no conversion of the Bonds into Shares.

Premium payable on redemption of FCCB Rs. 988,094 has been fully provided for and has been debited to securities premium account. In the event that the conversion option is exercised by the holders of FCCB in the future, the amount of premium charged to the securities premium account will be suitably adjusted in the respective years.

The uses of the proceeds of the FCCB issue as at 31 March 2006 is as under:

Purpose	Uses of funds as projected in the offer document	Actual funds used as at 31 March 2006
a. New cinema complexes		—
b. Expansion / modernization of existing cinema complexes		122,450
c. Expansion / modernization of film processing facilities		—
d. Film distribution		32,000
e. Film production		61,511
f. New entertainment medium (Radio)		650,282
g. Other purposes allowed under Indian laws		—
h. FCCB issue expense		55,751
	4,571,994	921,994

(Currency : Indian Rupees in thousand)

12. Premium on redemption of Foreign currency convertible bonds (FCCB)

Opening balance	Nil
Add: Provision for the year *	988,094
Less: Amounts used during the year	Nil
Less: Unused amounts reversed during the year	Nil
Closing balance	988,094

* Premium payable on redemption of FCCB Rs. 988,094 has been fully provided for and has been debited to securities premium account. The bonds are convertible at any time on or after 7 March 2006 and upto the close of business on 19 January 2011 by the bondholders.

13. Earning per Share

Particulars	2006	2005
No of shares at the beginning of the year	21,500,750	21,500,750
Fresh issue of shares	18,300,000	–
Total number of equity shares outstanding at year end	39,800,750	21,500,750
Equity shares outstanding for 365 days	21,500,750	21,500,750
Equity shares outstanding for 311 days	2,982,192	–
Equity shares outstanding for 235 days	7,082,192	–
Equity shares outstanding for 1 day	10,411	–
Weighted average number of equity shares outstanding during the year for Basic EPS	31,575,545	21,500,750
Add: Potential equity shares		
Upon conversion of Equity Share Warrants	1,204,834	–
Weighted average number of equity shares outstanding during the year for Dilutive EPS	32,780,379	21,500,750
Net profit after tax available for equity shareholders for Basic and dilutive EPS	280,462	218,178
Basic Earnings Per Share	8.93	10.15
Dilutive Earnings Per Share	8.60	10.15
Nominal value per share	5	5

14. The figures of previous year, which were audited by a firm of Chartered accountants other than BSR & Co, have been regrouped and reclassified wherever necessary to conform to current year's presentation

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 46768

Place: Mumbai

Date : 23 April 2006

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Pooja M Shetty Wholetime Director

Gautam Doshi Director

Berjis Desai Director

Kirti Desai Company Secretary

Mumbai, 23 April 2006

Statement pursuant to Section 212 of the Companies Act, 1956 relating to Company's interest in the Subsidiary Companies

(Currency : Indian Rupees in thousand)

1.	Name of the subsidiary company	Entertainment One (India) Limited	Gemini Exhibitors Limited	Reliance Unicom Limited
2.	Financial year of the subsidiary company ended on	31 March 2006	31 March 2006	31 March 2006
3.	Date from which they become subsidiary companies	29 October 2002	19 May 2003	27 March 2006
4.	a) Number of shares held in subsidiary company on the above date	5,000 equity shares of Rs. 100/- each	50,000 equity shares of Rs. 10/- each	50,000 equity shares of Rs. 10/- each
	b) Extent of holding	100%	100%	100%
5.	The net aggregate of profit / (losses) of the subsidiary company so far as it concerns the members of the holding company			
	i) Not dealt with in the holding company's accounts:			
	a) For the financial year of the subsidiaries as aforesaid	(17,095)	10,397	(17)
	b) For the previous financial years of the subsidiaries since it became the holding company's subsidiary	(2,925)	(11)	NIL
	ii) Dealt with in the holding company's accounts:			
	a) For the financial year of the subsidiaries as aforesaid	NIL	NIL	NIL
	b) For the previous financial years of the subsidiaries since it became the holding company's subsidiary	NIL	NIL	NIL

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Pooja M Shetty Wholtime Director
Gautam Doshi Director
Berjis Desai Director
Kirti Desai Company Secretary

Mumbai : 23 April 2006

ENTERTAINMENT ONE (INDIA) LIMITED

DIRECTORS' REPORT

Dear Shareholders,

Your Board of Directors takes pleasure in presenting the Annual Report and Audited Accounts for the year ended 31st March 2006.

Amalgamation with Adlabs Films Limited

In order to streamline the holding company i.e. Adlabs Films Limited's structure of the film production and related business, it is proposed to amalgamate the entire business and undertaking of the Company with Adlabs Films Limited with effect from the appointed date i.e. April 1, 2006. Consequently upon the Scheme becoming effective and upon the High Court passing an order to the effect under Section 394 of the Companies Act, 1956, Entertainment One (India) Limited shall be dissolved.

Financial Results

(Amount in Rs.lakh)

Particulars	2006	2005
Sales and Other Income	206.96	22.93
Profit / (Loss) before Depreciation & Tax	(173.00)	(21.64)
Depreciation	4.15	3.49
Profit / (Loss) Before Taxation	(168.85)	(25.13)
Deferred Tax Asset	–	8.46
Fringe Benefit Tax (A.Y 2006-07)	(2.10)	–
Profit / (Loss) after Taxes	(170.95)	(16.67)
Balance brought forward from previous year	(29.25)	(17.23)
Deferred Tax Asset for earlier years	(13.12)	4.65
Profit / (Loss) carried to Balance Sheet	(213.32)	(29.25)

Operations

During the year, the films *Waqt – The Race Against Time*, *Dil Jo Bhi Kahey*, *Apaharan*, *Bluffmaster*, *Taxi No.9211* were released. With the exception of *Dil Jo Bhi Kahey* all the films did well at the Box Office.

List of Awards won by the Released Films:

Film	Award	Category
Apaharan	Filmfare, Zee Cine Awards, Screen Awards	Nana Patekar for <i>Best Actor in a Villainous Role</i>
Apaharan	Filmfare	Prakash Jha for <i>Best Dialogues</i>
Apaharan	Zee Cine Awards	Jai Singh for <i>Best Action</i>
Apaharan	Screen Awards	Prakash Jha for <i>Best Dialogues</i>
Waqt - Race Against Time	Stardust Awards 2005	Shefali Shah for <i>Best Actress In Supporting Role</i>
Bluffmaster	Zee Cine Awards	Ritesh Deshmukh for <i>Best Actor in a Comic Role</i>

Projects and Future Plan**Films**

We are planning for a simultaneous worldwide release of the film *Marigold* starring Salman Khan, Ali Larter produced by Tom Wilhite (Hyperion Pictures) in English and Hindi. This has pushed the film's release to a later date. The Hindi dubbing of the movie commenced in the month of March 2006.

We have signed contracts with some of the leading producers like Ramesh Sippy, Ram Gopal Varma, Vipul Shah and Prakash Jha to make a number of films for us.

The following films are nearing completion and would be released in this Financial Year:

S.no	Film	Producer	Director	Starcast
1	Nishabd	Ram Gopal Varma	Ram Gopal Varma	Amitabh Bachchan, Jia
2	Shiva	Ram Gopal Varma	Ram Gopal Varma	Mohit Ahlawat, Nisha Kothari
3	Shiva (Telugu Dubbed)	Ram Gopal Varma	Ram Gopal Varma	Mohit Ahlawat, Nisha Kothari
4	Darwaza Band Rakho	Ram Gopal Varma	P.Chakravarthy	Aftab Shivdasani, Isha Shervani, Manisha Koirala
5	Shabri	Ram Gopal Varma	Lalit Marathe	Isha Koppikar
6	Rooh (Fear)	Ramesh Sippy	Vikram Bhatt	New Star cast
7	Untitled	Prakash Jha	Manish Tiwari	Imaad Shah, Shreyas Talpade

We plan to start production of more films this year, out of which we will probably release Vipul Shah's *Namaste London* starring Akshay Kumar and Katrina Kaif.

We are planning to venture into the area of Tamil Films and are putting a project together with the known Tamil Star Ajit Kumar.

We are also under discussions with Shri Ashok Amritraj of Hyde Park Entertainment for co-producing various mainstream Hollywood Films with us.

TV Division

The Television Division launched last year is currently having four serials on air:

Sr. No	Programme	Producer	Channel	Programme Days
1	Thodi Khushi Thode Gham	Shobhna Desai Productions (Shobhna Desai)	Sony TV	Monday to Thursday @ 9:30 pm to 10:30 pm
2	Mamta	Shobhna Desai Productions (Shobhna Desai)	Zee TV	Monday to Friday @ 1 pm to 1.30 pm & repeat at 7 pm to 7.30 pm
3	Maano Ya Na Maano	Cinema Vision India (Siddhartha Kak)	Star One	Friday @ 11 pm to 11.30 pm
4	Kahani Shuru With Love Guru	Face Entertainment (Milind Soman)	Zee Smile	Wednesday & Thursday @ 8 pm to 8:30 pm

One more serial namely *Karamchand* produced by Mazaa Films (Pankaj Parashar) for Sony TV is expected to go on air in October-November 2006.

Eight other projects with various television producers are under negotiation.

Dividend

In view of absence of profits for the year ended 31st March 2006, the Directors have not recommended dividend on the equity shares of the Company.

Directors

In accordance with the provisions of the Companies Act 1956, and the Articles of Association, Ms. Pooja Shetty shall retire by rotation and being eligible offers herself for reappointment.

Auditors

M/s R.M. Ajsaonkar & Co. Chartered Accountants, Mumbai, the Statutory Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and are eligible for reappointment. Shareholders are requested to appoint the Auditors of the Company for the current year.

Remuneration to Employees

None of the employees of the company has received remuneration in excess of the limit prescribed u/s 217 (2A) of the Companies Act, 1956.

Public Deposits

The Company has not accepted any deposits by way of invitation to the public and has complied with the provisions of Section 58A of the Companies Act, 1956.

Conservation of Energy, Technology and Foreign Exchange

Information as per Section 217(1)(a) of the Companies Act, 1956, read together with Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 and forming part of the Director's Report for the year ended 31st March, 2006 is as under:

- Conservation of Energy:** During the year under review the Company has not consumed electricity.
- Technology Absorption:** The Company does not require any technology for its existing business.
- Foreign exchange earnings and outgoings:**

	(Amount in Rs.lakh)	
	2006	2005
Foreign Exchange Earnings	Nil	Nil
Foreign Exchange Outgoings	13	9

Directors Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

- in the presentation of the annual accounts, the applicable accounting standard has been followed along with proper explanation relating to material departures;
- the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding assets of the Company and for preventing and detecting fraud and other irregularities;
- the annual accounts have been prepared on a going concern basis.

Acknowledgement

The Directors would like to express their sincere appreciation for the assistance and cooperation from Company's Business Associates and Banks.

The Directors also wish to place on record their appreciation to the employees at all levels in the organisation for their sustained effort and positive contribution.

For and on behalf of Board

Place : Mumbai
Date : 22 April 2006

Manmohan Shetty Director
Vasanji Mamania Director

AUDITORS' REPORT

To the Members of Entertainment One (India) Limited

We have audited the attached Balance Sheet of ENTERTAINMENT ONE (INDIA) LIMITED as at 31st March, 2006 and 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.

We 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India 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.
2. 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 purposes of our audit.
 - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as 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 to the extent applicable;
 - (v) On the basis of the information and explanations given to us and written representations received from the directors, as on 31st March, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006;
 - (b) In the case of the Profit and Loss Account, of the loss for the year ended on that date and
 - (c) In the case of the Cash Flow Statement of the Cash Flows for the year ended on that date.

For R.M. Ajgaonkar & Co.
Chartered Accountants

Place: Mumbai
Date : 22 April 2006

R.M. Ajgaonkar
Proprietor
Membership No. 31927

ANNEXURE TO AUDITORS' REPORT

With reference to the Annexure referred to in paragraph 1 of the Auditor's Report to the members of Entertainment One (India) Limited ('the company') on the financial statement for the year ended 31st March 2006, we report that:

- 1)
 - a) The Company has maintained proper records showing particulars including quantitative details and situation of fixed assets.
 - b) We are informed that the fixed assets have been physically verified by the management during the year. The intervals of verification are reasonable having regards to the size of the Company, and nature of its business. No material discrepancies have been noticed on such verification.
 - c) The Company has not disposed off any fixed assets during the year.
- 2) The company did not hold any inventory of tangible goods during the year. Therefore we do not comment on clause no. 4(ii)(a), 4(ii)(b) and 4(ii)(c) of the order.
- 3) The Company has not taken or granted any loans from or to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clauses no. 4(iii)(a), 4(iii)(b), 4(iii)(c), 4(iii)(d), 4(iii)(e), 4(iii)(f) and 4(iii)(g) of the order are not applicable to the company.
- 4) In our opinion and according to information and explanations given to us, there is an adequate internal control system commensurate with the size of the company and the nature of its business with regard to the purchase of inventory, fixed assets and for transactions of film rights and services related thereto. We have not noticed any continuing failure to correct major weaknesses in the internal control system during the course of our audit.

ENTERTAINMENT ONE (INDIA) LIMITED

- 5) a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
- b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs. 5 lakhs with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- 6) Company has not taken loans from any party, which can be classified as deposits from public within the directives issued by the Reserve Bank of India and the provisions of section 58A, 58AA or any other relevant provisions of the act and the rules framed thereunder.
- 7) As the paid up capital and reserves of the Company does not exceed Rs. 50 Lacs at the commencement of the financial year or the average turnover does not exceed Rs. 5 crore for a period of three consecutive financial years immediately preceding the financial year, the company is not required to have an internal audit system.
- 8) On the basis of information and explanations given to us, the Central Government has not prescribed maintenance of cost records under section 209 (1)(d) of the Companies Act, 1956 for the products dealt with by the Company.
- 9) a) The Company is generally regular in depositing undisputed applicable statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other statutory dues with the appropriate authorities and there are no undisputed arrears of statutory dues as at the last day of the financial year outstanding for more than six months from the date they became payable, *except professional tax of Rs. 2500/-*.
- b) According to the information and explanations given to us, there are no disputed arrears of the statutory dues outstanding as at the last day of the financial year on account of Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty or Cess other than mentioned below.

Name of the statute	Nature of dues	Amount rupees	Period to which the amount relates.	Forum where the dispute is pending
Income Tax Act	Tax and Interest	29,51,018/-	I. T.A.Y.2003-2004	Commissioner(Appeals)
Income Tax Act	Tax and Interest	20,94,308/-	I.T.A.Y.2004-2005	Commissioner(Appeals)
Income Tax Act	Tax and Interest	15,17,691/-	I.T.A.Y.2005-2006	Commissioner(Appeals)
Income Tax Act	Tax and Interest	45,27,161/-	I.T.A.Y2006-2007	Commissioner(Appeals)

- 10) The accumulated losses of the company at the end of the financial year exceed 50% of its net worth. It has incurred cash losses in the current financial year and in the immediately preceding financial year.
- 11) According to the information and explanations given to us and based on the documents and the books and records examined by us, the Company has not defaulted in repayment of dues to the financial institutions or banks. The company has not issued any debentures.
- 12) According to the information and explanations given to us and based on records produced before us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the order is not applicable to the company.
- 13) The Company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the order is not applicable to the company.
- 14) According to the information and explanations given to us, the company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the order is not applicable to the company.
- 15) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions. Accordingly, clause 4(xv) of the order is not applicable to the company.
- 16) In our opinion and according to the information and explanations given to us, the short term loan taken by the company has been applied for the purpose for which it was obtained.
- 17) In our opinion, the funds raised on short term basis have not been used for long term investment and vice versa.
- 18) The Company has not made preferential allotment of shares to the parties and companies covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clause 4(xviii) of the order is not applicable to the company.
- 19) The Company has not issued any debentures. Accordingly clause 4(xix) of the order is not applicable to the company.
- 20) The Company has not made any public issues during the year. Accordingly, clause 4(xx) of the order is not applicable to the company.
- 21) Based on our verification and as per the information and explanation given to us, no fraud on or by the Company has been noticed or reported during the year.

For R.M. Ajgaonkar & Co.
Chartered Accountants

Place: Mumbai
Date : 22 April 2006

R.M. Ajgaonkar
Proprietor
Membership No. 31927

BALANCE SHEET AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	Schedule	2006	2005
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	A	500,000	500,000
Reserves and surplus		–	–
		<u>500,000</u>	<u>500,000</u>
Loan funds			
Secured loans	B	55,152,975	35,255,612
Unsecured loans		–	–
		<u>55,652,975</u>	<u>35,755,612</u>
APPLICATION OF FUNDS:			
Fixed assets			
Gross block	C	2,916,343	1,628,878
less: Depreciation		893,357	478,059
Net block		<u>2,022,986</u>	<u>1,150,819</u>
Investments			
		–	–
Current assets, loans & advances			
Inventories	D	45,012,000	–
Sundry debtors	E	125,540,065	6,302,873
Cash and bank balances	F	5,495,564	3,270,371
Loans and advances	G	198,656,771	289,733,100
		<u>374,704,400</u>	<u>299,306,344</u>
Less : Current liabilities & provisions			
Current liabilities	H	342,195,937	268,938,173
Provisions		210,000	–
		<u>342,405,937</u>	<u>268,938,173</u>
Net current assets		<u>32,298,463</u>	<u>30,368,171</u>
Deferred tax asset		–	1,311,783
Profit & loss account		<u>21,331,526</u>	<u>2,924,839</u>
		<u>55,652,975</u>	<u>35,755,612</u>
Notes to the accounts			
	M		

As per our report of even date attached

For R.M.Ajgaonkar & Co.,
Chartered AccountantsR.M.Ajgaonkar
Proprietor
Membership No.31927Place: Mumbai
Date : 22 April 2006

For and on behalf of the Board

Manmohan Shetty Director
Vasanji Mamania Director

Mumbai, 22 April 2006

ENTERTAINMENT ONE (INDIA) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

(Currency : In Indian Rupees)

	Schedule	2006	2005
INCOME			
Surplus from film rights		10,359,840	446,874
Project developments fess from films		4,700,000	–
Income from advance made to the producers		2,494,604	1,288,226
Sale of rights		3,100,000	–
Other income	I	41,905	557,677
		<u>20,696,349</u>	<u>2,292,777</u>
EXPENDITURE			
Employees cost	J	5,347,462	1,509,515
Administrative and other expenses	K	25,561,576	2,862,553
Interest	L	6,256,918	84,506
Depreciation	C	415,297	349,553
		<u>37,581,253</u>	<u>4,806,127</u>
Profit/(Loss) before tax		(16,884,904)	(2,513,350)
Less : Provision for tax			
- Current tax		–	–
- Deferred tax assets		–	(845,992)
- Fringe benefit tax		210,000	–
		<u>210,000</u>	<u>–</u>
Profit/(Loss) after tax		(17,094,904)	(1,667,358)
Add: Balance brought forward from previous years		(2,924,839)	(1,723,272)
Deferred Tax Assets for earlier years derecognised		(1,311,783)	465,791
		<u>(21,331,526)</u>	<u>(2,924,839)</u>

Notes to the accounts

M

As per our report of even date attached

For R.M.Ajgaonkar & Co.,
Chartered Accountants

R.M.Ajgaonkar
Proprietor
Membership No.31927

Place: Mumbai
Date : 22 April 2006

For and on behalf of the Board

Manmohan Shetty Director
Vasanji Mamania Director

Mumbai, 22 April 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED ON 31 MARCH 2006

(Currency : In Indian Rupees)

	2006	2005
A. CASH FLOW FROM OPERATING ACTIVITIES :		
Net profit / (loss) before tax	(16,884,904)	(2,513,350)
Adjustment for:		
Deprecation	415,297	349,553
Interest paid	6,256,918	84,506
	<u>(10,212,689)</u>	<u>(2,079,291)</u>
Operating profit / (loss) before working capital changes		
Adjustment for :		
(Increase)/decrease in current assets		
Inventories	(45,012,000)	-
Trade receivables	(119,237,192)	(4,716,378)
Loans and advances	91,076,329	(159,877,463)
Increase/(decrease) in current liabilities		
Trade payables and advances	73,257,765	59,082,423
	<u>(10,127,787)</u>	<u>(107,590,709)</u>
Cash generated from operations (A)		
	<u><u>(10,127,787)</u></u>	<u><u>(107,590,709)</u></u>
B. CASH FLOW FROM INVESTING ACTIVITIES :		
Fixed assets purchased	(1,287,465)	(74,400)
Net Cash Flow from Investing Activities (B)	<u>(1,287,465)</u>	<u>(74,400)</u>
C. CASH FLOW FROM FINANCING ACTIVITIES :		
Proceeds from Borrowings	55,000,000	34,851,629
Repayment of Borrowings	(35,102,637)	(240,446)
Interest paid	(6,256,918)	(84,506)
Net Cash from Financing Activities (C)	<u>13,640,445</u>	<u>34,526,677</u>
Net increase in cash and cash equivalents (A+B+C)	<u>2,225,193</u>	<u>(73,138,432)</u>
Cash & Cash Equivalents at the beginning of the year	3,270,371	76,408,803
Cash & Cash Equivalents at the end of the year	5,495,564	3,270,371

As per our report of even date attached

For R.M.Ajgaonkar & Co.,
Chartered AccountantsR.M.Ajgaonkar
Proprietor
Membership No.31927Place: Mumbai
Date : 22 April 2006

For and on behalf of the Board

Manmohan Shetty Director
Vasanji Mamanian Director

Mumbai, 22 April 2006

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	2006	2005																																																																																	
A : Share capital																																																																																			
Authorised																																																																																			
25,000 (Previous Year 25,000) Equity Shares of Rs 100/- each	2,500,000	2,500,000																																																																																	
Issued,Subscribed & Paid up Capital																																																																																			
5,000 (Previous Year 5,000) Equity Shares of Rs 100 each fully paid up (All the shares are held by the holding company, Adlabs Films Limited directly or through its nominees)	500,000	500,000																																																																																	
	<u>500,000</u>	<u>500,000</u>																																																																																	
B : Secured Loans																																																																																			
Standard Chartered Bank (Secured against hypothecation of car)	152,975	403,983																																																																																	
Yes Bank Ltd (Lien on Deposit of Rs 10 Crores placed by Holding Company M/s Adlabs Films Ltd)	55,000,000	-																																																																																	
Cash Credit Facility with UTI Bank Ltd (Secured against Hypothecation of IPR of Marigold and Other Future projects)	-	34,851,629																																																																																	
	<u>55,152,975</u>	<u>35,255,612</u>																																																																																	
C : Fixed Assets																																																																																			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Particulars</th> <th colspan="3">Gross Block</th> <th colspan="3">Depreciation</th> <th colspan="2">Net Block</th> </tr> <tr> <th>As on 2005</th> <th>Additions</th> <th>Total</th> <th>Upto 2005</th> <th>during the year</th> <th>Upto 2006</th> <th>As on 2006</th> <th>As on 2005</th> </tr> </thead> <tbody> <tr> <td>Furniture & Fittings</td> <td style="text-align: right;">31,387</td> <td style="text-align: right;">765,716</td> <td style="text-align: right;">797,103</td> <td style="text-align: right;">5,844</td> <td style="text-align: right;">69,204</td> <td style="text-align: right;">75,048</td> <td style="text-align: right;">722,055</td> <td style="text-align: right;">25,543</td> </tr> <tr> <td>Office Equipments</td> <td style="text-align: right;">407,050</td> <td style="text-align: right;">62,300</td> <td style="text-align: right;">469,350</td> <td style="text-align: right;">61,141</td> <td style="text-align: right;">55,452</td> <td style="text-align: right;">116,593</td> <td style="text-align: right;">352,757</td> <td style="text-align: right;">345,909</td> </tr> <tr> <td>Computers</td> <td style="text-align: right;">265,460</td> <td style="text-align: right;">203,006</td> <td style="text-align: right;">468,466</td> <td style="text-align: right;">102,168</td> <td style="text-align: right;">114,720</td> <td style="text-align: right;">216,888</td> <td style="text-align: right;">251,578</td> <td style="text-align: right;">163,292</td> </tr> <tr> <td>Motor Car</td> <td style="text-align: right;">924,981</td> <td style="text-align: right;">-</td> <td style="text-align: right;">924,981</td> <td style="text-align: right;">308,907</td> <td style="text-align: right;">159,502</td> <td style="text-align: right;">468,409</td> <td style="text-align: right;">456,572</td> <td style="text-align: right;">616,075</td> </tr> <tr> <td>Electricals Fittings</td> <td style="text-align: right;">-</td> <td style="text-align: right;">256,443</td> <td style="text-align: right;">256,443</td> <td style="text-align: right;">-</td> <td style="text-align: right;">16,419</td> <td style="text-align: right;">16,419</td> <td style="text-align: right;">240,024</td> <td style="text-align: right;">-</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;">1,628,878</td> <td style="text-align: right;">1,287,465</td> <td style="text-align: right;">2,916,343</td> <td style="text-align: right;">478,059</td> <td style="text-align: right;">415,297</td> <td style="text-align: right;">893,357</td> <td style="text-align: right;">2,022,986</td> <td style="text-align: right;">1,150,819</td> </tr> <tr> <td>Previous Year</td> <td style="text-align: right;">1,554,478</td> <td style="text-align: right;">74,400</td> <td style="text-align: right;">1,628,878</td> <td style="text-align: right;">128,506</td> <td style="text-align: right;">349,553</td> <td style="text-align: right;">478,059</td> <td style="text-align: right;">1,150,819</td> <td style="text-align: right;">1,425,972</td> </tr> </tbody> </table>			Particulars	Gross Block			Depreciation			Net Block		As on 2005	Additions	Total	Upto 2005	during the year	Upto 2006	As on 2006	As on 2005	Furniture & Fittings	31,387	765,716	797,103	5,844	69,204	75,048	722,055	25,543	Office Equipments	407,050	62,300	469,350	61,141	55,452	116,593	352,757	345,909	Computers	265,460	203,006	468,466	102,168	114,720	216,888	251,578	163,292	Motor Car	924,981	-	924,981	308,907	159,502	468,409	456,572	616,075	Electricals Fittings	-	256,443	256,443	-	16,419	16,419	240,024	-	TOTAL	1,628,878	1,287,465	2,916,343	478,059	415,297	893,357	2,022,986	1,150,819	Previous Year	1,554,478	74,400	1,628,878	128,506	349,553	478,059	1,150,819	1,425,972
Particulars	Gross Block				Depreciation			Net Block																																																																											
	As on 2005	Additions	Total	Upto 2005	during the year	Upto 2006	As on 2006	As on 2005																																																																											
Furniture & Fittings	31,387	765,716	797,103	5,844	69,204	75,048	722,055	25,543																																																																											
Office Equipments	407,050	62,300	469,350	61,141	55,452	116,593	352,757	345,909																																																																											
Computers	265,460	203,006	468,466	102,168	114,720	216,888	251,578	163,292																																																																											
Motor Car	924,981	-	924,981	308,907	159,502	468,409	456,572	616,075																																																																											
Electricals Fittings	-	256,443	256,443	-	16,419	16,419	240,024	-																																																																											
TOTAL	1,628,878	1,287,465	2,916,343	478,059	415,297	893,357	2,022,986	1,150,819																																																																											
Previous Year	1,554,478	74,400	1,628,878	128,506	349,553	478,059	1,150,819	1,425,972																																																																											
D : Inventories																																																																																			
Closing Stock of Negative Rights	45,012,000	—																																																																																	
	<u>45,012,000</u>	<u>—</u>																																																																																	
E : Sundry Debtors																																																																																			
(Unsecured- Considered good)																																																																																			
Outstanding for more than six months	7,194,725	1,226,088																																																																																	
Others	118,345,340	5,076,785																																																																																	
	<u>125,540,065</u>	<u>6,302,873</u>																																																																																	
F : Cash and bank balances																																																																																			
Cash on Hand	1,713,083	577,081																																																																																	
Balance with Scheduled Banks in Current Accounts	3,782,481	2,680,164																																																																																	
Fixed Deposit	—	13,127																																																																																	
	<u>5,495,564</u>	<u>3,270,371</u>																																																																																	

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	2006	2005
G : Loans and advances		
(Unsecured- Considered good)		
To Producers for the rights of the films	187,720,089	288,500,333
Advance against Expenses	—	187,500
Prepaid Expenses	19,050	24,563
Advance to Employees	8,000	1,000
Fringe Benefit Tax (A.Y 2006-07)	252,000	—
TDS on Demand	10,102,877	—
T.D.S. Receivable	554,755	1,019,704
	<u>198,656,771</u>	<u>289,733,100</u>
H : Current Liabilities		
Advances against films	318,625,565	243,290,367
Sundry Creditors for Expenses	1,197,880	896,277
Advance Against Distribution Contracts	14,040,537	24,625,000
Other Creditors	8,331,955	126,529
	<u>342,195,937</u>	<u>268,938,173</u>
Provisions		
Fringe Benefit Tax	—	—
	<u>210,000</u>	<u>—</u>
	<u>342,405,937</u>	<u>268,938,173</u>
I : Other Income		
Interest On F.D.R.	—	557,677
Interest from Others	41,905	—
	<u>41,905</u>	<u>557,677</u>
J : Employees Cost		
Salary	5,347,462	1,113,515
Directors Remuneration	—	396,000
	<u>5,347,462</u>	<u>1,509,515</u>

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	2006	2005
K : Administrative & Other Expenses		
Air Conditioner Hire Charges	60,000	–
Advances Written Off	385,367	–
Advertisement Exp.	100,000	20,000
Bank Charges	4,592	463,043
Balances Written Off	3,282,259	–
Books & Periodicals	2,879	3,148
Business Promotion	238,756	342,614
Car Hire Charges	89,977	–
Car Insurance	31,115	30,371
Conference Fees	4,050	–
Conveyance	79,971	60,266
Filling Fees	13,070	5,554
Freight & forwarding Charges	80,032	–
Food Expense	–	11,900
Internet Charges	15,840	–
Legal & Professional Fees	858,344	229,467
Misc. Expenses	9,453	9,373
Payments to Auditors	182,240	181,060
Petrol Expenses	201,269	114,072
Printing & Stationary	45,058	23,243
Professional Tax	2,500	2,500
Provision for Doubtful Debts	17,551,539	–
Repair & Maintenance- Others	156,085	49,686
Stamps, Postage, Telegram & Courier	1,010	7,238
Subscription	16,400	24,242
Staff Welfare	–	730
Telephone Expenses	137,752	164,932
Travelling Expenses	2,011,018	1,092,514
Website Charges	1,000	26,600
	<u>25,561,576</u>	<u>2,862,553</u>
L : Interest		
Bank Interest	6,240,806	57,832
Interest On Car Loan	16,112	26,674
	<u>6,256,918</u>	<u>84,506</u>

Schedule M :

NOTES TO THE ACCOUNTS

1. Significant Accounting Policies:

a) **Basis of Accounting:**

The company maintains its accounts on accrual basis following the historical cost convention in accordance with the generally accepted accounting principles. [GAAP] and in compliance with Accounting Standards referred to in section 211(3C) and other requirement of the Companies Act, 1956.

b) **Fixed Assets:**

Fixed Assets are stated at cost, inclusive of incidental expenses.

c) **Depreciation:**

Depreciation on Fixed assets has been provided on written down value method at the rates and in the manner as specified in Schedule XIV of the Companies Act, 1956.

d) **Inventories:**

Inventories are valued at cost or market value whichever is lower.

e) **Foreign currency transactions:**

Transactions denominated in foreign currency are accounted at the exchange rate prevailing at the date of transaction. Traveling expenses in foreign currency are accounted at the rate prevailing at the time of purchase of foreign currency.

f) **Advances for films:**

Amounts advanced to producers of films are classified as loans and advances.

g) **Employees' retirement and other benefits**

1. The company does not offer leave encashment benefits to its employees.

2. The liability on account of Gratuity is not provided as none of the employee of the company has put in the required number of years of services in the company.

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

3. The contribution to superannuation and provident fund is not made during the year, since number of employees is less than the minimum statutorily required to be liable for the provisions of the relevant legislation.
4. The Bonus to employees is accounted for on the basis of declaration.
- h) **Revenue Recognition**
To adhere to matching concept of revenue recognition, the revenue is also recognised from the share of negative rights of the films funded by the company which have done well on Box Office during the year and for which full amounts advanced are received back by the company. In such cases the company recognizes the asset values of the share of negative rights of such films, which entitles it to gain monetary considerations for reissue of various rights attached thereto. Such revenue is recognised on the basis of conservative estimate of future realisation of each film based on its box office standing. In case of uncertainty, such value is not recognised at all.
- i) **Other current assets**
Other current assets include the conservative estimate of values of the shares of negatives of the films owned by the company in consideration of the funding of such films. Only such values of the negatives of such films are recognised about which the management is certain of realisation and gains. Values of the negative rights of the films, which are commercially not hit, are not recognised.
The rights in under production films funded by the company are recognised at NIL value in absence of ascertainable gains.
- j) **Deferred Taxation**
Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or subsequently enacted as on the balance sheet date.
Deferred tax asset is recognised and carried forward to the extent that there is a reasonable certainty of sufficient future taxable income.
2. **Contingent Liabilities not provided for:**
Contingent Liabilities towards unfinished contracts for films are Rs. 15,88,56,913/- (P. Y. Rs. 12,65,29,464/-)
3. **Managerial Remuneration under section 198 of the Companies Act, 1956**

	2006	2005
Remuneration	NIL	3,96,000
Perquisites	NIL	15,400
	NIL	4,11,400
4. **Payment to Auditors**

Audit Fees	100,000	30,000
Tax Representation	20,000	30,000
Tax Advisory	50,000	1,20,000
Reimbursements / Service Tax	12,240	1,060
	182,240	1,81,060
5. **Earnings and Expenditure in Foreign Currency**

Expenditure	13,20,841	8,68,000
-------------	-----------	----------
6. **Deferred Tax Assets / Liabilities**
In light of the uncertainty of possibility of earning income in future years, the net deferred tax asset is not recognised. Further the deferred tax asset of earlier year is derecognised and debited to profit and loss account.
7. The company is entitled to get revenue from exploitation of rights including re-issue for various films under contract. The value of such rights from the films released during the year is recognised as income and the same is carried forward as stock. However the value of such rights was not recognised in the earlier years.
8. During the year various films, which the company funded, were released. The company was entitled for the agreed surplus from the said films. Out of this surplus, 90% surplus belonged to Adlabs Films Ltd. as per its agreement with the company. Though the company assigned the distribution and other rights of the films, such assignments were made on behalf of the respective producers. So the considerations for such assignments were not recognised by the company as its revenue.
9. In case of one film, the company could not realise the amount advanced, from the assignment of distribution and other rights. The deficit incurred was to be shared equally by the producer and the company. However as per the agreement with Adlabs Films Ltd. such share of deficit was to be borne by that company. So such share of deficit was transferred to that company.
10. The Company operates in a single business segment of funding films and television serials. However its revenue is generated from the producers by way of fees, share of surplus and / or fixed realisation as per the terms of contracts with respective producers.
11. In light of uncertainty in respect of recovery of some amounts including advances given to certain producers in respect of certain films the same are written off during the current year.
12. During the year the company has adopted the policy of recognising revenue from the estimated value of shares of negative rights of films released during the year, which are funded by the company. It has started recognising the value of shares of negatives of respective films on the basis of management's estimate. Due to this recognition current assets, being the value of rights of films, are recognised at Rs. 4,50,12,000/-
13. Directors' Travelling Rs. NIL (P. Y. Rs. 10,80,897/-)

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

14. Related Party disclosure

(i) List of Related Parties

Name of the Party	Relationship
1 Adlabs Films Ltd.	Holding Company
2 Shri Manmohan Shetty	Director
3 Shri VasANJI MAMANIA	Director
4 Ms. Pooja Shetty	Director
5 Adlabs	Other Related Party
6 Adlabs Finance Limited	Other Related Party
7 MAMANIA FILMS PRIVATE LIMITED	Other Related Party
8 Adlabs Shringar Multiplex Cinemas Private Limited	Other Related Party
9 Swanston Multiplex Cinemas Private Limited	Other Related Party
10 Divyashakti Marketing Pvt. Limited	Other Related Party
11 Centrum Capital Limited	Other Related Party
12 Mukta Arts Limited	Other Related Party
13 Neo Films	Other Related Party
14 Premier Pressing Works	Other Related Party
15 P. Bhushan & Co.	Other Related Party
16 Rap Media Limited	Other Related Party
17 Whistling Woods International Pvt. Ltd.	Other Related Party
18 Cinerad Communication	Other Related Party
19 Mukta Adlabs Digital Exhibition Pvt. Ltd.	Other Related Party
20 RDB 2000 Plus Limited	Other Related Party
21 Multiplex Cinemas Private Limited	Other Related Party
22 Gemini Exhibitors Limited	Other Related Party
23 Runwal Multiplex Private Limited	Other Related Party
24 Mr. Praveen Nischol	Chief Executive Officer

(ii) Transactions with Related Parties:

	2006	2005
Investment by Holding Company	5,00,000	5,00,000
Amount Received from Holding Company against rights of films	7,25,81,400(Net)	20,55,12,094(Net)
Remuneration Paid to a director	Nil	3,96,000
Remuneration paid to CEO	22,88,000	—
Realisation from the film rights	9,48,22,285	1,56,15,890
Deficit from exploitation of film rights claimed.	1,70,51,539	46,65,173
Distribution receipts	1,31,577	—
Advance to Producer	5,00,000	5,00,000

15. Details of Earning per Share

Net Profit /(Loss) after Tax	(1,70,94,904)	(16,67,358)
Weighted Average Number of Share	5000	5,000
Nominal Value of Ordinary Share	100	100
Basic/ Diluted per Ordinary Share	(3,418.98)	(333.47)

16. Current assets and liabilities stating receivables and payables are subject to confirmation.

17. The company does not owe any sum to the small scale undertaking which is outstanding for a period of more than 30 days.

18. In the opinion of the board of directors all the current assets, loans and advances are of the value realisable in the ordinary course of the business.

19. Previous Year's figures have been regrouped or rearranged, wherever necessary.

As per our report of even date attached

For R.M.Ajgaonkar & Co.,
Chartered Accountants

R.M.Ajgaonkar
Proprietor
Membership No.31927

Place: Mumbai
Date : 22 April 2006

For and on behalf of the Board

Manmohan Shetty Director
Vasanji MAMANIA Director

Mumbai, 22 April 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. State Code
 Balance Sheet Date
 Date Month Year

II. Capital raised during the period (Amount in Rs. thousands)

Public Issue
 Bonus Issue
 Right Issue
 Private Placement

III. Position of mobilisation & deployment of funds (Amounts in Rs. thousands)

Total Liabilities Total Assets
 Sources of Funds
 Paid-up Capital
 Secured Loans
 Reserves & Surplus
 Unsecured Loans
 Application of Funds
 Net Fixed Assets
 Net Current Assets
 Investment
 Accumulated Losses
 Misc. Expenditure

IV. Performance of Company (Amounts in Rs. thousands)

Turnover
 Profit/Loss before tax
 Total Expenditure
 Profit/Loss after Tax
 (Please tick Appropriate box + for Profit - for Loss)
 Earnings per Share (Basic) in Rs.
 Dividend %

Balance Sheet Abstract and Company's General Business Profile (Continued)

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)
 Product Description

For and on behalf of the Board

Manmohan Shetty Director

Vasanji Mamania Director

Mumbai, 22 April 2006

DIRECTOR'S REPORT

Dear Shareholders,

Your Board of Directors takes pleasure in presenting Annual Accounts for the year ended 31 March 2006.

Financial Results

Particulars	(Amount in Rupees)	
	2006	2005
Income-Theatre Operations(share of profit)	10,414,958	NIL
Profit / (Loss) before Depreciation & Tax	10,397,138	(5,510)
Depreciation	NIL	NIL
Profit Before Taxation	10,397,138	(5,510)
Provision for Current Tax & Deferred Tax	NIL	NIL
Profit / (Loss) after Taxes	10,397,138	(5,510)
Balance brought forward from previous	(10,910)	(5,400)
Profit / (Loss) carried to Balance Sheet	10,386,228	(10,910)

Operations

Gemini Exhibitors Limited, a wholly owned subsidiary of Adlabs Films Limited, had in association with Goldfields Habitat Private Limited, formed the partnership firm M/S Gold Adlabs.

This partnership firm runs and operates the multiplex GOLD ADLABS at Pune which was opened for public on April 1, 2005. Its occupancy in its first year of operations was 35% with a total income of Rs.7.90 crore and operational profit of Rs.3.30 crore approximately.

The Company's share of net profit of Rs. 1.04 crore from the firm is reflected as Income-Theatre Operations above.

Dividend

The Directors have not recommended any dividend on the equity shares of the Company for the year ended 31 March 2006.

Directors

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association, Shri Suresh Bharadwaj shall retire by rotation and being eligible offers himself for reappointment.

Auditors

The present Auditors of the Company, M/s. H.O. Agarwal & Co., Chartered Accountants retire at the ensuing Annual General Meeting and are eligible for reappointment. Members are requested to appoint the Auditors for the financial year 2006-07.

Remuneration to Employees

None of the employees of the Company has received remuneration in excess of the limit prescribed u/s 217 (2A) of the Companies Act, 1956 read with the Companies (particulars of employees) Rules 1975.

Public Deposits

The Company has not accepted any deposits by way of invitation to the public and has complied with the provisions of Section 58A of the Companies Act, 1956.

Conservation of Energy, Technology Absorption

No particulars are furnished in this report in relation to the conservation of energy and technology absorption as required under Section 217(1)(e) of the Companies Act, 1956 as there were no operations during the year under review.

Foreign Exchange Earning and Outgo

There was no Foreign Exchange Earning and Outgo during the year.

Directors Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

- a) in the presentation of the annual accounts, the applicable accounting standard has been followed alongwith proper explanation relating to material departures;
- b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the Company for that period;
- c) the Directors have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding assets of the company and for preventing and detecting fraud and other irregularities;
- d) the annual accounts have been prepared on a going concern basis.

Acknowledgement

The Directors would like to express their grateful appreciation for the assistance and cooperation received from Company's Business Associates and Bankers. The Directors also wish to place on record their appreciation for employees at all the levels in the organization for their sustained effort and positive contribution.

For and on behalf of Board

Pooja Shetty Director
Suresh Bhardwaj Director

Mumbai, 21 April 2006

AUDITORS' REPORT

We have audited the attached Balance Sheet of **Gemini Exhibitors Limited** as at 31 March, 2006, the Profit & Loss Account and also 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.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require the 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.

- (1) As required by the Companies (Auditors' Report) Order, 2003(as amended by the Companies (Auditors' Report)(Amendment) Order 2004) issued by the Central Government of India 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.
- (2) Further to our comments in the Annexure referred to above, we report that:
 - (a) We have obtained all the information and the explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) 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;
 - (c) The Balance Sheet, Profit & Loss account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit & 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 the Companies Act, 1956;
 - (e) On the basis of written representations received from the directors as on 31 March, 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31 March, 2006 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts together with the notes annexed 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:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March, 2006;
 - ii) in the case of the Profit & Loss Account of the PROFIT for the year ended on that date; and
 - iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For H.O. Agarwal & Co.
Chartered Accountants
H.O. Agarwal
(Proprietor)
Membership No. 14270

Place : Mumbai.
Date : 21 April 2006

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph (1) of our report of even date on the account for the year ended 31 March, 2006 of Gemini Exhibitors Limited)

- i) In our opinion and according to the information and explanations given to us, the nature of the Company's business/activity during the year is such that clauses (i), (ii), (v), (vi), (ix), (xi), (xii), (xiii), (xiv), (xvi), (xviii), (xix), (xx) of paragraph 4 of the Company (Auditors' Reports) Order, 2003 are either nil or not applicable to the Company.
- ii) As explained to us and according to the information furnished to us, the Company has neither granted nor taken any loans, secured or unsecured from Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 and as such clause (iii)(a) to (iii)(g) of the Order are not applicable.
- iii) In our opinion and according to the information and explanation given to us there are adequate internal control system commensurate with size of the Company and nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. We have not observed any major weaknesses in Internal Control Systems during the course of our Audit.
- iv) As the paid up capital and reserves of the Company does not exceed Rs.50 Lakhs at the commencement of the financial concerned or an average annual turnover does not exceed Rs. 5 Crore for a period of three consecutive financial years immediately preceding the financial concerned, the Company is not required to have an internal audit system.
- v) To the best of our knowledge and according to the information given to us, the Central Government has not prescribed the maintenance of Cost records under section 209 (1) (d) of the Companies Act, 1956 for the products of the Company.
- vi) The Company was incorporated on 19th May, 2003 and accordingly Paragraph 4 (x) of the order is not applicable to the Company.
- vii) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institution.
- viii) According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- ix) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no material fraud on or by the Company has been noticed or reported during the course of our audit.

For H.O. Agarwal & Co.
Chartered Accountants
H.O. Agarwal
(Proprietor)
Membership No. 14270

Place : Mumbai.
Date : 21 April 2006

GEMINI EXHIBITORS LIMITED

BALANCE SHEET AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	SCHEDULE	2006	2005
SOURCES OF FUNDS			
Shareholder's Funds			
Share Capital	A	500,000	500,000
Reserve & Surplus	B	10,386,228	(10,910)
		<u>10,886,228</u>	<u>489,090</u>
Loan Funds			
Unsecured Loans	C	52,892,904	44,721,309
		<u>63,779,132</u>	<u>45,210,399</u>
APPLICATION OF FUNDS :			
Investments	D	57,853,019	44,601,467
Current Assets, Loans & Advances			
Cash and bank balances	E	5,834,887	500,000
Less :Current Liabilities & Provisions			
Sundry creditors	F	18,540	13,030
Net Current Assets		<u>5,816,347</u>	<u>486,970</u>
Miscellaneous Expenditure			
(To the extent not written off or adjusted)		109,766	121,962
		<u>63,779,132</u>	<u>45,210,399</u>

ACCOUNTING POLICIES & NOTES ON ACCOUNTS

G

The schedule referred to above form an intergral part of the Balance Sheet.

As per our report of even date

For H.O. Agarwal & Co.,

Chartered Accountants

For and on behalf of the Board

H.O. Agarwal

Proprietor

M. No. 14270

Place : Mumbai

Date : 21 April 2006

Pooja Shetty

Suresh Bharadwaj

Mumbai, 21 April 2006

Director

Director

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

(Currency : In Indian Rupees)

	2006	2005
INCOME		
Income - theatre operations-share of profit from firm	10,414,957	NIL
	<u>10,414,957</u>	<u>NIL</u>
EXPENDITURE		
Audit fees	5,510	5,510
Bank charges	113	-
Miscellaneous Expenditure W/off.	12,196	-
	<u>17,819</u>	<u>5,510</u>
Profit / (Loss) before tax	10,397,138	(5,510)
Profit after tax	10,397,138	(5,510)
Add:Balance brought forward from previous years	(10,910)	(5,400)
Balance carried to balance sheet	<u>10,386,228</u>	<u>(10,910)</u>

As per our report of even date

For H.O. Agarwal & Co.,

Chartered Accountants

For and on behalf of the Board

H.O. Agarwal

Proprietor

M. No. 14270

Place : Mumbai

Date : 21 April 2006

Pooja Shetty

Suresh Bharadwaj

Mumbai, 21 April 2006

Director

Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2006

(Currency : In Indian Rupees)

	2006	2005
A CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax & extraordinary items	10,397,138	(5,510)
Adjustment for:		
Deferred revenue expenditure	12,196	-
Operating profit before working capital changes	10,409,334	(5,510)
Increase/(Decrease) in trade payable	5,510	5,510
Cash generated from operation	10,414,844	-
Net cash flow from operating activities (A)	10,414,844	-
B CASH FLOW FROM INVESTING ACTIVITIES		
(Increase)/decrease in investment	(13,251,552)	(44,366,467)
Net cash used in investing activities (B)	(13,251,552)	(44,366,467)
C CASH FLOW FROM FINANCE ACTIVITIES		
Proceeds from long term borrowings / issue of shares	8,171,595	44,366,467
Net cash used for financing activities (C)	8,171,595	44,366,467
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENT (A+B+C)	5,334,887	-
Cash & cash equivalents as at 1st April 2005	500,000	500,000
Cash & cash equivalents as at 31 March 2006	5,834,887	500,000

As per our report of even date
For H.O. Agarwal & Co.,
Chartered Accountants

H.O. Agarwal
Proprietor
M. No. 14270
Place : Mumbai
Date : 21 April 2006

For and on behalf of the Board

Pooja Shetty Director
Suresh Bharadwaj Director

Mumbai, 21 April 2006

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	2006	2005
A Share Capital		
Authorised		
5,00,000 equity share of Rs.10/- each fully paid up	5,000,000	5,000,000
Issued,Subscribed & Paid up Capital		
50,000 equity share of Rs.10/- each fully paid up	500,000	500,000
	500,000	500,000
B Reserve & Surplus		
Profit & Loss Account	10,386,228	(10,910)
	10,386,228	(10,910)
C Unsecured Loans		
From Adlabs Films Ltd.	52,892,904	44,721,309
	52,892,904	44,721,309
D Investment (at cost)		
Investment in Partnership Firm	57,853,019	44,601,467
	57,853,019	44,601,467
E Cash & Bank balances		
Cash with scheduled banks	5,834,887	500,000
	5,834,887	500,000
F Liabilities		
Sundry creditors for expenses	18,540	13,030
	18,540	13,030

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

Schedule G

Notes forming part of the accounts for the year ended 31 March, 2006.

1. The Company is a partner in a firm M/s. Gold Adlabs, Pune which is engaged in running and operating a Multiplex Theatre at Mariglod Complex, Kalyani Nagar, Pune. The Multiplex Theatre is commissioned on 1 April 2005 at Pune. The Company has not carried out any other activity during the year under audit.

2. Significant Accounting Policies

i) Method of Accounting:

The financial statements have been prepared on the historical cost convention based on the accrual concept and in accordance with applicable Accounting Standards issued by the Institute of Chartered Accountants of India, generally accepted accounting principles and provisions of the Companies Act, 1956. The accounting is on the basis of a going concern concept.

ii) Revenue Recognition:

Revenue will be recognised on the basis of actual financial statements available from the partnership firm.

iii) Investments:

Investments represent Current Investments in a Partnership Firm and the same is stated at Cost.

3. Contingent Liability

Estimated amount of contract remaining to be executed in capital contribution in partnership firm Rs NIL (Previous Year Rs. 56 lakhs)

4. Payment to auditors:

	2006	2005
Audit fees	5,510	5,510

5. The Company operates in a single business segment of Multiplex Theatre.

6. Related Party Disclosures:

i) List of Related Parties:

Name of Party	Relationship
a) Adlabs Films Limited	Holding Company
b) Vasanji Mamania	Director
c) Pooja Shetty	Director

ii) Transaction with Related Parties:

Particulars

a) Adlabs Films Limited	5,00,000	5,00,000
b) Amount Received from Holding Company for Investment	5,28,92,904	4,47,21,309

7. Earning Per Share:

Net Profit/(Loss) after tax	1,03,97,138	(5,510)
Weighted average number of Shares	50,000	50,000
Face value per share	10	10
Earning Per Share(Basic and Diluted)	207.94	(0.11)

8. Earning and expenditure in foreign currency: Nil

9. The provision for taxation has not been made as the entire income is exempt U/s. 10 (2A) of the Income Tax Act, 1961.

10. According to the Accounting Standard 22 'Accounting for taxes on Income' issued by the Institute of Chartered Accountants of India, no deferred tax liability is recognized as there is no timing difference which is likely to be reversal in future and no deferred tax assets, either for current year or earlier year, is recognized as there is no virtual certainty of taxable profit in future.

11. The other additional information as required by part II of Schedule VI of the Companies Act is either nil or not applicable.

12. Miscellaneous expenses have been written off over a period of 10 years.

13. The Company is a 100% subsidiary of Adlabs Films Limited.

14. Previous year's figures have been regrouped and rearranged wherever necessary to confirm with the current year's presentation.

As per our report of even date

For **H.O. Agarwal & Co.**,
Chartered Accountants

H.O. Agarwal

Proprietor

M. No. 14270

Place : Mumbai

Date : 21 April 2006

For and on behalf of the Board

Pooja Shetty Director
Suresh Bharadwaj Director

Mumbai, 21 April 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

Registration No. State Code

Balance Sheet Date

Date Month Year

II Capital raised during the period (Amount in Rs. thousands)

Public Issue Right Issue

Bonus Issue Private Placement

III. Position of mobilisation & deployment of funds (Amounts in Rs. thousands)

Total Liabilities Total Assets

Sources of Funds

Paid-up Capital Reserves & Surplus

Secured Loans Unsecured Loans

Application of Funds

Net Fixed Assets Investment

Net Current Assets Misc. Expenditure

Accumulated Losses

IV. Performance of Company (Amounts in Rs. thousands)

Turnover Total Expenditure

Profit/Loss before tax Profit/Loss after Tax

(Please tick Appropriate box + for Profit - for Loss)

Earnings per Share Dividend %

(Basic) in Rs.

Balance Sheet Abstract and Company's General Business Profile (Continued)

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)

Product Description

For and on behalf of the Board
Pooja Shetty Director
Suresh Bhardwaj Director

Mumbai, 21 April 2006

DIRECTOR'S REPORT

Dear Shareholders,

Your Board of Directors takes pleasure in presenting First Annual Accounts for the year ended 31 March 2006.

Financial results

Particulars	(Amount in Rupees)
	2006
Sales and Other Income	NIL
Profit / (Loss) before Depreciation & Tax	(16,836)
Depreciation	NIL
Profit Before Taxation	(16,836)
Provision for tax	NIL
Profit / (Loss) after Taxes	(16,836)
Balance brought forward from previous year	NIL
Profit / (Loss) carried to Balance Sheet	(16,836)

Operations

Reliance Unicom Limited was incorporated on December 27, 2005 and it obtained Certificate of Commencement of Business on February 13, 2006. The Company became wholly owned subsidiary of Adlabs Films Limited with effect from March 27, 2006. The Board of Directors of Adlabs Films Ltd. and of the Company have agreed to a Scheme of Demerger pursuant to which the Radio Business of Adlabs Films Ltd. will be demerged to the Company. The proceedings for the demerger are under progress. The Company has not undertaken any business activity during the year.

Dividend

The Directors have not recommended any dividend on the equity shares of the Company for the year ended 31 March 2006.

Directors

In accordance with the provisions of the Companies Act, 1956, Shri Abhijit Banerjee retires by rotation and being eligible offers himself for reappointment.

Shri Abhijit Banerjee, Shri Ashish Karyekar and Shri Paresh Rathod were appointed as an Additional Directors of the Company to hold office upto the conclusion of the ensuing Annual General Meeting. The Company has received notice(s) under Section 257 of the Companies Act, 1956 from Member proposing the appointment of Shri Abhijit Banerjee, Shri Ashish Karyekar and Shri Paresh Rathod respectively as Directors of the Company.

Auditors

The present Auditors of the Company, M/s. S. V. Doshi & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment. Members are requested to appoint the Auditors for the financial year 2006-07.

Remuneration to employees

None of the employees of the Company has received remuneration in excess of the limit prescribed u/s 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975.

Public deposits

The Company has not accepted any deposits by way of invitation to the public and has complied with the provisions of Section 58A of the Companies Act, 1956.

Conservation of energy, technology absorption

No particulars are furnished in this report in relation to the conservation of energy and technology absorption as required under Section 217(1)(e) of the Companies Act, 1956 as there were no operations during the year under review.

Foreign exchange earning and outgo

There was no Foreign Exchange Earning and Outgo during the year.

Directors responsibility statement

Pursuant to Section 217 (2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

- a) in the presentation of the annual accounts, the applicable accounting standard has been followed along with proper explanation relating to material departures;
- b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the Company for that period;
- c) the Directors have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding assets of the company and for preventing and detecting fraud and other irregularities;
- d) the annual accounts have been prepared on going concern basis.

Acknowledgement

The Directors would like to express their grateful appreciation for the assistance and cooperation received from Company's Business Associates and Bankers. The Directors also wish to place on record their appreciation for employees at all the levels in the organization for their sustained effort and positive contribution.

For and on behalf of Board

Abhijit Banerjee Director

Ashish Karyekar Director

Mumbai, 20 April 2006

AUDITORS' REPORT

TO THE MEMBERS OF
Reliance Unicom Limited

1. We have audited the attached balance sheet of **Reliance Unicom Limited** as at 31 March, 2006 and also the profit & loss account of the Company for the period 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.
2. We 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we enclose in the Annexure a statement on the matters specified in paragraphs 4 & 5 of the said order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a. 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;
 - b. in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of these books;
 - c. the balance sheet and profit and loss Account dealt with by this report are in agreement with the books of account;
 - d. in our opinion, the profit and loss account and the balance sheet comply with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956, to the extent applicable;
 - e. On the basis of written representations received from the directors and taken on record from the Board of Directors, we report that none of the directors is disqualified as on 31 March, 2006 from being appointed as directors of the Company in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - f. in our opinion and to the best of our information and according to the explanations given to us, the accounts read together with notes thereon, 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:
 - i) in the case of the balance sheet, of the state of affairs of the Company as at 31 March, 2006
and
 - ii) in the case of the profit and loss account, of the Profit for the period ended on that date.

For S.V. Doshi & Co.
Chartered Accountants

Sunil Doshi
Partner

Membership No.35037
Mumbai, 20 April 2006

Annexure to the Auditors' report

Statement referred to in paragraph 3 of our report of even date on the accounts of **Reliance Unicom Limited** for the year ended on 31 March, 2006.

- 1) According to the information and explanations given to us, the Company has, during the year, not granted/taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, paragraph 4(iii) (a), (b), (c) and (d) of the Order are not applicable.
- 2) The Company has not accepted any deposits from the public.
- 3) As the Paid up Capital of the Company does not exceed Rs. 50 lacs and in the absence of average annual turnover, question of commenting on the system of internal audit does not arise.
- 4) The Company has not raised any term loan during the year.
- 5) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained U/s. 301 of the Companies Act, 1956.
- 6) The Company has not issued any debentures and hence, question of creating security or charge in respect thereof does not arise.
- 7) The Company has not raised any money by public issues during the year.
- 8) In view of the nature of the activity of the Company, in our opinion, other matters specified in Paragraph 4 of the Order are not applicable to the Company.

For S.V. Doshi & Co.
Chartered Accountants

Sunil Doshi
Partner

Membership No.35037
Mumbai, 20 April 2006

RELIANCE UNICOM LIMITED

BALANCE SHEET AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	SCHEDULE	2006
SOURCES OF FUNDS		
Shareholders' Funds:		
Share Capital	1	500,000
Share Application Money		100,500,000
		<u>101,000,000</u>
APPLICATION OF FUNDS		
Current Assets, Loans and Advances:		
Cash and Bank Balances	2	101,000,000
Less: Current Liabilities	3	16,836
		<u>100,983,164</u>
Net Current Assets		100,983,164
Profit and Loss Account		16,836
		<u>101,000,000</u>
Notes on accounts	4	
As per our Report of Even Date		
For S.V.Doshi & Co. Chartered Accountants		For and on behalf of Board
		Abhijit Banerjee Director Ashish Karyekar Director
(Sunil Doshi) Partner		
Mumbai, 20 April 2006		Mumbai, 20 April 2006

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

		2006
EXPENDITURE		
Other Expenses		16,836
		<u>16,836</u>
Loss Carried over to balance sheet		<u>16,836</u>
Notes on accounts	4	
As per our Report of Even Date		
For S.V.Doshi & Co. Chartered Accountants		For and on behalf of Board
		Abhijit Banerjee Director Ashish Karyekar Director
(Sunil Doshi) Partner		
Mumbai, 20 April 2006		Mumbai, 20 April 2006

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2006

(Currency : In Indian Rupees)

	2006
<i>Cash flows from operating activities</i>	
Net profit / (loss) before income taxes	(16,836)
	<hr/>
Operating profit/ (loss) before working capital changes	(16,836)
	<hr/>
Increase in Loans and Advances	–
Increase in Current Liabilities and Provisions	16,836
	<hr/>
Cash generated from operations	–
	<hr/>
Net cash from / (used in) operating activities	–
	<hr/>
<i>Cash flows from investing activities</i>	
Payment for purchase of fixed assets	–
	<hr/>
Net cash used in investing activities	–
	<hr/>
<i>Cash flows from financing activities</i>	
Proceeds from issue of share capital	500,000
Proceeds from share application money	100,500,000
	<hr/>
Net cash used in financing activities	101,000,000
	<hr/>
Net increase in cash and cash equivalents	101,000,000
Cash and cash equivalents at beginning of the year	–
Cash and cash equivalents at end of the year	<hr/> <hr/> 101,000,000

As per our Report of Even Date

For S.V.Doshi & Co.
Chartered Accountants(Sunil Doshi)
Partner
Mumbai, 20 April 2006

For and on behalf of Board

Abhijit Banerjee Director
Ashish Karyekar Director

Mumbai, 20 April 2006

SCHEDULES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2006

(Currency : In Indian Rupees)

	2006
1 : Share Capital	
Authorised:	
50000 Equity Shares of Rs.10/- each	500,000
	500,000
	500,000
Issued, subscribed and paid up Capital :	
50,000 Equity Shares of Rs. 10/- each fully paid up	500,000
<i>(wholly owned by Adlabs Films Limited, the holding company)</i>	500,000
	500,000
2 : Cash and bank balances	
Balance with Scheduled Bank:	
In Current Account	101,000,000
	101,000,000
	101,000,000
3 : Current liabilities	
Sundry Creditors	16,836
	16,836
	16,836
4 : Notes on accounts	
i. Statement of significant accounting policies:	
Accounting convention	
The Accounts have been prepared to comply in all material aspects with applicable Accounting principals in India, the Accounting Standards issued by the Institutue of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.	
ii. Earning per share	
Net Loss as per Profit and Loss Account (Rs.)	-16,836
Number of Share (Nos.)	50,000
EPS - Basic and Diluted (Rs.)	-0.34
Face Value of Share (Rs.)	10
iii. This being the first accounting period, previous year figures are not there.	

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

Registration No. State Code Balance Sheet Date
Date Month Year

II Capital raised during the period (Amount in Rs. thousands)

Public Issue Right Issue Bonus Issue Private Placement

III. Position of mobilisation & deployment of funds (Amounts in Rs. thousands)

Total Liabilities Total Assets

Sources of Funds

Paid-up Capital Reserves & Surplus Share Application Money Unsecured Loans

Application of Funds

Net Fixed Assets Investment Net Current Assets Misc. Expenditure Accumulated Losses

IV. Performance of Company (Amounts in Rs. thousands)

Turnover Total Expenditure Profit/Loss before tax Profit/Loss after Tax

(Please tick Appropriate box + for Profit - for Loss)

Earnings per Share (Basic) in Rs. Dividend %

Balance Sheet Abstract and Company's General Business Profile (Continued)

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code) Product Description For and on behalf of the Board
Abhijit Banerjee Director
Ashish Karyekar Director

Mumbai, 20 April 2006

NOTES

Electronic Clearing Facility

Dear Shareholder,

Sub: Payment of dividend through Electronic Clearing Services (ECS)

You would be aware of Electronic Clearing Services (ECS) being offered by the Reserve Bank of India in select cities. ECS facilitates automatic credit payment of dividend to one's Bank account and eliminates the risk of fraudulent encashments and also the risk of loss in transit warrants.

Under this arrangement, the payment instructions would be issued electronically through our Bank to the clearing Authority who shall give credit reports to the Bank with whom you maintain the specified account. Your Bank will credit your account and indicate the credit entry as 'ECS' in your passbook / statement of account.

At present RBI offers ECS facilities in the following centers:- Ahmedabad, Bangalore, Bhuvaneshwar, Chandigarh, Chennai, Coimbatore, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkatta, Mumbai, Nagpur, New Delhi, Patna, Pune, Surat, Vadodara and Trivandrum. It is likely that this facility will be extended to other cities/towns in future. If you wish to avail this facility, please fill up the mandate form overleaf and send the same along with photocopy of cheque pertaining to that Bank account where you would like the amount to be credited, to our Registrar and Share Transfer Agents M/s Intime Spectrum Registry Limited as early as possible.

Shareholders in places where ECS facility is not available may also send us their Bank account details. These details will be printed on the face of the dividend warrant. The dividend warrant shall continue to be sent to your address and not to bank directly.

If you hold the shares in dematerialized form, you may kindly inform your depository participants about your ECS particulars/ changes in the Bank account who will in turn update these details in NSDL/CDSL system. The updated details in the NSDL / CDSL system will be used by us for remitting the dividend to you.

Thanking you,

Yours faithfully

For Adlabs Films Limited

Kirti Desai
Company Secretary

TEAR HERE

(Draft mandate form)

To,

Intime Spectrum Registry Limited
C-13,Pannalal Silk Mills Compound,
L.B.S Marg, Bhandup, Mumbai-400 078
Tel : (22) 25963838
Fax: (22) 25946969

MANDATE FORM

Electronic Clearing Services (ECS)

1) Particulars of the Shareholder

Regd. Folio No./Client ID : _____ Tel. No. _____

Name of the First Regd. holder (in block letters):

2) Particulars of the Bank

Name of your Bank : _____

Branch : _____

Account No. : _____
(as appearing in the Cheque book)

Account Type : _____

9 digit code number of the bank : _____
and branch appearing on the
MICR Cheque issued by the bank

(Please attach a photocopy of a cheque / or a cancelled cheque leaf for verifying the accuracy of the code number)

Place:

Date:

(Signature of the First Regd. Holder)
as per specimen signature with the Company

Note: Please send the form to the address mentioned above. Shareholders holding shares in electronic (demat) form are requested to submit the form duly filled and signed directly to their Depository Participants.

FOR OFFICE USE

ECS No. _____

ADLABS**ADLABS FILMS LIMITED**

Registered Office : Film City Complex, Goregaon (East), Mumbai 400 065

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

ATTENDANCE SLIP

I/We hereby record my/our presence at the Annual General Meeting of the Company held at Rangsharda Natyamandir, K.C. Marg, Bandra Reclamation, Bandra (West), Mumbai 400050 on Saturday, July 29, 2006 at 11.00 a.m.

Name of the Attending Member

Name of the Attending Proxy

Signature of the Attending Member

Signature of the Attending Proxy

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

ADLABS**ADLABS FILMS LIMITED**

Registered Office: Film City Complex, Goregaon (East), Mumbai 400 065

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

PROXY FORM

I/We _____ of _____ in the district of _____ being a member/members of ADLABS FILMS LIMITED hereby appoint _____ of _____ in the district of _____ as my/our proxy to vote for me/us and on my/our behalf at the 19th Annual General Meeting of the Company to be held on Saturday, July 29, 2006 at 11.00 a.m. or at any adjournment thereof.

Signed this _____ day of _____ 2006.

Signature _____

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

2 A Proxy need not be a Member.