ADLABS

ANNUAL REPORT

2006-07

BOARD OF DIRECTORS

Shri Manmohan Shetty
Chairman & Managing Director

Ms. Pooja Shetty
Wholetime Director

Shri Berjis Desai
Director

Shri Gautam Doshi
Director

Shri Karan Johar
Director

Shri Shripal Morakhia
(upto July 25, 2007)
Director

Shri Amit Khanna
(w.e.f. April 26, 2007)
Director

Shri Sujal Shah
(w.e.f. April 26, 2007)
Director

Shri Pradeep Shah
(w.e.f. September 13, 2007)
Director

Shri Anil Sekhri
(w.e.f. September 13, 2007)
Director

Shri Darius Kakalia
(w.e.f. September 13, 2007)
Director

COMPANY SECRETARY
Ms. Kirti Desai

AUDITORS
BSR & Co. (A member of KPMG)
KPMG House
Kamala Mills Compound
448, Senapati Bapat Marg
Lower Parel, Mumbai 400 013

BANKERS
HDFC Bank Ltd.
Bank of Baroda

SUBSIDIARIES
Synergy Adlabs Media Limited
(formerly known as
Synergy Communications Private Limited)
Mukta Adlabs Digital Exhibition Private Limited
Adlabs Distributors & Exhibitors Limited
Katch 22 Entertainment Private Limited
Adlabs Films (UK) Limited
Adlabs Films USA, Inc.

REGISTERED OFFICE
Adlabs Films Limited
Film City Complex
Goregaon (East)
Mumbai 400 065

Phone: (022) 2842 33 33/44 88
Fax: (022) 28422211/28431685
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) 25963838
Fax: (022) 2594 6969

CONTENTS

NOTICE

Notice is hereby given that the Twentieth Annual General Meeting of the Members of Adlabs Films Limited will be held on Thursday, the October 25, 2007 at 3.00 p.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 June 30, 2007, the Profit and Loss Account for the fifteen months period ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare a 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. Gautam Doshi, 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 Sujal Shah, who was appointed as an Additional Director with effect from April 26,2007 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 Amit Khanna, who was appointed as an Additional Director with effect from April 26,2007 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 Pradeep Shah, who was appointed as an Additional Director with effect from September 13, 2007 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 an Ordinary Resolution:

   "RESOLVED that Shri Anil Sekhri, who was appointed as an Additional Director with effect from September 13, 2007 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."

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

    "RESOLVED that Shri Darius Kakalia, who was appointed as an Additional Director with effect from September 13, 2007 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."

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

    "RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification or re-enactment thereof for the time being in force) read with Schedule XIII to the said Act, consent of the Company be and is hereby accorded to the reappointment of Ms. Pooja Shetty as Wholetime Director of the Company from 1st April 2007 upto 31st March 2008 (both days inclusive) and payment of remuneration upon the terms, conditions and stipulations as is set forth in the Explanatory Statement forming part of the Notice to this Annual General Meeting."

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

"RESOLVED THAT in supersession of the resolution passed by the Members through Postal Ballot on January 12, 2006, the Board of Directors of the Company ("the Board") be and is hereby authorized in accordance with Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and the Articles of Association of the Company, to borrow any sums or sums of money from time to time at their discretion on such security and on such terms and conditions as the Board may deem fit, for the purpose of the business of the Company, which together with the monies already borrowed by the Company(apart from temporary loans obtained from the Company's Bankers in the ordinary course of Business) including rupee equivalent of Foreign Currency borrowings(such rupee equivalent being calculated at the exchange rate prevailing as on the date of the relevant foreign currency agreement) may exceed, at any time, the aggregate of the paid up capital of the Company and its free reserves (that is to say reserves not set apart for any specific purpose) by a sum not exceeding Rs. 5,000 crores (Rupees Five Thousand Crores only) and that the Board of Directors be and is hereby empowered and authorized to arrange or fix the terms and conditions of all such monies to be borrowed from time to time as to interest, repayment, security or otherwise as they may, in their absolute discretion, deem fit."

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

By Order of the Board

Kirti Desai
Company Secretary

Mumbai,
September 13, 2007

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 hereto.
4. All documents referred in the accompanying Notice are open for inspection at the Registered Office of the Company on all working days except Saturday between 11.00 a.m and 1.00 p.m upto the date of Annual General Meeting.
5 The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, October 23, 2007 to Thursday,October 25, 2007 (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 before November 8, 2007, 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 as on Thursday,October 25, 2007 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. Members are advised to avail of facility of Electronic Clearing Service (ECS) for receipt of dividends. The ECS facility is available at certain specified locations. Members holding shares in dematerialized mode are requested to contact their respective Depository Participant (DP) for availing ECS facility. Members holding shares in physical form and desirous of availing ECS facility are requested to write to the Company/Company's Registrar and Share Transfer Agents, Intime Spectrum Registry Limited.
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.Gautam Doshi, Directors of the Company being longest in office retire by rotation and being eligible offer themselves for re-appointment. Shri Sujal Shah, Shri Amit Khanna, Shri Pradeep Shah, Shri Anil Sekhri and Shri Darius Kakalia, Additional Directors hold office upto the date of 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 no. 6 and 7

Shri Sujal Shah and Shri Amit Khanna were appointed as Additional Directors of the Company with effect from April 26, 2007 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 the 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 are in any way interested.

Item no. 8, 9, 10

Shri Pradeep Shah, Shri. Anil Sekhri and Shri Darius Kakalia were appointed as Additional Directors of the Company with effect from September 13, 2007 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 the 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 are in any way interested.

Item no. 11

The Board of Directors of the Company at their meeting held on April 26, 2007 have on recommendation of the Remuneration Committee and subject to approval of Members decided to renew the service period of Ms. Pooja Shetty with effect from April 1, 2007 to March 31, 2008 (both days inclusive). The draft supplementary agreement proposed to be entered into between Ms. Pooja Shetty and the Company records the terms and conditions of appointment of Ms.Pooja Shetty by way of salary, perquisites and allowances as under:

1 Salary:

Rs.1,50,000 (Rupees One Lac Fifty Thousand) per month.

2 Perquisites:

i Housing : Company shall provide rent free furnished accommodation for occupation by self and family.

In lieu of rent free accommodation, the Company shall give House Rent Allowance upto 50% of the salary set out in (1) above.

ii Leave Travel Concession: Ms. Shetty shall be entitled to the payment of Leave Travel Concession once in a year as per Rules of the Company.

iii Club Fees : Membership Fees of One Club including admission fees and expenses.

iv Medical Reimbursement : Reimbursement of medical expenses (including hospitalization) actually incurred by herself.

v Leave and Leave Encashment : Leave with pay or encashment thereof in accordance with the Rules of the Company.

vi Car : Company shall provide chauffer driven car, all expenses for running and upkeep of such car as also the salary of the chauffer to be borne and paid by the Company. Use of car for private purpose shall be billed to Ms. Shetty.

vii Telephone : Company shall provide a telephone at her residence for use on Company's business. The rent, call charges for business and other outgoings in respect thereof as also in respect of the mobile used by her for office calls shall be paid by the Company, personal long distance calls shall be billed by the Company to Ms. Shetty.

viii) Others: Such other perquisites, benefits, allowances in accordance with the Rules of the Company or as may be agreed to by the Board of Directors.The perquisites and benefits shall be estimated to be an amount equal to the Annual Salary and allowances payable to Ms. Shetty.

For the purpose of calculating the above ceiling, perquisites and allowances shall be evaluated as per Income Tax Rules, wherever applicable. In the absence of any such rules, perquisites shall be evaluated at actual cost to the Company.

The remuneration payable by the Company to Ms. Pooja Shetty together with the remuneration payable by the Company to its Managing Director and the other Wholetime Director shall not exceed 11% of the net profits computed in the manner provided in Sections 349 and 350 of the Companies Act, 1956.

3 Retirement Benefits :

(i) Company's contribution towards Provident Fund Scheme as per rules of the scheme

(ii) Gratuity as per rules of the Company

4 Minimum Remuneration :

In the absence or inadequacy of profits in any financial year, remuneration payable to Ms. Shetty shall be subject to the provisions of Section II of Part II of Schedule XIII to the Companies Act, 1956.

The revised terms for remuneration, perquisites and allowances as set out above may be treated as an abstract under Section 302 of the Companies Act, 1956.

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

None of the Directors except, Ms. Pooja Shetty and Shri Manmohan Shetty who is a relative of Ms. Pooja Shetty is concerned or interested in the Resolution.

The draft Agreement proposed to be entered into between Ms. Pooja Shetty and the Company are available for inspection by Members of the Company at the Registered Office of the Company on any working day, excluding Saturdays, between 11.00 a.m to 1.00 p.m till the date of this Annual General Meeting.

Item no.12

In terms of the provisions of sections 293(1)(d) of the Companies Act,1956, the Board of Directors of the Company, cannot except with the consent of the Company in general meeting, borrow moneys, apart from temporary loans obtained from the Company's bankers in the ordinary course of business, in excess of aggregate of the paid up capital and its free reserves that is to say reserves not set apart for any specific purpose.

Keeping in view the Company's expanding business and its growth plans, it is deemed desirable to enhance the Company's borrowing limits from existing Rs. 1,000 crores (Rupees One Thousand Crores only) to Rs. 5,000 crores (Rupees Five Thousand Crores only).

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

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

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

Mumbai,
September 13, 2007

By Order of the Board

Kirti Desai
Company Secretary

CHAIRMAN'S STATEMENT

Dear Shareholders,

We made many promises last year – some may say, extremely ambitious ones. One year down the line, however, I am pleased to report that we have delivered on our promises and achieved a dominant position in all business segments.

From 40 screens in seven cities across India at this time last year, we have – as on date - become the largest cinemas chain in India with 105 screens across 32 cities. Our aim is to be present in all significant film territories that contribute over 80% to domestic box-office collections.

In movie production, our tie-ups with well-regarded producers/directors such as Vipul Shah and Ram Gopal Varma have borne fruit with successful releases like Namastey London and Nishabd. We also made our first foray into the regional film industry with the Tamil film Kireedam through a co-production with veteran production house Sujatha Cine Arts. We are shortly launching our first home production Johnny Gaddaar. Our co-production agreement with Hyde Park Entertainment (promoted by Ashok Amritraj) is progressing well and our first Hollywood production Asylum is expected to be released in a few months.

Through our established distribution offices in the US and UK we have released 40 films till date. We have also begun distribution of films in the domestic market earlier this year and have had successful releases such as Spider-Man 3, Black Friday, Bheja Fry, Guru and Aap Ka Surroor.

Our first 3D animation film, Sultan - The Warrior, produced jointly with Ocher Studios, featuring Indian superstar Rajnikanth is in production. We have added a second animation project to our slate, a film co-produced with India's premier kids apparel brand Gini & Jony which is currently in the pre-production phase.

As you are aware, we have acquired majority stake in Siddhartha Basu's Synergy Communications, a television production house which will cater to the demand for quality software arising from exponential growth in broadcasting.

The market for film processing has been quite steady in the current year, with the advent of additional screens across the country and buoyant demand for Indian movies. The facility in Chennai – added last year - has already garnered a 20% market share. We are now also in Kolkata to cater to the Eastern market and operations have been encouraging.

As per our plan to become a larger Services company, the company has commenced its Broadcast Equipment Rental business for providing quality equipment and is in the process of setting up a state-of-the-art Digital Lab for providing high-end services like film digitisation, digital intermediate, restoration among other processes.

We have been following the developments in Digital Cinema Initiative (DCI) closely and have actively tested these standards successfully in our cinema chain. We aim to roll out the same shortly.

I am also pleased to inform shareholders that Adlabs has been awarded a Letter of Intent (LOI) by the Maharashtra Government for three studios within Film City. We intend to commence development shortly for creation of world class shooting facilities within the heart of the Indian film industry.

As a member of the Reliance – Anil Dhirubhai Ambani Group, Adlabs will always strive for excellence, and we deeply value your support.

Thanking you,

Manmohan Shetty
Chairman & Managing Director

Mumbai, September 21, 2007

To the Members,

Your Directors have pleasure in presenting the Twentieth Annual Report and the Audited Accounts of the Company for the fifteen month period ended June 30, 2007.

Financial Results:

(Rs. in thousands)

Particulars	15 month period ended 30th June 2007	12 month period ended 31st March 2006
Gross income		
Film Processing and Traded Goods	954,167	657,703
Theatre Operations	873,606	252,795
Film Distribution	1,362,552	53,119
Film production	10,527	91,012
Other Income	737,682	49,903
Total	**3,938,534**	**1,104,532**
Expenditure	1,922,936	620,528
Profit Before Depreciation, Interest & Tax	67,510	288,706
Interest	44,171	8,873
Depreciation	929,873	88,776
Profit Before Tax	**1,041,554**	**386,355**
Tax	187,234	123,297
Short provision for tax in respect of earlier years	968	–
Profit After Tax	**853,352**	**263,058**
Loss after tax for the period from 1st April, 2005 to 31st March, 2006 in corporated pursuant to Scheme of Amalgamation and arrangement	(19,519)	–
Balance brought forward from previous year	247,458	112,911
Total	**1,081,291**	**375,969**
Appropriations		
General Reserve	85,400	26,400
Proposed Dividend	99,502	89,552
Dividend Tax	16,910	12,559
Balance carried forward	879,479	247,458
Total	**1,081,291**	**375,969**

Results of Operations

The financial results covered and forming part of this report include 15 month period from April 1, 2006 to June 30, 2007 since the accounting year of the Company has been extended from erstwhile accounting year, 1st April - 31st March to 1st April - 30th June 2007 to account for transactions of 15 months.

As such the accounts during 2007 shall not be strictly comparable with that of the previous year/s.

The total Income from operations of the Company for the period ended June 30, 2007 (15 months) was higher at Rs. 3,938,534 thousands recording an increase of 256% over the previous year (12 months). The income from film processing for the period was at Rs. 954,167 thousands, an increase of 45% over the previous year.

Income from exhibition rose by 245% to Rs. 873,606 thousands.

The contribution of film production and distribution to the total income was Rs. 1,373,079 thousands an increase of 852%. The overall net profit of the company rose by 224% to Rs. 853,352 thousands during the 15 month period ended June 30, 2007.

Profit for the Company was higher, amongst other reasons, due to excellent box office performance of the films co-produced, some super-hit movies distributed and commencement of new cinema properties across the country.

Dividend

Your Directors have recommended a dividend of 50% (Rs. 2.50 per Equity Share) for the fifteen month period ended June 30, 2007 and hereby seek your approval for the same. The total outgo on account of dividend to be paid to shareholders will be Rs. 1164.12 lakh (inclusive of Corporate Tax on Dividend) as against Rs. 1021.11 lakh in the previous year.

Business Review

The last year has been a landmark one for Adlabs with the Company achieving a dominant position in all business segments. Key milestones have been:

- Growth of over 256% in Total Income and over 224% in PAT respectively
- Becoming the first cinema chain in India to cross 100 screens
- Commencing domestic and international film distribution businesses
- Entering into television content production and acquisition of majority controlling stake in Synergy Communications, a leading and reputed player in television content headed by Mr. Siddhartha Basu.

From 40 screens in seven cities across India at this time last year, the Company has – as on date - become the largest cinemas chain in India with 105 screens across 32 cities and the momentum is expected to continue. Among the notable launches this year was the landmark property Metro Adlabs in South Mumbai. Adlabs' aim is to be present in all significant film territories that contribute over 80% to domestic box office collections by not only setting up cinemas in malls but also taking over existing properties, renovating and operating them.

In movie production, the Company's tie-ups with well-regarded producers/directors such as Vipul Shah and Ram Gopal Varma have borne fruit with successful releases like *Namastey London* and *Nishabd*. The Company also made its first foray into the regional film industry with the Tamil film *Kireedam* through a co-production with veteran production house Sujatha Cine Arts. During the year, several reputed film-makers have been commissioned and, over the next few months, a slew of releases such as Ram Gopal Varma's *Sarkarraj,* Harry Baweja's *Love Story 2050,* Prakash Jha's *Dil Dosti etc* and *Khoya Khoya Chand*, Vipul Shah's *Singh is King,* Milan Luthria's *Revolver* and the Company's first home production Johnny Gaddaar directed by Sriram Raghavan will be presented.

Your Company also entered into a tie-up with Ashok Amritraj's Hyde Park International and the first release *Asylum* is expected shortly.

Adlabs' first 3D animation film *Sultan - The Warrior,* jointly produced by Ocher Studios features Indian superstar Rajnikanth in a lead role. After the record-breaking success of *Sivaji*, Rajnikanth's huge fan base around the world is keenly looking forward to his next release. The period action adventure film is currently in production using a mix of Indian and foreign talent with studios in India and Europe and is sure to set new benchmarks in Indian animation when it releases end 2008.

South Asian audiences in international markets have a strong affinity to Indian movies and the Company has established offices in the US and UK to cater to this demand. During the year, Adlabs emerged as one of the largest international distributors of Bollywood content by distributing more than 20 films including Rakesh Roshan's *Krrish*, Shirish Kunder's *Jaan-E-Mann*, J.P Dutta's *Umrao Jaan* and Ravi Chopra's *Baabul*.

Adlabs also entered into the domestic distribution business in January 2007 by distributing Mani Ratnam's *Guru*. The Company has established its own distribution offices in key territories of Mumbai, Delhi UP and East Punjab which constitute more than 60% of all-India business for Hindi films. Aided by meticulous selection of films from the perspective of diverse genres and scale of release (*Guru, Black Friday, Spider-Man 3, Bheja Fry and Aap Ka Suroor*), Adlabs has built a significant presence with good brand and consumer mind space in the domestic film distribution business.

Television is one of the fastest growing entertainment mediums today. Recognising this, the Company has acquired majority stake in Siddhartha Basu's Synergy Communications. This year saw the successful launch of *Kaun Banega Crorepati 3* and very soon *Jhalak Dikhlaa Jaa* in its second season.

The market for film processing has been quite steady in the current year, with the advent of additional screens across the country and buoyant demand for Indian movies. The processing lab at Mumbai has been upgraded with the introduction of international best practices and the facility in Chennai – added last year - has already garnered a 20% market share. The new laboratory in Kolkata to cater to the Eastern market has been opened and operations have been encouraging.

New Initiatives

The Company has added another animation project to its slate, a film co-produced with India's premier kids apparel brand *Gini & Jony* which is currently in the pre-production phase and will be ready for release by the end of 2008. The tie-up with an apparel brand will give the Company the added advantage of their retail business network which will aid in marketing and exploiting merchandising rights.

The processing lab is an integral element of the Company's Services business which aims to provide a complete range of high-quality services to Indian film-makers. The Company has commenced its Broadcast Equipment Rental business for providing quality equipment for live shows, reality shows and game shows, among other segments.

The Company is in the process of setting up a state-of-the-art Digital Lab for providing high-end services like film digitisation, digital intermediate and restoration among other processes.

Digitisation and digital delivery of prints are reaching some levels of standard definition in international markets and the recent Digital Cinema Intermediate (DCI) standards are being widely regarded as the benchmarks. The Company has been following these developments closely and has actively tested these standards successfully in its cinema chain. It aims to roll out the same shortly.

The Company has been awarded a Letter of Intent (LOI) by the Maharashtra Government for three studios within Film City in Mumbai. It intends to commence development shortly for creation of world class shooting facilities within the heart of the Indian film industry.

Composite Scheme of Amalgamation and Arrangement

The Honourable High Court of Judicature at Bombay has sanctioned the composite Scheme (the Scheme) for the merger of Adlabs Films Limited and Entertainment One India Limited (EOIL) and to merge the digital business of Mukta Adlabs Digital Exhibition Private Limited (MADEL) and the de-merger of the radio business of the Company into Reliance Unicom Limited (RUL). The order will be filed with the Registrar of Companies as required by law. However, as the Scheme has already been sanctioned and approved by the Honourable High Court under Sections 391-394 of the Companies Act, 1956, the results have been prepared giving effect to the Scheme.

Accordingly the above results of the Company for the accounting period ended June 30, 2007 include the operation of EOIL and the digital business of MADEL, and exclude the operations of the radio business and hence may not be strictly comparable with the previous period.

In case of EOIL, with effect from the appointed date i.e. April 1, 2005, the entire business and undertaking of EOIL is transferred to and vested in Adlabs so as to become the undertaking, estates, assets, properties, liabilities, obligations and rights of Adlabs. EOIL as such shall be dissolved without being wound up.

The digital cinema business of MADEL is transferred to and vested in Adlabs as a going concern with effect from the appointed date i.e. April 1, 2005.

The vesting of the radio business in RUL is with effect from March 31, 2006.

Acquisition

During the period, the Company acquired 100% stake in Katch 22 Entertainment Pvt. Limited. Subsequently, pursuant to the board of directors approval vide resolution dated 26 April 2007, the Company filed a Scheme of amalgamation of Katch 22 Entertainment Pvt. Limited with the Hon'ble High Court of Judicature at Bombay for the merger of Katch 22 Entertainment Pvt. Limited with the Company effective 1 April 2006. The said scheme is pending approval of the Court and hence has not been given effect to in these financial statements.

Further, on 31 May 2007, the Company entered into a Share Purchase Agreement ('SPA') with the shareholders of Rave Entertainment Private Limited ('REPL'), a company engaged inter-alia in the business of owning and operating multiplexes, for acquisition of 100% stake in that company. One of the conditions precedent to the SPA is the approval by the Hon'ble High Court of Judicature at Allahabad of the Scheme of demerger filed by REPL for demerger of Kanpur properties. Pending approval of the scheme of demerger by the said Court, the shares of REPL and consideration of Rs 50 million payable by the Company for the same are held in Escrow and disclosed as such in these financial statements. Consequently the accounts of this company has not been included in the Audited Statement of Accounts of Adlabs Films Limited.

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 respective accounting period are annexed together with the statement relating to the Company's interest in the subsidiary companies.

Business Outlook

Overall: The Information Media and Entertainment (IEM) Industry has out-performed the Indian economy and is one of the fastest growing sectors in India, primary reasons being high disposable income, favourable demographic profile of the population, rising aspiration levels, increase in number of working Indians, etc.

The industry is expected to display tremendous performance, outgrowing the Indian economy every year till 2011. The cumulative annual growth rate of 18 percent is likely to be achieved on account of several favorable factors such as government recognition and encouragement for the industry, a liberalized foreign investment policy, entry of large corporate players, technological advancement, etc.

This demand for entertainment will also accelerate the exhibition, content, distribution and music business.

Company: Going forward, two critical factors would drive the growth – the strong experience as well as goodwill that the Company enjoys in the Indian entertainment industry and the backing of the hugely diversified Reliance – Anil Dhirubhai Ambani Group.

The Company is constantly exploring organic as well as inorganic avenues of growth in both existing and new lines of business. The strategy is to consolidate existing lines of businesses, simultaneously tapping newer revenue streams across the entertainment value chain. The Company has diversified its business offerings to include animation films and television content, both segments slated to exponential growth in the coming year.

The cinemas rollout is expected to gather further momentum with the Company having signed on multiple properties spread across India as part of its aggressive cinemas expansion strategy and will be present in all significant film territories that contribute over 80% to domestic box-office collections, not only by setting up cinemas in malls but also taking over existing properties, renovating and operating them. This is an effective way to provide audiences across India – particularly Tier II cities - access to the Adlabs Cinemas experience at competitive rates.

The Company is looking to further expand its distribution infrastructure in South India and other distribution territories with time lines being primarily driven by the on-going expansion in the film exhibition infrastructure. Growing distribution presence in the territories where Adlabs has substantial presence through exhibition infrastructure will help develop tremendous competitive advantages in the distribution space vis-a-vis competition.

Awards/Achievements

The cinemas division has received the award for "Most Admired Retailer of the Year in Entertainment Category" at the India Retail Summit 2007. It has also been awarded the "Best Retailer in Entertainment" Award at Images Retail Awards 2006.

The processing laboratory has received the award for "Best Cinematography" for the film *Parsiwada, Tarapore - Present Day* at the 53rd National Film Awards.

The laboratory also won the Zee Cine Award for Best Film Processing for the movie *Kabhi Alvida Naa Kehna*

As of date, Adlabs has become the largest cinema chain in India with 105 screens across 32 cities.

Directors

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

Shri Shripal Morakhia has resigned from the Directorship of your Company with effect from July 25, 2007. The Board places on record its sincere appreciation of the active involvement and support of Shri Morakhia during his tenure.

Shri Berjis Desai and Shri Karan Johar retire by rotation at the ensuing Annual General Meeting and are not seeking reappointment. The Board wishes to thank them for their contribution to the Board during their tenure as Directors.

Shri Sujal Shah and Shri Amit Khanna were appointed as Additional Directors of the Company on April 26, 2007 while Shri Anil Sekhri, Shri Pradeep Shah and Shri Darius Kakalia were appointed as Additional Directors on September 13, 2007 to hold office upto the conclusion of the ensuing Annual General Meeting. The Company has received Notice under Section 257 of the Companies Act, 1956 from Members proposing the appointment of Shri Sujal Shah, Shri Amit Khanna, Shri Anil Sekhri, Shri Pradeep Shah and Shri Darius Kakalia respectively as Directors of the Company.

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, with respect to the Director's Responsibility Statement, it is hereby confirmed that:

a. in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made for the same;

b. they 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 period ended June 30, 2007 and of the profit of the Company for that period;

c. they 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;

d. they have prepared the accounts for the period ended June 30, 2007 on a "going concern" basis.

Consolidated Financial Statements

The Audited Consolidated Financial Statements for the fifteen month period ended June 30, 2007 is annexed to this Report. The reports and standalone audited accounts of all subsidiary companies 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/ BSR & Co., Chartered Accountants, to the effect that their reappointment, if made, would be 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, Management Discussion and Analysis Report are 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, form part of this 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 of Corporate Governance as prescribed in revised Clause 49 of the Listing Agreement with the Stock Exchanges. A Report on Corporate Governance compliance along with a certificate of compliance from Practising Company Secretary, 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 most importantly the shareholders for their continuous patronage towards the Company's operations and the trust placed in the Company's management.

On behalf of the Board

Date : September 13, 2007
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 period 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 12 and 13 of schedule 22 to the accounts forming part of the balance sheet.

On behalf of the Board

Date : September 13, 2007
Place: Mumbai.

Manmohan Shetty
Chairman & Managing Director

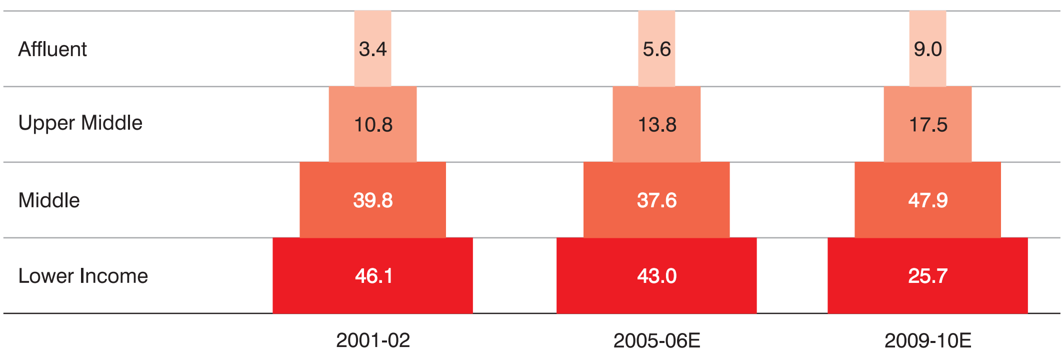
Indian Economy – An Overview

The India success story continues with the economy's growth rate racing past the 9% mark in 2006-2007. Let alone keeping up with this phenomenal growth rate, the Indian Entertainment and Media (E&M) sector has gone a step above and outperformed the Indian economy and this trend is likely to continue over the next five years. With a compounded annual growth rate (CAGR) of 18% over the next five years, the Indian E&M industry is the fastest growing in Asia-Pacific.

Several important factors have led to this growth:

- India's changing demographic profile: India is one of the youngest nations in the world, with a median age of 24 years. Nearly two-thirds of India's population is under the age of 35. Having grown up in a liberalized era, this young population has high aspiration levels and are early adopters, willing to spend on a variety of lifestyle related goods and entertainment activities.
- Increasing spending power: Rising disposable incomes coupled with lifestyle changes and exposure to global influences via different forms of media have provided a further fillip to leisure related spending. Over the next couple of years, the Indian middle class – the segment that is the main driver of India's retail transformation is only going to grow in size.

Fig. 2: Percentage distribution of urban households



Source: NCAER, Edelweiss research

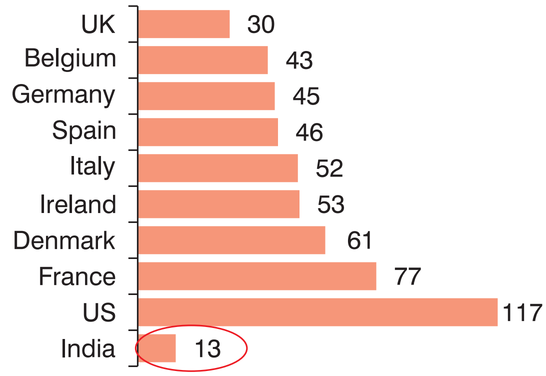
- Liberalizing FDI regime: Most segments of the E&M industry today allow foreign investment. The year 2006 saw the maximum flow of foreign investment in the E&M industry.
- Untapped rural market: The Indian rural market which is nearly three times the size of urban India offers a huge opportunity that has remained largely untapped due to reasons of accessibility and affordability. With improvements in infrastructure and income levels rising across most social classes, the rural consumer is a firm part of the consideration set of most companies.
- Increasing media penetration amongst the lower socio-economic classes: The sheer size of this group means that even a small increase in penetration in percentage terms translates into sizeable numbers in absolute terms.

Cinemas

The Indian film industry accounts for 19% of the E&M industry pie. Movies, like cricket and politics are an integral part of the average Indian's psyche. India is one of the most prolific film producing nations in the world, with over a 1000 films having released in a single year. The country also boasts of the highest number of box office admissions at over 3 billion.

With the increase in consumerism, there has been a visible increase in leisure-related spending. Movie-watching is one such leisure activity that has significantly improved, both in terms of consumers expecting a superior movie viewing experience and the willingness to pay for it. According to an Edelweiss Securities report on multiplexes in India, the film industry's revenues are dominated by the domestic box office with collections estimated at Rs. 5,300 crores in 2005. This is projected to grow at 14% over the next five years to reach an estimated Rs. 10,200 crores in 2010.

Despite the growing size of the industry and the increasing propensity of consumers to pay for a better experience, screen density is still a meager 13 screens per million population in India, as compared to 117 screens per million in the US. A UNESCO study in 2005 showed that India needs 20,000 screens to cater to the cinema-viewing population so this is clearly a market with huge potential. Although multiplexes have become the natural choice for viewing movies especially in metros, single-screen cinemas are still prevalent and there are many areas even in the metros that remain largely under-served by multiplexes. This lack of movie exhibition infrastructure opens up a phenomenal growth opportunity for the multiplex industry.



Screen Per mn. population

Estimation of Lifestyle Opportunity
CAGR Growth (FY05 - FY10E)

Techno Shares and Stocks Limited Report, July 2006

Besides the six metros, India has 61other cities with populations greater than 0.5 million representing 80% of India's population. Even though the six metros have the greatest concentration of India's wealth, the other 61 cities have consistently outpaced the metros in growth rates since 1995. These cities are witnessing higher incomes and a fundamental change in consumer mindset. Increasing awareness levels in Tier II cities are eroding the earlier difference between metros and Tier II cities in terms of 'urban aspirations', a fact that has led international brands to rely increasingly on Tier II cities to drive growth.

Indian Film Industry

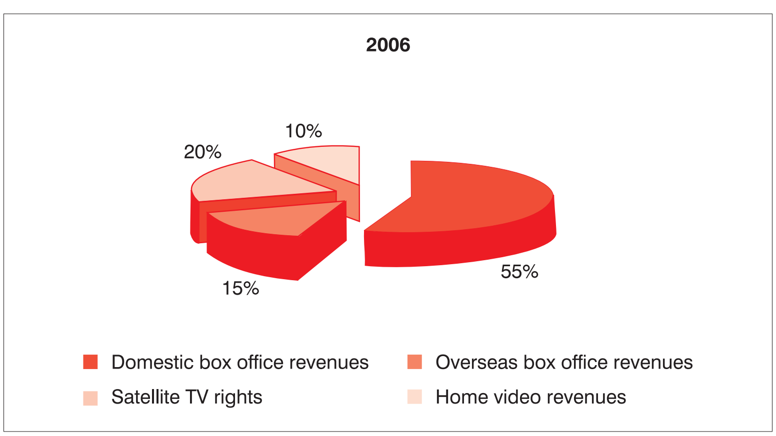
One of the key changes witnessed by the Indian film industry in the recent past is the growing prevalence of Corporatisation. This metamorphosis of the industry, apart from helping lower the interest rate of funds available to finance films, has also brought in higher transparency and discipline in the film making process. This has resulted in increased focus on cost-controls, higher emphasis on scripting, planning and documentation.

Not only do big budget films stand to gain from this, but small producers with good scripts who had scarce financing options in the past, are likely to secure adequate funding, as there is a growing demand for high quality content.

While India has enjoyed a reputation of being able to deliver high-end animation services, a recognition of the importance of creating and owning characters and intellectual property has seen the development of interesting franchises using India's rich legacy of story-telling as a source for inspiration. A number of extremely successful films based on Indian characters have been released which also offer virtually unlimited scope for non-box office related revenue streams such as merchandising, gaming etc.

Increasing globalization has led to Indian movies gaining popularity in the international market. With changing demographics like younger and more English-speaking people in the country, English films are becoming increasingly popular in India. These developments have encouraged the Indian film industry and film producers from countries like the US and UK to explore the possibility of co-producing movies.

Movies are central to even other forms of entertainment in India. Music, radio and much of TV content revolves around films and they have also begun to make their influence felt in the Internet, gaming and newer forms of media. All this guarantees that a film's revenues are increasingly coming from outside the Indian box office, helping to increase profits and cut losses.



Content: Television

The Indian television industry's dream run continues. Revenues are currently at Rs. 191 billion and are expected to grow to Rs. 519 billion by 2011, implying a 22 percent compounded annual growth rate over the next five years. Discerning audiences, better technology, connectivity and growing advertisers together are aiding this boom.

With 300 plus existing channels and more than 50 channels expected to launch in the next two years to cater to the varied cultures, languages and tastes of India, there is a huge demand for original content with the television software market expected to grow from Rs. 8 billion to Rs. 18 billion by 2011.

Processing & Allied Services

India is the largest producer of films in the world, and is a significant market for digital post production services. The domestic market is expanding at 30-35% with production budgets of films and commercials increasing as well as the expenditure on special and digital effects growing exponentially to cater to rising consumer expectations. There also exists a substantial opportunity for international outsourcing of work for foreign studio and media clients.

Your Company will not only be focusing on existing businesses of exhibition, processing, co-production, television and distribution, but will also endeavour to enter into promising segments such as digital cinema, film production and post-production facilities as well as increase its cinemas presence in under-serviced catchment areas to unearth the huge possibilities that exist there.

COMPANY'S FINANCIAL PERFORMANCE

Segment Wise Analysis

1. Cinemas

   Income from theatrical exhibition during the financial year amounted to Rs 873,606 thousands. This quantum jump is attributed to commencement of operations of new properties across the country. The Company has – as on date - become the largest cinemas chain in India with 105 screens across 32 cities. Besides increasing its penetration in metro cities, the Company is coming up with multiplexes in Tier I & Tier II cities like Agra, Jaipur, Jodhpur, Chandigarh, Hyderabad, Jalandhar, and Amritsar, among other cities.

2. Content: Film Production & Distribution

   Adlabs has become one of the leading players in film production as well as distribution, with a slew of big ticket releases during the current financial year. The risks associated with this segment have been neutralised by associating with reputed producers and acquiring a portfolio of diverse content. Revenues from this division contributed to Rs 1,373,079 thousands. In the last one year the Company has increased the investment in movie production and film distribution. Earlier, the Company was co-producing / co-financing 3-4 movies annually, the number has increased this year. The Company's strategy is to produce big budget movies with well-known star casts and directors which increase the marketability of the movie across a wide customer base.

3. Processing & allied services

   Income from processing has maintained its steady growth and amounted to Rs 954,167 thousands. The Company has maintained its dominant position in Bollywood, processing a record-breaking number of prints during the year, with a market share close to 70%. The geographical expansion into Chennai and Kolkata has also contributed to revenues during the present year. The Company is further leveraging its competitive advantage in this business gained from its track record of consistent quality and reliability that has translated into strong relationships being forged with leading producers and production houses.

BUSINESS OUTLOOK

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

OPPORTUNITIES AND THREATS

Opportunities:

- With widespread corporatisation and convergence dominating the entertainment and media industry today, there has been vast improvement in the quality and variety of content being created. While big budget projects are more viable today, small budget films, with good scripts are also finding growing acceptance. The market has finally opened up for a variety of films across different genres, with films with a mass appeal at one end of the spectrum to those that are meant for niche audiences at the other end.

- Overseas markets for Indian films have opened up owing to ever increasing presence of Indians across the world. With overseas box office collections contributing a significant amount to a film's overall revenues, the international market has a vast potential that is yet to be fully exploited.
- Greater creation and consumption of content translates into greater use of value added services like processing, digital intermediate services, etc.
- Due to changing demographics and economic conditions in India, coupled with consumers willing to spend more on a variety of leisure and entertainment services, the multiplex business is set to grow in the years to come.
- With a proliferation of television channels and new platforms of delivery like DTH and IPTV available today, content providers in the television space are in an extremely favourable position.

Threats:

- Entertainment tax exemption: Currently entertainment tax exemption is available for a limited period. Multiplex profitability depends partly on entertainment tax exemptions that are available for certain duration. There may be some pressure on the margins of all the players once the exemption period ends.
- Reduction in the shelf life of films: With the shelf life of films having reduced considerably in the last few years, success or failure of a movie now depends largely on its performance in the opening weeks. Piracy has an adverse impact on legitimate revenues of the producer, distributor and exhibitor.

RISKS AND MITIGATION THEREOF

Each division of the company would be characterized by respective business risks. Broadly, the division-wise risks and mitigation measures thereof can be summarized as below:-

1) CINEMAS

The Company is in the process of expanding its network of cinemas under control 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 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

The Company's ability to attract the public to its cinemas depends on the films 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.

With advent of professional entities such as Adlabs into film production, the industry is becoming streamlined and is all set to roll out quality movies on a consistent basis thus feeding compelling content to the moviegoer. For example, we have seen sharp rise in the production of 'multiplex movies', which primarily focus on catering to box office demands of urban cinema-going audiences.

2) CONTENT

Films

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.

The Company is managing the entire movie-making business professionally with tight controls and checks and balances including insurance against cost over runs and project delays. Also, tie-ups with a number of quality producers have reduced the risks associated with a single or few creative content providers.

Distribution

Acquisition of external content for distribution, both in domestic as well as overseas markets, carries the risk of misjudgment. For example, while a particular movie may do well at the local box office, the same may not be the case in overseas markets.

By virtue of distributing various movies in world markets, the Company has got a better understanding of the flavours and likings of different audiences. Accordingly, the division acquires films for distribution after due deliberation and debate by the management. A consistent line-up of movies throughout the year has enabled better economies of scale and optimal utilisation of infrastructure such as overseas offices or manpower.

The legitimate business in the overseas market has been adversely affected in the past one year due to growing incidence of piracy, which remains a threat to the business. In an environment characterized by technological evolution in the distribution platforms, it is imperative for content producers like Adlabs to plan and develop dis-intermediating distribution infrastructure to open up avenues for optimal exploitation of content and realization of distribution revenues over the short, medium and long term. The Company is looking at further dis-intermediation in the international markets by developing new office locations covering the Asia Pacific region as well as developing human resources to exploit non-traditional distribution rights.

3) FILM PROCESSING & SERVICES

While current worldwide trends do not strongly point to obsolescence of the traditional film processing technology, it is likely that digital projection technology will gradually replace traditional celluloid projection technology in cinemas. The Company is constantly monitoring technological innovations and adapting the same on establishment of viability thereof.

Advancements in digital cinema business 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 still has a long way to go and no immediate threat is foreseen.

On account of emergence of other business divisions, the share of film processing revenues in overall revenues of the company has come down. Consequently, the company top-line is de-risked from impact of the ‘digital revolution’.

By expanding the scope of ‘services’ vide backward / forward integration into segments such as Digital Post Production, Equipment Rental, Studios, the Company has offered multiple incentives for clients to be associated with Adlabs.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has adequate internal control procedures commensurate with its size and nature of business. The business control procedures ensure efficient use and protection of Company’s resources and compliance with policies, procedures and statutory requirements. 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 detail under the head “Review of Operations” in Directors’ Report to the Members.

Human resources

The Company regards human resources as a valuable asset. The Company encourages its employees to participate in quality circle activities and has incentive schemes to reward exceptional performance. The training needs of the staff at all Divisions are periodically assessed and training programmes are conducted using internal resources and/or engaging external facilitators and trainers. The Company’s employee relations continued to be good during the period under review.

On behalf of the Board

Date : September 13, 2007
Place : Mumbai

Manmohan Shetty
Chairman & Managing Director

1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Good Corporate Governance practices are essential to achieve long term corporate goals and enhance shareholder values. The Company is committed to strive for continuous improvement in all spheres of its business activities and focus on accountability and transperancy which are key drivers to sustainable corporate growth.

The Company has and shall always focus on long term value creation for all its shareholders, employees, customers, creditors and regulatory bodies.

A report on the implementation of the Corporate Governance requirements stipulated by Clause 49 of the Listing Agreement by the Company is furnished herewith.

2. BOARD OF DIRECTORS

In terms of the Company's Corporate Governance Policy, all statutory and other significant and material information are placed before the Board to enable it to discharge its responsibility of strategic supervision of the Company as trustees of the shareholders.

Composition

The Company's Board as on date consists of 10 Directors of which 2 are Executive Directors and 8 are Non-Executive Directors. The composition of Board is in accordance with the requirements set forth by Clause 49 in this regard. The Chairman and Managing Director is an Executive Director and six Members of the Board is Independent.

On April 26, 2007, the Board of Directors appointed Shri Sujal Shah and Shri Amit Khanna as Additional Directors on the Company's Board to hold office upto the date of the ensuing Annual General Meeting.

Further on September 13, 2007, Company's Board was reconstituted with the appointment of the following persons as Additional Directors to hold office upto the date of the ensuing Annual General Meeting; viz Shri Pradeep Shah – NED(I), Shri Anil Sekhri – NED(I) and Shri Darius Kakalia – NED(I).

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.

Shri Shripal Morakhia resigned with effect from July 25, 2007. Shri Berjis Desai and Shri Karan Johar, both Non Executive Independent Directors, retire by rotation at the ensuing Annual General Meeting and are not seeking reappointment.

Board Meetings

During the fifteen month financial period ended June 30, 2007, five Board Meetings were held on the following dates:

April 22, 2006, July 29, 2006, October 19, 2006, January 23, 2007 and April 26, 2007.

The names of Members of the Board of Directors, their attendance at the Company's Board Meetings and Last Annual General Meeting, number of Directorships / Committee Memberships in other Companies during the period under review ended June 30, 2007 are given below:

Name of Director	Category of Directorship	No. of Board Meetings attended during the period under review	Attendance at the last AGM held on July 29, 2006	Number of Directorship in other public limited companies as on June 30, 2007	No. of Committee positions held in other public limited companies as on June 30,2007	
					Chairman	Member
Shri Manmohan Shetty	CMD	5	Yes	8	None	None
Ms. Pooja M. Shetty	WTD	5	Yes	3	None	None
Shri Berjis Desai	NED (I)	2	No	9	2	6
Shri Shripal Morakhia[2]	NED (I)	1	No	1	None	None
Shri Karan Johar	NED (I)	1	No	None	None	None
Shri Gautam Doshi	NED (NI)	5	Yes	9	1	7
Shri Amit Khanna [1]	NED(NI)	None	N.A.	1	None	None
Shri Sujal Shah[1]	NED(I)	None	N.A.	2	None	None

Notes

1) Shri Amit Khanna and Shri Sujal Shah were appointed as Additional Directors on April 26, 2007 and shall hold office upto the date of the 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.
2) Shri Shripal Morakhia ceased to be a Director on July 25, 2007.
3) Committee includes Shareholders'/Investors' Grievance Committee and Audit Committee.

Category Of Directorship

(i) CMD-Chairman and Managing Director
(ii) WTD-Wholetime Director
(iii) NED (NI)- Non-Executive Director and Non Independent
(iv) 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 Entrepreneur, Shareholder representative and Wholetime member of Board of Directors in Adlabs Films Limited, a company founded by her father Manmohan Shetty in 1978.

Her return to India, from a Bachelor's degree in Science in Management at Purdue University, coincided with Adlabs setting up India's first and the world's largest IMAX dome theatre in Mumbai along with a four screen multiplex. She took on the responsibility of cinema design, launch, and operations for that property leading to Adlabs setting up a chain of multiplexes across the country in 2003 which coincided with India's economic and retail boom.

With Reliance Anil Dhirubhai Ambani Group acquiring majority stake in the company in 2005, Pooja helped manage the transition process in the organisation towards energy, quality, speed of action and facilitated growth leading the company's initiatives in creating movie content, and also implementing prestigious projects in animation. In September 2006, she also spearheaded the acquisition of majority and controlling stake in prominent TV production house Synergy that has produced *Kaun Banega Crorepati, Jhalak Dikhhla Jaa* and several other shows for leading Indian television broadcasters like Star TV and Sony.

Ms. Pooja holds 100 equity shares in the Company.

Shri Gautam Doshi is on the Board of Reliance Anil Dhirubhai Ambani Group Pvt. Ltd., Reliance Telecom 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 Mehta between 1978 and 1991. He was elected 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 Director of Ambit Corporate Finance Pte. Ltd. till 2005. Shri Doshi is a Director in Garware Polyester Ltd., Sterlite Industires (India) Ltd., Kojam Fininvest Limited, Reliance Communications Infrastructure Ltd.,Reliance Life Insurance Company Limited.

Shri Doshi does not hold any shares in the Company.

Shri Sujal Shah is a qualified Chartered Accountant and is currently a partner with M/s Dalal & Shah, Chartered Accountants handling the Corporate Consultancy practice of the firm, before which he was a partner with N. M. Raiji & Company for eight years. His main areas of practice are mergers & acquisitions, restructuring of companies, valuation of business / shares, due diligence review, etc.

Shri Shah was co-opted as a member of the Research Committee of the Institute of Chartered Accountants of India for the year 2005-06. He has also written papers on subjects of Valuations and Restructuring for WIRC and BCAS and is a regular contributor to the Referencer published by the Bombay Chartered Accountants' Society. He was appointed Hon. Joint Secretary of the Chamber of Tax Consultants for the year 2006-07.

In the past, he has addressed seminars and conferences on various subjects such as Mergers & Acquisitions, Valuations, Due Diligence Reviews, Auditing and Assurance Standards etc.

Shri Shah is also an independent professional Director on the Board of Reliance Asset Reconstruction Company Limited, Gitanjali Gems Limited and i-Process Services Private Limited.

Shri Shah does not hold any shares in the Company.

Shri Amit Khanna is Chairman of Reliance Entertainment and Director of Reliance Blue Magic, a part of the Reliance Anil Dhirubhai Ambani Group. He has been involved with media since school having worked in theatre, radio, television, journalism, films and new media. He started his film career as an Executive Producer with Actor–Producer Dev Anand's Nav Ketan in 1971. In 1980, he produced his first feature film Man Pasand after which he wrote and directed critically-acclaimed films Sheeshay Ka Ghar and Shesh. He has also written lyrics for 400 film and non-film songs including many all-time hits as well as writing a dozen film scripts.

One of the first independent producers of TV programming in India, Shri Khanna, set up Plus Channel in 1990, India's first entertainment conglomerate where he produced 10 feature films, over 3000 hours of original TV programming and over 1000 music albums in various genres and languages. Shri Khanna writes extensively on media in various magazines and newspapers including Times of India, Hindustan Times, Economic Times, DNA & Business Standard. He is Chairman - Convergence Committee of FICCI (Federation of Indian Chambers of Commerce and Industry), a Member – Prime Minister's Committee on Information, Communication & Entertainment (ICE), Member - CII's Entertainment & Media Committee. He was also President of the All India Film Producers Council, Film & Television Producers Guild of India for three terms. Besides serving on various international, government and trade organizations and institutions, he has won several national and international awards and regularly speaks at international conferences.

Shri Khanna does not hold any shares in the Company.

Shri Anil Sekhri is a Practising Chartered Accountant and and also a Company Secretary having experience of more than 25 years. He is the Proprietor of Anil Sekhri & Co

Shri Sekhri has earned name as a specialist in the Media and Entertainment Industry while focusing on the accounting, taxation and legal matters of the Entertainment Industry Comprehensive understanding of issues relating to the spectrum of laws affecting the Entertainment Industry and has built reputation as leading advisor to a wide cross section of Companies/ celebrities/Artistes & Technicians in Film and Entertainment Industry.

Shri Sekhri does not hold any shares in the Company.

Shri Pradeep Shah is an eminent Practising Chartered Accountant and also a partner with M/s.Chandrakant & Sevantilal, Chartered Accountants and also three other Associate firms.

He has Co- authored various Commentaries on the Finance Act, since 1991,(published as part of Handbook to Income Tax Act, 1961 by Taxmann), VDIS, 1997,Kar Vivad Samadhan Scheme,Taxation of Demerger, 1999, New Minimum Alternate Tax (MAT) payable by Companies, Law relating to Transfer Pricing etc.

Shri Shah has conceived and designed software –Instavat for giving all India information about Sales Tax /VAT Statutes and Rates. He has also written various Articles on Direct & Indirect Taxes in Tax Magazines.

Shri Shah does not hold any shares in the Company

Shri Darius Kakalia is a Solicitor of Bombay High Court and Partner with Mulla. & Mulla & Craigie Blunt & Caroe (Advocates, Solicitors & Notaries) since 1992. Shri Darius Kakalia is a Solicitor of Supreme Court of England & Supreme Court of Hong Kong.

His main areas of practice are Civil Litigation, including Arbitration and Electricity Laws and has been a former lecturer with K. C. Law College and examiner in law with University of Mumbai

ShriKakalia is a Director on Board of the following Companies viz. Birla Global Asset Finance Co. Ltd.,American Bureau of Shipping Industrial Verification (India) Pvt. Ltd.,Brics Securities Ltd. and Allies Mens Wear Pvt. Ltd.

Shri Kakalia does not hold any shares in the Company

3. AUDIT COMMITTEE

Composition, Meeting and attendance during the period under review

The Board of Directors reconstituted the Audit Committee on April 26, 2007 as follows: Shri Sujal Shah - Chairman, Shri Berjis Desai, Shri Shripal Morakhia and Shri Gautam Doshi. However pursuant to Shri Shripal Morakhia's resignation as Director and Committee Member with effect from July 25, 2007, the Audit Committee was again reconstituted in the meeting of the Board of Directors held on September 13, 2007 as follows:

1) Shri. Sujal Shah – Chairman
2) Shri. Pradeep Shah – Member
3) Shri. Gautam Doshi – Member
4) Shri. Anil Sekhri – Member

Of the above Members, Shri Sujal Shah Chairman, Shri Pradeep Shah and Shri Anil Sekhri are Non Executive Independent Directors. The representatives from the Statutory Audit firm and the Chief Financial Officer are invitees to the Committee meetings. Ms. Kirti Desai, Company Secretary, acts as the Secretary to the Committee.

During the financial period under review ended June 30, 2007, five meetings of the Audit Committee were held i.e. on April 22,2006, July 29,2006, October 19,2006, January 23,2007 and April 26,2007. The following are the details of their attendance:

Name of the Director	Chairman/ Member	Category	No. of Meetings attended
Shri. Berjis Desai	Member	Non-Executive and Independent Director	2
Shri. Shripal Morakhia[1]	Member	Non-Executive and Independent Director	3
Shri. Gautam Doshi	Member	Non-Executive and Non-Independent Director	5

Notes

1. Resigned as Member with effect from July 25, 2007.

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, fixation of their remuneration and approval for payment for any other services rendered by the statutory auditors.

3 To review financial reports with particular reference to matters included in 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, internal audit reports.

4. REMUNERATION COMMITTEE

Composition

The Board of Directors reconstituted the Remuneration Committee on April 26, 2007 to include Shri Shripal Morakhia-Chairman, Shri Gautam Doshi, Shri Karan Johar and Shri Amit Khanna. Shri Berjis Desai ceased to be a Member on April 26, 2007.

Shri Shripal Morakhia ceased to be a Member with effect from July 25, 2007. The Remuneration Committee was further re-constituted in the Board meeting held on September 13, 2007 as follows:

1) Shri Darius Kakalia – Chairman
2) Shri Gautam Doshi – Member
3) Shri Anil Sekhri – Member
4) Shri Amit Khanna – Member

The Committee's scope of work ranges from nominating Directors on the Board, evaluating performance of Executive Directors and laying down guidelines for remuneration package or compensation. During the year 2006-2007 the Remuneration Committee Meeting was held on April 26, 2007. All the Members of the Committee as on the said date attended the meeting.

The details of the remuneration paid to the Managing Director, Wholetime Directors and Non-Executive Directors during the financial period ended June 30, 2007 are given below:

Name of the Director	**Position Held**	**Salary Rs.**	**House Rent Allowance Rs.**	**Sitting fees Rs.**	**Total Rs.**
Shri Manmohan Shetty	Chairman & Managing Director	45,00,000	25,50,000	Nil	70,50,000
Ms. Pooja Shetty	Wholetime Director	22,50,000	12,75,000	Nil	35,25,000
Shri Berjis Desai	Non-Executive Independent Director	Nil	Nil	30,000	30,000
Shri Karan Johar	Non - Executive Independent Director	Nil	Nil	10000	10,000
Shri Gautam Doshi	Non - Executive Non Independent Director	Nil	Nil	75,000	75,000
Shri Shripal Morakhaia	Non - Executive Independent Director	Nil	Nil	25,000	25,000

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. The service contract of Ms. Pooja Shetty, Wholetime Director has expired on March 31, 2007. The Board has on recommendation of the Remuneration Committee and subject to approval of Members at the ensuing Annual General Meeting resolved to re-appoint Ms. Pooja Shetty as Wholetime Director for a term of one year with effect from April 1, 2007 upto March 31, 2008 (both days inclusive). No severance fees are payable under the contract.
3. Presently Company does not have stock option scheme for any of its Directors.
4. Other than sitting fees, no payments are made to the Non Executive Directors.

5. a. SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

Composition

The Shareholders/Investors Grievance Committee looks into the Shareholders' and Investor Grievances and related matters. The current composition of the Committee pursuant to its re-constitution in the meeting of the Board of Directors held on September 13, 2007 is as follows:

Name of Director	**Position**	**Category**
1) Shri. Gautam Doshi	Chairman	Non-Executive and Non-Independent Director
2) Ms.Pooja Shetty	Member	Wholetime Director
3) Shri. Pradeep Shah	Member	Non-Executive and Independent Director

The Company Secretary acts as the Compliance Officer to the Committee.

Notes

1) Shri Shripal Morakhia, ceased to be a Member with effect from July 25, 2007.

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 five Investor Grievance Committee meetings during the financial period ended June 30, 2007. These were held on April 6, 2006, July 5, 2006, October 9, 2006, January 5, 2007 and April 5, 2007.

Further, during the period under review, Company received 27 complaints from shareholders, relating to matters regarding non receipt of dividend warrants and/or annual reports 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 said period there was no complaint remaining unattended to.

b. SHARE TRANSFER COMMITTEE

The current composition of the Committee is as follows: Shri Manmohan Shetty, Chairman and Ms. Pooja Shetty,Wholetime 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 shares, demat/remat requests, etc.

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

6. GENERAL BODY MEETINGS

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

Date	Venue	Time	No. of Special Resolution/s Passed
July 29, 2006	Rangsharda Natyamandir, K.C. Marg, Bandra Reclamation, Bandra (West), Mumbai – 400 050.	11.00 a.m.	2
September 29, 2005	Adlabs Films LimitedFilmcity Complex, Goregaon (East),Mumbai – 400 065	2.30 p.m	NIL
September 28, 2004	Rangsharda Natyamandir, K.C. Marg, Bandra Reclamation, Bandra (West), Mumbai – 400 050.	3.30 p.m	NIL

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

The Company did not hold any Extra Ordinary meetings during the financial period ended June 30, 2007.

Court Convened Meeting

During the financial period under review, Company also held one Court Convened Meeting of Shareholders as per the directions of the Hon'ble High Court of Judicature at Bombay on July 29, 2006 at 2 p.m to pass the resolution approving 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. The said meeting was chaired by Justice M.H Kania, Former Chief Justice of India. The said Scheme was approved by the Shareholders and the Honourable High Court of Judicature at Bombay.

Resolution through Postal Ballot

During the period ended June 30, 2007, there were no resolutions passed through Postal Ballot.

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 of the Listing Agreement 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. The details on this have been mentioned earlier in the 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, 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 **20th Annual General Meeting :**

Date : October 25, 2007

Time : 3.00 p.m.

Venue : Rangsharda Natyamandir, K.C Marg, Bandra Reclamation, Bandra (West), Mumbai 400 050

ii **Financial Calendar :**

Accounting year	: April to June
First Quarter Results	: End July
Second Quarter Results	: Mid October
Third Quarter Results	: End January
Fourth Quarter Results	: End April
Audited Results for the Full period under review	: September
Annual General Meeting	: October

iii **Date Of Book Closure :**

Tuesday, October 23, 2007 to Thursday, October 25, 2007, both days inclusive.

iv **Dividend Payment Date:**

On or before November 8, 2007.

v **Listing On Stock Exchanges :**

The Company's equity shares are listed on:

i) The 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 convertible Bonds due 2011 are listed on:

iii) 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.

The Company had in January 2006 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 June 30, 2007.

vii **Stock Code:**

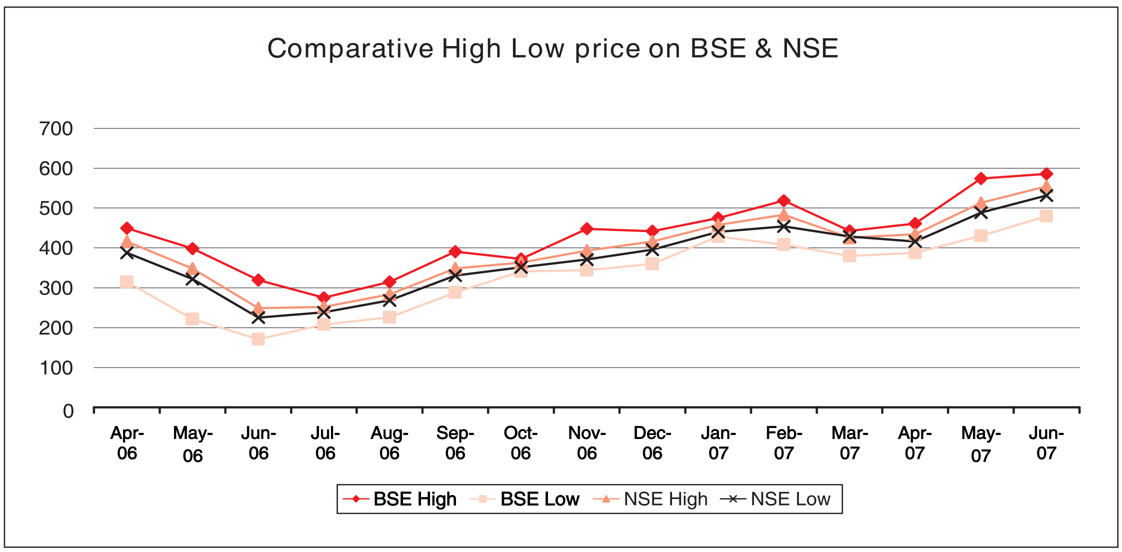
Stock Exchange Mumbai : 532399

National Stock Exchange Limited : ADLABSFILM

ISIN Number for NSDL & CDSL : INE540B01015 viii **Market Price Data:**

The high/low market price of the Company's shares in each month during the financial period under review 2006-07 was :

Month	BSE Sensex	BSE		NSE	
		High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2006	12042.56	449.00	315.00	415.72	388.11
May	10398.61	398.50	221.10	347.85	321.64
June	10609.25	319.00	171.10	248.84	225.33
July	10743.88	274.60	207.90	252.2	238.04
August	11699.05	315.00	226.00	283.68	268.47
September	12454.42	390.80	288.00	348.65	330.57
October	12961.90	372.00	341.00	363.11	351.62
November	13696.31	448.00	344.00	393.11	371.00
December	13786.91	442.90	360.00	415.82	395.73
January 2007	14090.92	475.00	428.50	457.84	439.90
February	12938.09	518.40	408.00	482.92	453.98
March	13072.10	442.80	380.00	425.46	428.31
April	13872.37	461.00	388.05	433.93	416.27
May	14544.46	573.90	430.00	513.25	488.32
June	14650.51	585.50	480.00	554.17	531.49



ix **Registrar & Share Transfer Agent:**

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

x **Share Transfer System :**

The share transfers which are received in physical form are processed by 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.

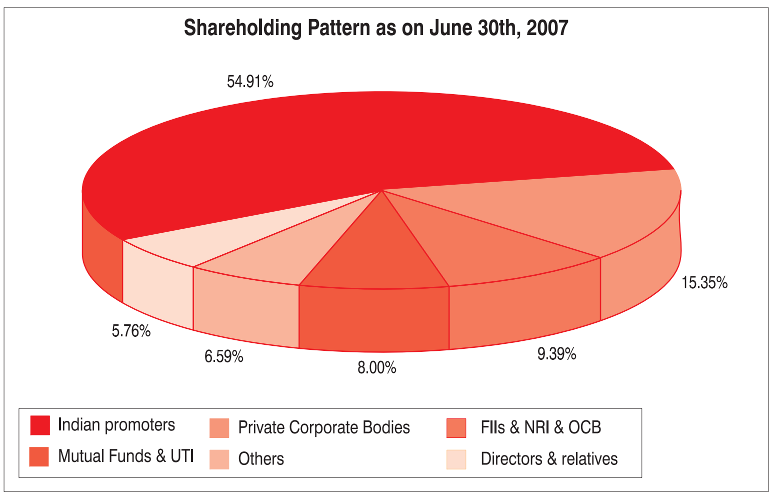
xi **Distribution of shareholding:**

Distribution of Shareholding As On June 30, 2007

Number of Shares held	Share Holders		Share Amount	
	Number	% of Total	In Rs.	% of Total
1 – 500	15,625	95.23	52,79,530	2.65
501 – 1,000	366	2.23	15,24,835	0.77
1,001 – 2,000	167	1.02	12,87,205	0.65
2,001 – 3,000	56	0.35	7,16,455	0.36
3,001 – 4,000	29	0.18	5,19,030	0.26
4,001 – 5,000	35	0.21	8,13,440	0.41
5,001 – 6,000	10	0.06	2,77,870	0.14
6,001 – 7,000	4	0.02	1,32,685	0.07
7,001 – 8,000	6	0.04	2,30,410	0.12
8,001 – 9,000	4	0.02	1,76,175	0.08
9,001 – 10,000	12	0.07	5,85,550	0.29
10,001and above	93	0.57	18,74,60,565	94.20
TOTAL	**16,407**	**100**	**19,90,03,750**	**100**

Shareholding Pattern as on June 30, 2007

Category Of Shareholders	No. Of Shareholders	No. Of Shares Held	% Of Holding
Indian Promoters	2	2,18,55,000	54.91
Directors & Relatives	2	22,91,334	5.76
Financial Institutions & Banks	1	400	0.00
Mutual Funds & UTI	32	31,86,502	8.00
FIIs	13	36,92,078	9.28
NRIs/OCBs	135	45,336	0.11
Private Corporate Bodies	691	61,08,875	15.35
Public	14,573	21,72,422	5.46
Clearing Members Transit Position	168	1,41,647	0.36
Market Maker	79	66,395	0.17
Trusts	1	100	0.00
HUF	282	2,40,661	0.60
TOTAL	**15,978**	**3,98,00,750**	**100**



xii **Dematerialisation Of Shares And Liquidity:**

The Company's shares are held in dematerialised form to the extent of 99.89% by National Securities Depository Limited and Central Depository Services (India) Limited. Out of public and other non promoter holding of 1,79,45,750 equity shares in the Company as on June 30, 2007, 1,79,03,840 equity shares were in dematerialised form.

On September 8, 2007, First Connect Telecom Private Limited a Company belonging to Promoter group, acquired 48,00,000 equity shares in Adlabs Films Limited. Pursuant to this, the Indian Promoters viz. ADA led Reliance group now holds 2,66,55,000 equity shares representing 66.97% of the paid up capital of the Company. All these shares are held in dematerialised form.

xiii **Outstanding GDRS/ADRS/Warrants Or 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 on March 31, 2006 and were listed for trading on the Bombay Stock Exchange on June 26, 2006 and on the National Stock Exchange on July 12, 2006 respectively.

   There are no outstanding warrants as on June 30, 2007.

2) On January 25, 2006, Company issued and allotted € 84,000,000 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.

   As mentioned earlier in this Report,the Company has not received any conversion requests against these Bonds as on June 30, 2007.

xiv **Plant Locations:**

I) Film Processing Laboratory:

Adlabs Films Limited
Film City Complex, Goregaon (East),
Mumbai 400 065.

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

Plot No. 12, Block AQ, Sector V,
Salt lake, Kolkatta 700 091

II) Exhibition Division:

Sr. No.	Name of the Multiplex/Theatre	Location
1.	Imax Adlabs	Wadala, Mumbai
2.	Fame Adlabs	Andheri (W), Mumbai
3.	R-Adlabs	Mulund, Mumbai
4.	Divya Adlabs	CIDCO, Nashik
5.	Gold Adlabs	Kalyani Nagar, Pune
6.	Cineplex Adlabs	Mangalore

The multiplexes/theatres listed above are either owned/ operated by companies which are joint venture or subsidiaries of Adlabs Films Limited. Other than the above, Company has acquired theatres/multiplexes on lease in agreement with various property owners cum developers at different locations.

xv **Address For Correspondence:**

(1) Shareholders

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

(2) Others

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

(3) Email id for Investors: rnt.helpdesk@intimespectrum.com.

xvi **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 June 30, 2007 to the Company.

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.

xvii **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.

Manmohan Shetty
Chairman & Managing Director

Date : September 13, 2007.

Place : Mumbai.

CERTIFICATE ON CORPORATE GOVERNANCE

To,

The Members of

Adlabs Films Limited

I have examined the compliance of conditions of Corporate Governance by Adlabs Films Limited ("the Company"), for the financial year ended 30th June, 2007, as stipulated in Clause 49 of the Listing Agreements of the Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. My examination was limited to a review of the procedures and implementations thereof, adopted by the Company for ensuring compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In my opinion and to the best of my information and according to the explanations given to me, .I certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

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

Sd/-

B. Durga Prasad Rai
Company Secretary
Membership No: . ACS 10060
COP No. 4390

Mumbai

Date: September 13, 2007

To the Members of
Adlabs Films Limited

We have audited the attached balance sheet of Adlabs Films Limited ('the Company') as at 30 June 2007 and the related profit and loss account and cash flow statement for the fifteen month 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.

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. Without qualifying our report, we draw attention to note 1 of Schedule 22 to the financial statements. As more fully explained in the said Schedule, during the period, the Hon'ble High Court of Judicature at Bombay vide its order dated 15 September 2006 sanctioned a composite scheme of amalgamation and arrangement ('the Scheme') between the Company, Entertainment One India Limited ('E-ONE'), Mukta Adlabs Digital Exhibition Private Limited ('MADEL'), Reliance Unicom Limited ('RUL') and their respective shareholders and creditors. The Scheme inter-alia provides for the following:

   - the amalgamation of E-ONE with the Company effective 1 April 2005;
   - the merger of the digital business of MADEL with the Company effective 1 April 2005; and
   - the demerger of the radio business of the Company to RUL effective 31 March 2006.

   As represented by the Company's management, the Company has made an application to the Ministry of Information and Broadcasting for vesting of radio licences held by it in the name of RUL. Pending the said approval, the Scheme has not been filed with the Registrar of Companies ('ROC') as required under Section 391(3) of the Companies Act, 1956 ('the Act'). However, for the purpose of these financial statements, pending completion of licensing and other procedural formalities, the Scheme has been given effect to by the Company's management in view of the Court approval and to give effect to the substance of the Scheme as approved by the Hon'ble High Court of Judicature at Bombay. Management has represented that it is reasonably certain that the Scheme will be filed with the ROC in due course.

   Also, we draw attention to note 8 of Schedule 22 to the financial statements. Should the Scheme referred to above not be made legally effective, remuneration paid/payable to the directors would be in excess of the limits prescribed under the Act and, consequently, necessary approval of the Central Government would be required to be obtained.

   The ultimate outcome of the completion of the licensing and procedural formalities cannot be presently determined and hence, no adjustments have been made to the financial statements in case the Scheme is eventually/ subsequently modified, nullified or replaced with the sanction of the Hon'ble High Court of Judicature at Bombay.

2. The financial statements for the financial year ended 31 March 2006 were qualified in respect of account receivables and loans and advances aggregating to Rs 400 million and Rs 430 million respectively as at 31 March 2006, pending confirmation and reconciliation of the said balances. During the period, pursuant to a detailed analysis of the balances and based on developments vis-à-vis the parties involved, amounts have been written-off/ adjusted in these financial statements (also refer note 1 of Schedule 22 to the financial statements).

   As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

   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 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 30 June 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 30 June 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and

f) In our opinion, and to the best of our information and according to the explanations given to us, read with paragraphs 1 and 2 above, 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 30 June 2007;

   ii) in the case of the profit and loss account, of the profit of the Company for the fifteen month period ended on that date; and

   iii) in the case of the cash flow statement, of the cash flows of the Company for the fifteen month period ended on that date.

For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
13 September 2007

(Referred to in our report of even date)

(i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation 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. Pursuant to the programme, certain fixed assets were physically verified during the period and no material discrepancies were noted on such verification.

(c) As more fully explained in note 1 of Schedule 22 to the financial statements, for the purpose of these financial statements, the composite scheme of amalgamation and arrangement ('the Scheme') has been given effect to by the Company's management. Consequently, fixed assets pertaining to the radio business have been considered to be transferred to the transferee entity and, accordingly, are not included in these financial statements. In our opinion and according to the information and explanations given to us, the aforesaid deemed transfer does not affect the going concern assumption.

(ii) (a) The inventory has been physically verified by the management during the period. 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. However, records relating to food and beverage items need to be improved with respect to timeliness of entries and adjustment and reconciliation of book records with physical stocks. 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, and having regard to the explanation that purchases of certain items of fixed assets are for the Company's specialised requirements and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and with regard to the sale of goods and services. However, controls over recording of sales of food and beverages and capitalisation of project related expenses need to be strengthened.

(v) (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 Act 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, there are no 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 period.

(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 of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income tax, Sales tax/ VAT, Service tax, Customs duty, Entertainment tax and other material statutory dues have been generally regularly deposited during the period by the Company with the appropriate authorities. As informed to us, the Company did not have any dues on account of Wealth tax and Investor Education and Protection Fund.

There were no dues on account of cess under Section 441A of the Act since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.

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, Service tax, Customs duty, Entertainment tax and other material statutory dues were in arrears as at 30 June 2007 for a period of more than six months from the date they became payable *except for Rs 9.3 million being entertainment tax pertaining to a multiplex where the Company has made an application for availing exemption under the relevant Act retrospectively from the date of commencement of operations of the said multiplex.*

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

Name of the Statute	Nature of the Dues	Amount (Rs million)	Period to which the amount relates	Forum where dispute is pending
Central Excise Act, 1944	Duty and penalty	12.75	2004-2006	Central Excise and Service tax Appellate Tribunal (CESTAT)
		12.33	2004-2005	
		1.20	2003 – 2004	
		12.15	2002-2003	
		8.20	2003	
		14.26	2003-2004	
		8.22	2004-2005	
		29.53	1998-99 to 2001-02	
Entertainment tax	Entertainment tax	10.74	2006-2007	High Court of Judicature of Ahmedabad

(x) The Company does not have any accumulated losses at the end of the period and has not incurred cash losses in the period 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 its bankers or bondholders. 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 the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) In our opinion and according to information and explanations given to us, there are no term loans taken by the Company.

(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 during the period 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 debentures during the period.

(xx) We have verified the end use of money raised by issue of Foreign Currency Convertible Bonds ('FCCB') from the prospectus filed with Singapore Exchange Securities Trading Limited ('the offer document') and as disclosed in note 17 of Schedule 22 to the financial statements. The Company has utilised Rs 1,663 million from the proceeds of the issue towards the radio business till 30 June 2007. As more fully explained in note 1 of Schedule 22 to the financial statements, the Company has given effect to the demerger of the radio business pursuant to the composite scheme of amalgamation and arrangement. Consequently, amounts utilised for the said radio business have been disclosed as recoverable from the transferee entity. Further, the amounts utilised for the said radio business are considered as a loan to the transferee entity and interest aggregating to Rs 208.6 million has been accrued thereon.

(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

Akeel Master
Partner
Membership No: 046768

Mumbai
13 September 2007

BALANCE SHEET AS AT 30 JUNE 2007

(Currency : Indian Rupees in thousand)

	Schedule	30 June 2007	31 March 2006
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	*2*	**199,004**	199,004
Reserves and surplus	*3*	**2,912,858**	3,186,776
		3,111,862	3,385,780
Loan funds			
Secured loans	*4*	**34,812**	51,803
Unsecured loans	*5*	**5,799,360**	4,599,248
		5,834,172	4,651,051
Deferred tax liabilities (net)	*6*	**128,618**	70,407
		9,074,652	8,107,238
APPLICATION OF FUNDS			
Fixed assets	*7*		
Gross block		**3,022,302**	1,079,876
Less :Accumulated depreciation/amortisation		**1,236,260**	298,576
Net block		**1,786,042**	781,300
Capital work-in-progress (including capital advances)		**1,613,409**	2,279,902
		3,399,451	3,061,202
Investments	*8*	**816,528**	4,424,067
Current assets, loans and advances			
Inventories	*9*	**16,152**	13,034
Sundry debtors	*10*	**603,865**	447,571
Cash and bank balances	*11*	**1,308,339**	135,081
Loans and advances	*12*	**5,078,531**	1,709,966
Interest accrued on investment		**20,089**	4,685
		7,026,976	2,310,337
Less: Current liabilities and provisions			
Current liabilities	*13*	**662,896**	187,964
Provisions	*14*	**1,505,407**	1,500,404
		2,168,303	1,688,368
Net current assets		**4,858,673**	621,969
		9,074,652	8,107,238
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: 046768

Place : Mumbai
Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Mumbai: 13 September 2007

PROFIT AND LOSS ACCOUNT FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2007

(Currency : Indian Rupees in thousand)

	Schedule	**For fifteen months ended 30 June 2007**	For the year ended 31 March 2006
INCOME			
Theatrical exhibition	*15*	**873,606**	252,795
Film facilities	*16*	**954,167**	657,703
Film distribution		**1,362,552**	53,119
Film/content production and related services		**10,527**	91,012
Other income	*17*	**737,682**	49,903
		3,938,534	1,104,532
EXPENDITURE			
Direct operational expenses	*18*	**1,106,353**	390,464
Personnel costs	*19*	**200,391**	63,430
Other operating and general administrative expenses	*20*	**616,192**	166,634
Interest	*21*	**44,171**	8,873
Depreciation / amortisation	*7*	**929,873**	88,776
		2,896,979	718,177
Profit before tax		**1,041,554**	386,355
Less : Provision for tax			
- Current tax		**124,255**	130,000
- Deferred tax (credit)/charge		**58,211**	(7,873)
- Fringe benefit tax		**4,768**	1,170
- Short provision for earlier years		**968**	–
Profit after tax and before adjustment for results of Entertainment One India Limited (E-ONE) and Mukta Adlabs Digital Exhibition Private Limited (MADEL) for the year ended 31 March 2006		**853,352**	263,058
(Loss) after tax for the period from 1 April 2005 to 31 March 2006 incorporated pursuant to scheme of amalgamation and arrangement (refer note 1 of schedule 22)		**(19,519)**	–
Net profit after tax		**833,833**	263,058
Accumulated balance brought forward		**247,458**	112,911
		1,081,291	375,969
Appropriations			
Transfer to general reserve		**85,400**	26,400
Proposed dividend		**99,502**	89,552
Dividend tax		**16,910**	12,559
Balance carried to balance sheet		**879,479**	247,458
		1,081,291	375,969
Basic earnings per share (Refer note 18 of schedule 22)		**20.95**	8.33
Diluted earnings per share (Refer note 18 of schedule 22)		**17.65**	8.02
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

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Akeel Master
Partner
Membership No: 046768

Mumbai: 13 September 2007

Place : Mumbai
Date : 13 September 2007

CASH FLOW STATEMENT FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2007

(Currency : Indian Rupees in thousand)

		For fifteen months 30 June 2007	For the year ended 31 March 2006
A.	**Cash flow from operating activities**		
	Net profit before tax	**1,041,554**	386,355
	Loss before tax for the period 1 April 2005 to 31 March 2006 pursuant to the Scheme of amalgamation and arrangement (refer note 1 of Schedule 22)	**(19,519)**	-
	Adjustment for:		
	Depreciation and amortisation	**929,873**	88,776
	Interest expense	**44,171**	8,873
	Interest income	**(291,448)**	(14,454)
	Dividend income	**(26,939)**	(14,310)
	Profit on option contract	**(267,124)**	–
	Loss on sale of fixed assets	**525**	2,831
	Profit on sale of investments(net)	**(153,164)**	(42,461)
	Miscellaneous expenditure written off	**-**	594
	Unrealised foreign exchange loss	**20,497**	27,254
	Operating profit before working capital changes	**1,278,426**	443,458
	Increase in sundry debtors	**(241,408)**	(84,988)
	Increase in loans and advances	**(3,834,832)**	(751,985)
	Increase in inventories	**(3,117)**	(3,680)
	Increase in trade and other payable	**(74,307)**	6,752
	Cash generated from operation	**(2,875,238)**	(390,443)
	Taxes paid (net of refunds)	**(160,705)**	(143,723)
	Net cash flow used in operating activities (A)	**(3,035,943)**	(534,166)
B.	**Cash flow from investing activities**		
	Purchase of fixed assets	**(1,167,389)**	(535,953)
	Proceeds from sale of fixed assets	**4,838**	3,488
	Purchase of investments	**(650,735)**	(2,100)
	Profit on Sale of Mutual funds(net)	**153,164**	10,060
	License fee paid for FM radio licenses (refer note 1 of Schedule 22)	**-**	(1,919,502)
	Interest income (net of TDS)	**81,414**	9,767
	Dividend income	**26,939**	14,310
	Cash used in investing activities	**(1,551,769)**	(2,419,930)
	Taxes paid (net of refunds)	**(11,883)**	(4,628)
	Net cash flow used in investing activities (B)	**(1,563,652)**	(2,424,558)

	For fifteen months 30 June 2007	For the year ended 31 March 2006
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
Proceeds from issue of bonds (FCCB)	**-**	4,571,994
Payment for bond issue expenses	**-**	(55,751)
Profit of option contract	**267,124**	–
Repayment of loans(net)	**(52,246)**	(221,201)
Interest paid	**(32,157)**	(8,873)
Proceeds from Commercial Papers	**1,171,546**	-
Dividend (including dividend tax) paid	**(102,023)**	(82,100)
Net cash flow from financing activities (C)	**1,252,244**	7,331,258
Net increase in cash and cash equivalent (A+B+C)	**(3,347,351)**	4,372,534
Cash and cash equivalents as at beginning of the period/year	**4,394,429**	21,895
Cash and cash equivalents acquired on merger (refer note 1 of Schedule 22)	**8,242**	-
Cash and cash equivalents as at end of the period/year	**1,055,320**	4,394,429
	(3,347,351)	4,372,534

Note

Cash and cash equivalents at period/year end comprises:

Cash on hand	**12,685**	1,452
Balances with scheduled banks		
- Deposit accounts	**849,550**	100,301
- Current accounts	**186,745**	33,328
- Margin money deposits	**4,359**	-
Liquid investment in mutual funds	**1,981**	4,259,348
	1,055,320	4,394,429

As per our report of even date attached.

For BSR & Co.

Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Place : Mumbai

Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Gautam Doshi Director

Kirti Desai Company Secretary

Mumbai: 13 September 2007

(Currency : Indian Rupees in thousand)

Background

Adlabs Films Limited ('Adlabs' or 'the Company') was incorporated in 1987 as a private limited company and is currently a public listed company. The Company is listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited. Adlabs is primarily engaged in film processing, exhibition, distribution, production and related services.

The Board of Directors of the Company at their meeting held on 22 April 2006 approved the composite scheme of amalgamation and arrangement (the Scheme) between the Company, Entertainment One India Limited (E-ONE), Mukta Adlabs Digital Exhibition Private Limited (MADEL) and Reliance Unicom Limited (RUL). The shareholders of the Company accorded their approval to the Scheme at the Annual General Meeting on 29 July 2006. The Scheme was approved by the Hon'ble High Court at Judicature at Bombay vide its order dated 15 September 2006. Also refer Note 1 of Schedule 22.

SCHEDULE – 1

Summary of significant accounting policies

1. **Basis of preparation**

   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. The financial statements are presented in Indian Rupees in thousand except for number of shares/securities, per share data and where mentioned otherwise.

   These financial statements have also been prepared after giving effect to the composite scheme of amalgamation and arrangement (the Scheme) between the Company, E-ONE, MADEL and RUL – refer note 1 of Schedule 22.

2. **Use of estimates**

   The preparation of financial statements in conformity with generally accepted accounting principles ('GAAP') in India 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 the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized 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 expenses related directly/indirectly 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 film production division is provided on the straight line method, at the rates prescribed in Schedule XIV to the Act, which, in management's opinion, reflects the estimated useful lives of those fixed assets.

      Depreciation on fixed assets relating to other than multiplex and film production divisions is provided on 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.

      Leasehold improvements are depreciated over the lower of the useful life of the asset and the lease term, on a straight line basis.

      Individual assets costing up to Rs 5 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 amortisation. Cost of film rights comprises original purchase price/ minimum guarantee. Cost is ascertained on specific identification basis where possible. In

(Currency : Indian Rupees in thousand)

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 this method, costs are amortized in the proportion that gross revenues realized 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 the realisable value of a right is less than its unamortised cost, a loss is recognised for the excess of unamortised cost over the film right's realisable value.

In respect of unreleased films, payments towards film 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 asset (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.

Value in use is present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

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 (comprising of food and beverage items, chemicals, negative film rolls, etc.) 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 and those related to the multiplex 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 as incurred.

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 recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The amount recognised as sales is exclusive of value added tax and net of trade discounts. Amount of entertainment tax and service tax collected is shown as a reduction from revenue.

Revenue from film processing/ printing and trading

Revenue from processing/ printing of cinematographic films/ digital content is recognised upon completion of the related processing/ printing.

Sale of traded goods is recognised when the risks and rewards of ownership are passed on to the customer, which generally coincides with the dispatch of goods.

Income from equipment/ facility rental is recognized over the period of the relevant agreement/ arrangement.

Theatrical exhibition 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

(Currency : Indian Rupees in thousand)

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/content production and related income

Revenue from sale of content/ motion pictures is accounted for on the date of agreement to assign the rights in the concerned motion picture or on the date of release of the content/ movie, whichever is later.

Income from distribution activity

In case of distribution rights of motion pictures/ content, revenue is recognized on the date of release/exhibition.

Revenue from other rights such as satellite rights, overseas rights, music rights, video rights, etc. is recognized on the date when the rights are made available to the assignee for exploitation.

Revenue from sale of VCDs/ DVDs, etc is recognized when the risks and rewards of ownership are passed on to the customer, which generally coincides with the dispatch of the products.

Interest income

Interest income, including from film/ content production financing, 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.

9. Foreign currency transactions

Transactions denominated in foreign currency are recorded at the exchange rate prevailing on the date of the 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 differences related to acquisition of imported fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date; the resultant exchange differences are recognised in the profit and loss account except those related to acquisition of fixed assets which are adjusted in the carrying amount of the related fixed assets.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitments or highly probable forecast transactions. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period. In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference on such a forward exchange contract is recognised in the profit and loss account in the reporting period in which the exchange rates change. Gains or losses on forward contracts to hedge the foreign currency risk of firm commitments or highly probable forecast transactions are recognised in the profit and loss account in the period in which the forecasted transaction occurs.

10. Taxation

Income-tax expense comprises current tax expense and fringe benefit tax computed in accordance with the relevant provisions 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/up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized.

Provision for fringe benefits tax has been recognised on the basis of the harmonious contextual interpretation of the provisions of the Income tax Act, 1961.

(Currency : Indian Rupees in thousand)

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 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 statements.

13. Leases

The Company has various operating leases, principally for multiplex properties, single screen properties and office space, with various renewal options. Substantially all operating leases are non-cancellable or cancellable only by the payment of penalties. Rental expense in agreements with scheduled rent increases is recorded on a straight-line basis over the lease term.

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.

	30 June 2007	31 March 2006
SCHEDULE – 2		
Share capital		
Authorised		
60,000,000 (2006: 60,000,000) equity shares of Rs.5/-each	**300,000**	300,000
Issued, subscribed and paid-up capital		
39,800,750 (2006: 39,800,750) equity shares of Rs.5/- each, fully paid-up	**199,004**	199,004
Of the above:		
- 17,000,000 (2006: 17,000,000) equity shares of Rs.5/-each fully paid-up were allotted as bonus share by capitalisation of general reserves;		
- 20,600,000 (2006: 20,600,000) equity shares of Rs.5/-each fully paid up are held by Reliance Land Private Limited; the holding company		
	199,004	199,004
SCHEDULE – 3		
Reserves and surplus		
Securities premium account		
At the commencement of the period/year	**2,466,319**	506,017
Add : Additions during the period/year	–	3,026,460
Less : Share / FCCB issue expenses	–	78,064
Less : Provision for premium on redemption of FCCB (Refer Note 17 of Schedule 22)	**12,565**	988,094
	2,453,754	2,466,319

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
General reserve		
At the commencement of the period/year	**473,000**	446,600
Add: Transfer from profit and loss account	**85,400**	26,400
	558,400	473,000
Amounts pending transfer to the Securities Premium Account and/or the general reserve account as per the Scheme of amalgamation and arrangement (refer note 1 of schedule22)		
Pending transer to securities premium account		
On demerger of radio business	**(796,539)**	–
On reduction in value of Company's assets	**(205,025)**	–
On merger of digital business of MADEL	**(4,469)**	–
Pending transer to general reserve account		
On merger of E-ONE	**27,258**	–
	(978,775)	**–**
Balance in profit and loss account	**879,479**	247,458
	2,912,858	3,186,776

SCHEDULE – 4

	30 June 2007	31 March 2006
Secured loans		
From banks		
- Cash credit	**34,408**	49,980
- Car Loan	**404**	1,823
(Refer Note 6 of Schedule 22)	**34,812**	51,803

SCHEDULE – 5

	30 June 2007	31 March 2006
Unsecured loans		
Zero Coupon Foreign Currency Convertible Bonds ('FCCB')	**4,615,800**	4,599,248
Commercial Paper	**1,183,560**	-
	5,799,360	4,599,248

Repayable within 1 year - Rs. 1,183,560 (2006: Nil)
Also, refer Note 17 of Schedule 22

SCHEDULE – 6

	30 June 2007	31 March 2006
(A) **Deferred tax asset**		
Arising on account of timing difference in:		
Provision for leave encashment and gratuity	**7,689**	500
Loss on sale of asset	**–**	953
Deduction u/s 35D	**4,553**	-
Unrealised foreign exchange loss	**6,501**	9,174
	18,743	10,627
(B) **Deferred tax liability**		
Arising on account of timing difference in:		
Depreciation/ amortisation	**147,361**	81,034
	147,361	81,034
Net deferred tax liability	**128,618**	70,407

(Currency : Indian Rupees in thousand)

SCHEDULE – 7

7 Fixed assets

Particulars	Gross Block					Accumulated Depreciation / Amortisation					Net Block	
	As at 01 April 2006	Taken over from E-one & Madel pursuant to the scheme (Refer note 1 of Schedule 22)	Additions during the period	Deductions during the period	As at 30 June 2007	As at 01 April 2006	Taken over from E-one & Madel pursuant to the scheme (Refer note 1 of Schedule 22)	Charge for the period	Depreciation on assets sold / discarded	As at 30 June 2007	As at 30 June 2007	As at 31 March 2006
Intangible assets												
Distribution rights	82,585	-	788,533	1,800	**869,318**	25,219	-	600,014	-	**625,233**	**244,085**	57,366
Negative rights	5,290	-	116,325	2,589	**119,026**	3,518	-	14,374	-	**17,892**	**101,134**	1,772
Computer software	1,540	-	827	176	**2,191**	545	-	442	-	**987**	**1,204**	995
Production Rights	-	-	251,772	-	**251,772**	-	-	184,128	-	**184,128**	**67,644**	-
Tangible assets												
Leasehold land	22,573	-	-	-	**22,573**	-	-	-	-	**-**	**22,573**	22,573
Buildings:												
Leasehold	35,108	-	19,545	-	**54,653**	10,797	-	3,811	-	**14,608**	**40,045**	24,311
Freehold	256,614	-	231,344	-	**487,958**	37,695	-	23,481	-	**61,176**	**426,782**	218,919
Air conditioner plant	48,485	-	49,454	-	**97,939**	14,085	-	5,093	-	**19,178**	**78,761**	34,400
Electrical installation	69,408	256	78,944	-	**148,608**	21,404	16	8,010	11	**29,419**	**119,189**	48,004
Plant and machinery	180,658	34,479	89,880	467	**304,550**	68,492	9,205	31,152	217	**108,632**	**195,918**	112,166
Theatrical equipments	289,508	-	110,988	-	**400,496**	96,411	-	29,163	-	**125,574**	**274,922**	193,097
Furniture and fixtures	69,015	11,788	166,433	4,461	**242,775**	14,138	6,938	26,107	6,462	**40,721**	**202,054**	54,877
Vehicles	19,092	925	5,205	4,779	**20,443**	6,272	565	4,098	2,223	**8,712**	**11,731**	12,820
Total	**1,079,876**	**47,448**	**1,909,250**	**14,272**	**3,022,302**	**298,576**	**16,724**	**929,873**	**8,913**	**1,236,260**	**1,786,042**	**781,300**
Previous year	853,491	-	237,361	10,976	1,079,876	214,457	-	88,776	4,657	298,576		
Capital work-in-progress (including capital advances)											**1,613,409**	**2,279,902**

Notes:

1) Gross block and accumulated depreciation as at 1 April 2006 includes assets worth Rs 47,868 and Rs 16,724 respectively, acquired on merger of EONE and MADEL (refer note 1 of Schedule 22)
2) Leasehold land in excess of 99 years is not depreciated as this is deemed ownership
3) Expenditure in foreign currency capitalised during the period Rs 26,896 (2006: Rs Nil)
4) Capital work in progress includes Rs Nil (2006: 1,919,502) as payment towards one time entry fee and related payments for license to operate FM radio Channels in 45 stations (refer note 1 of Schedule 22).
5) Additions to fixed assets/ CWIP include following expenses capitalised:

	2007	2006
- Architectural and professional fees	**13,854**	Nil
- Personnel cost	**28,304**	Nil
- Other operational expenses	**47,474**	Nil
	89,632	Nil

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
SCHEDULE – 8		
Investments		
Long term (trade, unquoted and at cost)		
A Government securities		
National savings certificates	**9,780**	8,200
(Pledged with State government authorities)		
Long term (non-trade, unquoted and at cost)		
B Investment in shares in		
(a) Subsidiary companies (also refer Note 2 of Schedule 22)		
Entertainment One India Limited	**–**	500
Nil (2006: 5,000) equity shares of Rs.100/ each, fully paid-up (Refer Note 1 of Schedule 22)		
Adlabs Distributors and Exhibitors Limited (formerly known as 'Gemini Exhibitors Limited')	**500**	500
50,000 (2006: 50,000) equity shares Rs.10/- each, fully paid-up		
Reliance Unicom Limited	**–**	500
Nil (2006: 50,000) equity shares of Rs.10/- each, fully paid-up (Refer Note 1 of Schedule 22)		
Adlabs Films (UK) Limited	**847**	–
10,000 (2006: Nil) ordinary shares of Rs 84.7/- each, fully paid-up		
Adlabs Films USA, INC	**921**	–
200 (2006: Nil) common stock		
Synergy Adlabs Media Limited (formerly known as "Synergy Communications Pvt. Ltd.)	**64,155**	–
5,100 (2006: Nil) equity shares of Rs 100/- each, fully paid-up		
Katch 22 Entertainment Pvt. Ltd. 10,000 (2006 : Nil) Equity Shares of Rs. 10/- each fully paid up	**100**	–
Mukta Adlabs Digital Exhibition Private Limited*	**500**	50
5000(2006: 500) equity shares of Rs 100/- each, fully paid-up* was a joint venture upto previous year.		
(b) Joint Ventures		
Swanston Multiplex Cinemas Private Limited	**70,006**	70,006
390,000(2006:390,000) equity shares of Rs 10/- each, fully paid-up		
Runwal Multiplex Private Limited	**4,905**	4,905
49,110 (2006:49,050) equity shares of Rs 100/- each, fully paid-up		
Divya Shakti Marketing Private limited	**32,900**	32,900
100,000 (2006:100,000) equity shares of Rs 10/- each, fully paid-up		
Cineplex Private Limited	**2,500**	500
250,000(2006:50,000) equity shares of Rs.10/- each, fully paid-up		
(c) Others		
Prime Focus Limited	**46,658**	46,658
964,000 (2006: 964,000) equity shares of Rs 5/- each, fully paid-up		
Tree of Knowledge DOT Com Pvt. Ltd.	**120,000**	–
1,500,000 (2006: Nil) 0.5% cumulative redeemable preference shares of Rs 1000/- each, Rs 800/- partly paid		
Hyde Park Entertainment Limited, USA	**460,775**	–
(Investment in limited liability partnership)		
Total long term investment	**814,547**	164,719

(Currency : Indian Rupees in thousand)

Current investments (non-trade, unquoted and at lower of cost and fair value)

		30 June 2007	31 March 2006
C	*Investment in mutual funds*		
	198,064 (2006: 204,648) units of Reliance Liquid Fund - Cash Plan - Weekly Dividend Option [Net Asset Value: Rs 1,981 (2006: Rs 2,234)]	**1,981**	2,234
	Nil (2006: 50,000) units of Reliance Fixed Maturity Fund- Monthly Plan XI - Series II - Growth Option [Net Asset Value: Rs Nil (2006: Rs 500,000)]	**–**	500,000
	Nil (2006: 375,159,915) units of Reliance Liquid Fund - Weekly Dividend Reinvestment Option [Net Asset Value: Rs Nil (2006: Rs 3,757,114)]	**–**	3,757,114
	Total current investments	**1,981**	4,259,348
		816,528	4,424,067

Notes:

1 Unutilised monies out of the issue of FCCB, aggregating Rs Nil (2006: Rs 3,650,000) have been temporarily invested in units of mutual funds.

2 **The following investments were acquired and sold during the period:**

Particulars	**No.of Units**	**Face Value**	**Purchase Amount (Rs '000)**
Reliance Liquid Fund - Cash Plan - Weekly Dividend Option	389	10	4
Reliance Fixed Horizon Fund - Dividend Option	30,000,000	10	300,000
Reliance Fixed Horizon Fund Monthly Plan A -Series IV- Dividend Option	10,000,000	10	100,000
Reliance Fixed Horizon Fund Quarterly Plan I-Series I- Growth Option	40,000,000	10	400,000
Reliance Fixed Horizon Fund Quarterly Plan I-Series IV- Growth Option	40,749,200	10	407,492
LIC MF FMP SERIES 10- 3 Months Dividend Plan	10,154,933	10	101,549
LIC MF FMP SERIES 16- 3 Months Dividend Plan	10,341,875	10	103,419
LIC MF Liquid Fund - Dividend Plan	9,430,107	10	103,544
Reliance Liquidity Fund - Weekly Dividend Reinvestment Option (I)	419,625,561	10	4,200,710

SCHEDULE – 9

Inventories

Stores and spares	**3,186**	1,132
Chemical stock	**2,587**	5,924
Food and beverages	**4,224**	1,583
Negative film rolls	**6,155**	4,395
	16,152	13,034

SCHEDULE – 10

Sundry debtors

(Unsecured and considered good)

Debts outstanding for a period exceeding six months	**14,128**	331,387
Other debts	**589,737**	116,184
	603,865	447,571

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
Sundry debtors include receivable from companies under the same management:		
Adlabs Films (UK) Limited	**3,431**	–
(Maximum balance outstanding during the year Rs 84,573 (2006: Rs Nil))		
Adlabs Films USA, Inc.	**48,792**	–
(Maximum balance outstanding during the year Rs 51,409 (2006: Rs Nil))		
Adlabs Distributors and Exhibitors Limited (formerly known as 'Gemini Exhibitors Limited')	**11,203**	–
(Maximum balance outstanding during the year Rs 24,478 (2006: Rs Nil))		

SCHEDULE – 11

Cash and bank balances

Cash on hand	**12,079**	1,452
Foreign currency denominated pre-loaded cards	**606**	**–**
Balances with scheduled banks		
- in current accounts	**186,068**	33,328
- in fixed deposit account	**849,550**	100,301
- in escrow account (Refer Note 2 of Schedule 22)	**255,000**	–
- Margin money deposit	**4,359**	–
- Dividend Account	**677**	–
	1,308,339	135,081

SCHEDULE – 12

Loans and advances

(Unsecured and considered good)

Loans and advances to subsidiaries	**42,516**	468,834
Loans and advances to joint ventures	**78,809**	92,577
Loans and advances to Others	**3,405,294**	
Advances recoverable in cash or in kind or for value to be received	**560,534**	636,102
Deposits	**550,546**	76,739
Advance tax, tax deducted at source and advance fringe benefit tax	**440,832**	435,714
	5,078,531	1,709,966

Loans and advances include:

A	Receivable from companies under the same management:		
	Entertainment One India Limited (refer note 1 of schedule 22)	**–**	315,441
	(Maximum balance outstanding during the period Rs Nil (2006: Rs 350,792))		
	Adlabs Distributors and Exhibitors Limited (formerly known as 'Gemini Exhibitors Limited')	**31,095**	52,893
	(Maximum balance outstanding during the period Rs 58,593 (2006: Rs 59,753))		
	Synergy Adlabs Media Limited (formerly known as 'Synergy Communications Private Limited')	**11,421**	–
	Reliance Unicom Limited (refer note 1 of schedule 22)	**–**	100,500
	(Maximum balance outstanding during the period Rs Nil (2006: Rs 100,500))		
B	Receivable from joint ventures:		
	Runwal Multiplex Private Limited	**6,547**	15,555
	(Maximum balance outstanding during the period Rs 16,984 (2006: Rs 39,215))		
	Divya Shakti Marketing Private Limited	**21,856**	21,792
	(Maximum balance outstanding during the period Rs 21,856 (2006: Rs 52,161))		
	Cineplex Private Limited	**50,406**	55,230
	(Maximum balance outstanding during the period Rs 56,729 (2006: 55,230))		

(Currency : Indian Rupees in thousand)

SCHEDULE – 13

	30 June 2007	31 March 2006
Current liabilities		
Sundry creditors for goods and services:		
Due to small scale industrial undertakings	**3,299**	1,969
Due to other creditors	**262,355**	63,723
Outstanding liabilities	**144,841**	60,402
Advance payments received	**251,717**	61,275
Unclaimed dividend	**684**	595
	662,896	187,964

Also refer Note 7 of Schedule 22.
No amounts due and outstanding for credit to Investor education and protection fund

SCHEDULE – 14

	30 June 2007	31 March 2006
Provisions		
Taxation	**365,494**	402,970
Premium on redemption of FCCB	**1,000,659**	988,094
Proposed dividend	**99,502**	89,552
Tax on proposed dividend	**16,910**	12,559
Gratuity	**3,623**	1,691
Leave encashment	**19,219**	5,538
	1,505,407	1,500,404

SCHEDULE – 15

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
Theatrical exhibition		
Sale of tickets	**678,841**	189,821
Less: Entertainment tax	**51,765**	15,197
	627,076	174,624
Advertisements/sponsorship revenue	**69,083**	7,295
Facilities provided at multiplex	**23,940**	13,830
Food and beverages	**153,507**	57,046
	873,606	252,795

SCHEDULE – 16

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
Film facilities		
Processing/printing of films	**628,763**	453,938
Less: Service tax	**63,786**	48,050
	564,977	405,888
Equipment rental income	**7,663**	–
Trading income	**381,527**	251,815
	954,167	657,703

(Currency : Indian Rupees in thousand)

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
SCHEDULE – 17		
Other income		
Dividend income from:		
- Joint venture companies	**8,760**	-
- Current investments	**18,179**	14,310
Interest Income from:		
- Banks (Tax deducted at source: Rs 11883; 2006: Rs.4,628)	**72,059**	14,454
- Loans advances and other deposits	**219,389**	-
Foreign exchange gain/(loss) (net)	**(23,862)**	(27,515)
Profit on sale of investments (net)	**153,164**	42,461
Miscellaneous income	**22,869**	6,193
Profit on Option Contract	**267,124**	-
	737,682	49,903
SCHEDULE – 18		
Direct operational expenses		
Theatrical exhibition operations		
Film cost	**286**	11,415
Distributors' share	**203,228**	43,632
Electricity, power and water charges	**62,109**	17,863
Print and publicity expenses	**137,115**	1,560
Show Tax, INR Charges etc	**8,520**	3,304
Cost of food and beverage sold		
Opening stock	**1,583**	1,021
Purchase	**62,274**	24,933
Less: Closing stock	**4,224**	1,583
Consumption	**59,633**	24,371
	470,891	102,145
Film processing operations		
Chemical consumed		
Opening stock	**5,924**	2,838
Purchase	**33,105**	35,514
Less: Closing stock	**2,587**	5,924
cost of goods sold	**36,442**	32,428
Consumables	**85,826**	5,669
Processing charges	**39,507**	21,467
Electricity, power and water charges	**15,347**	8,922
Cost of raw films sold		
Opening stock	**4,395**	5,495
Purchase	**337,463**	196,216
Less: Closing stock	**6,155**	4,395
Consumption	**335,703**	197,316

(Currency : Indian Rupees in thousand)

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
SCHEDULE – 18 *(Contd.)*		
Freight,coolie and cartage	**27,664**	1,167
Effluent treatment charges	**817**	278
Discount granted	**5,108**	–
	546,614	267,247
Film distribution operations		
Producers' share	**18,643**	21,072
	18,643	21,072
Film production expense	**70,405**	–
	70,405	–
	1,106,353	390,464
SCHEDULE – 19		
Personnel costs		
Salaries, wages and bonus	**165,866**	56,379
Contribution to provident and other funds	**7,428**	3,104
Gratuity	**3,705**	1,690
Leave encashment	**15,017**	1,092
Staff welfare expenses	**8,375**	1,165
	200,391	63,430
SCHEDULE – 20		
Other operating and general administrative expenses		
Advertisement	**105,985**	23,078
Bank charges	**2,545**	3,326
Business promotion	**8,028**	4,528
Rent	**186,672**	28,940
Rates and taxes	**23,909**	10,367
Commission and brokerage	**4,527**	573
Travelling and conveyance	**24,566**	7,742
Deferred revenue expenses written off	**326**	1,312
Donation	**370**	406
Insurance	**15,489**	9,083
Legal and professional fees	**44,855**	17,387
Loss on sale of assets (net)	**525**	2,831
Miscellaneous expenses (refer note 9 of Schedule 22)	**107,889**	6,468
Printing, postage and telephone	**4,154**	8,033
Repairs and maintenance		
- Building	**4,076**	4,766
- Machinery	**17,506**	2,711
- Others	**14,683**	23,558
Facility maintenance charges	**50,087**	11,525
	616,192	166,634
SCHEDULE – 21		
Interest		
On fixed loan	**30,737**	4,985
On other loans	**13,434**	3,888
	44,171	8,873

(Currency : Indian Rupees in thousand)

SCHEDULE – 22

Notes to the accounts

1. Composite scheme of amalgamation and arrangement

The Board of Directors of the Company at their meeting held on 22 April 2006 approved the composite scheme of amalgamation and arrangement (the Scheme) between the Company, E-ONE, MADEL and RUL. The shareholders of the Company accorded their approval to the Scheme at the Annual General Meeting on 29 July 2006. The Scheme was approved by the Hon'ble High Court of Judicature at Bombay vide its order dated 15 September 2006. The Scheme inter-alia provides for the following:

- the amalgamation of E-ONE with the Company effective 1 April 2005;
- the merger of the digital business of MADEL with the Company effective 1 April 2005; and
- the demerger of the radio business of the Company to RUL effective 31 March 2006.

The Company has made an application to the Ministry of Information and Broadcasting for vesting of radio licences held by it in the name of RUL. Pending the said approval, the Scheme has not been filed with the Registrar of Companies (ROC) as required under section 391(3) of the Act, 1956. However, for the purpose of these financial statements, pending completion of licensing and other procedural formalities, the Scheme has been given effect to in view of the Court approval and to give effect to the substance of the Scheme as approved by the Hon'ble High Court of Judicature at Bombay.

In accordance with the requirements of the Scheme, the merger of E-ONE as well as the digital business of MADEL and the demerger of the radio business of the Company has been accounted for as follows:

- *Amalgamation of E-ONE with the Company with effect from 1 April 2005*

  As per the Scheme, E-ONE amalgamates with the Company retrospectively from 1 April 2005, the Appointed Date. All assets and liabilities of E-ONE as at 1 April 2005 have been recorded by the Company at their fair values. Since E-ONE was a wholly owned subsidiary of the Company, the investment by the Company in the shares of E-ONE have been cancelled against the assets and liabilities acquired on amalgamation. The excess of net assets taken over (at fair value) over the cost of investment in E-ONE amounting to Rs 27,258 has been credited to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, the amount will be credited to General reserve account as per the requirements of the Scheme. The profit and loss account for the fifteen months ended 30 June 2007 also includes the (loss) of E-ONE for the period from 1 April 2005 to 31 March 2006 as per the financial statements of E-ONE for that period which were audited by a firm of Chartered Accountants other than BSR & Co. The details of the income and expenses comprising the net loss are given below.

- *Merger of the digital business of MADEL with the Company with effect from 1 April 2005*

  As per the Scheme, the digital business of MADEL merges with the Company retrospectively from 1 April 2005, the Appointed Date. All assets and liabilities of the digital business of MADEL as at 1 April 2005 have been recorded by the Company at their book values. Since MADEL is a wholly owned subsidiary of the Company, no consideration has been paid against the assets and liabilities acquired. The excess of liabilities over the assets taken over (at book value) amounting to Rs 4,469 has been debited to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, the amount will be debited to securities premium account as per the requirements of the Scheme. The profit and loss account for the fifteen months ended 30 June 2007 also includes the net (loss) of the digital business of MADEL for the period from 1 April 2005 to 31 March 2006 as per the financial statements of MADEL for that period which were audited by a firm of Chartered Accountants other than BSR & Co. The details of the income and expenses comprising the net loss are given below.

- *Demerger of the radio business of the Company to RUL with effect from 31 March 2006*

  As per the Scheme, the radio business of the Company stands transferred to RUL with effect from 31 March 2006, the Appointed Date. All assets and liabilities of the radio business of the Company as at 31 March 2006 have been transferred at their respective book values. In consideration of the demerger of the radio business, RUL will pay Rs 1,000,000 to the Company and allot shares to the existing shareholders of the Company as per the scheme. The aggregate value of net assets to be transferred pursuant to the Scheme in excess of Rs 1,000,000 (which is recorded as receivable from RUL) has been recorded in 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, the amount will be debited to Securities premium account as per the requirements of the Scheme. The details of the income, expenses, assets and liabilities of the radio business not included in these financial statements are given below.

- To facilitate the demerger, the Company has cancelled its investment in RUL with a corresponding debit to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, this amount will be debited to Securities premium account.

(Currency : Indian Rupees in thousand)

- The Company has also recorded reduction of Rs 205,025 in value of its assets (debtors and loans and advances) by debit to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, this amount will be debited to Securities Premium Account.

The above is in conformity with accounting treatment prescribed by the Scheme (except that pending filing of the Scheme with the ROC, the relevant adjustments required to be made to Securities Premium Account/General reserves account have been recorded in 'Amounts pending transfer to the Securities Premium Account and/or general reserves account as per the Scheme of amalgamation and arrangement').

The provision for taxation has been calculated by management on the basis of these financial statements including the effect of the Scheme. However, the Company's actual tax liability for the tax financial year ended 31 March 2007 and thereafter would be determined based on the status of filing of the Scheme.

Had the Company followed the accounting treatment prescribed by AS-14/ generally accepted accounting principles in India:

- Rs 27,258 arising from the merger of E-ONE with the Company and credited to the General Reserve account would have been credited to Capital Reserve account;
- Rs 4,469 arising from the merger of digital business of MADEL and debited to the Securities Premium Account would have been debited to Goodwill;
- Rs 796,039 arising on demerger of radio business and debited to the Securities Premium Account would have been debited to the Profit and loss account;
- the loss of Rs 500 on cancellation of investment of the Company in RUL would have been debited to the Profit and loss account instead of the Securities premium account; and
- reduction of Rs 205,025 in value of the Company's assets would have been debited to the Profit and loss account instead of the Securities premium account.

Accordingly, had the Scheme been accounted for in compliance with the requirements of AS 14/ generally accepted accounting principles in India, the profit for the period before tax would have been lower by Rs 1,001,564, General reserve account would have been lower by Rs 27,258, Capital reserves account would have been stated at 27,258, Securities Premium would have been higher by 1,006,033 and Goodwill would have been stated at Rs 4,469.

During the period, as E-ONE and MADEL carried on their existing business in trust for and on behalf of the Company, all vouchers, documents etc. for the period are in the name of E-ONE and MADEL. The title deeds, licenses, agreements, loan documents etc., are being transferred in the name of the Company.

The net results for the period of E-ONE and digital business of MADEL included in these financial statements comprises:

Particulars	**E-ONE**		**MADEL**	
	Fifteen months ended 30 June 2007	**Year ended 31 March 2006**	**Fifteen months ended 30 June 2007**	**Year ended 31 March 2006**
Sales and services (net)	6,212	20,654	5,588	18,385
Other income	9	42	6,922	216
Total revenue	6,221	20,696	12,510	18,601
Cost of sales and services	Nil	Nil	4,486	6,152
Personnel costs	365	5,347	287	575
Depreciation and amortizations	278	415	7,164	7,377
Interest expenses	1,320	6,257	Nil	Nil
Other costs	2,392	25,562	2,047	5,609
Profit before tax	1,866	(16,885)	(1,474)	(1,112)
Current tax	Nil	Nil	Nil	Nil
Fringe benefit tax	Nil	210	Nil	Nil
Deferred tax	Nil	1,312	Nil	Nil
Net profit after tax	1,866	(18,407)	(1,474)	(1,112)

During the period, the Company carried on the radio business in trust for and on behalf of RUL. The amount of revenue and expenses for the fifteen months period ended 30 June 2007 and the assets and liabilities as at 30 June 2007 relating to the demerged radio business and which, pursuant to the Court approved Scheme, have not been recognised in these financial statements are as under:

(Currency : Indian Rupees in thousand)

	Period ended 30 June 2007
Income	332,032
Expenditure*	1,269,504
Fringe benefit tax	7,553
Profit before current and deferred tax	(945,025)
Fixed Assets **	2,945,169
Current Assets	453,021
Current Liabilities	4,143,215
Loans	200,000

* - includes Rs 208,668 being interest charged by the Company on net funds utilized in carrying on the radio business in trust for and on behalf of RUL. Also, Rs 34,740 being interest on loan taken by the Company from RUL has not been considered above as the said loan has been considered as repayment towards funding by the Company of the radio business.

**- represents the gross value of the fixed assets of the radio business, i.e. prior to giving effect to the adjustment of Rs. 796,039 as per the Scheme.

Accounting policies specific to the radio business are as under:

- Intangible assets and amortisation
  One Time Entry Fees paid for acquiring new licenses has been capitalised as an asset and is amortised over a period of ten years, being the period of the license, from the date of operationalisation of the station.
- Revenue recognition
  Revenue from radio broadcasting is recognised on an accrual basis on the airing of customer's commercials.
- License fees
  As per the new Frequency Module (FM) broadcasting policy, effective 1 April 2005 license fees are charged to revenue at the rate of 4% of gross revenue for the period or 10% of Reserve One Time Entry Fee (ROTEF) for the concerned city, whichever is higher. Gross Revenue for this purpose shall mean revenue on the basis of billing rates inclusive of any taxes and without deduction of any discount given to the advertiser and any commission paid to advertising agencies. Barter advertising contracts shall also be included in the gross revenue on the basis of relevant billing rates. ROTEF means 25% of highest valid bid in the city.

As the Scheme has been given effect to, the aggregate of the Company's qualifying loans and advances and investments is in excess of the limits prescribed under Section 372A of the Act and for which prior approval of the shareholders has not been obtained. These financial statements do not include adjustments, if any, that would be required should the shareholders not accord their approval.

Further, the Company has raised money by way of issue of FCCB on 25 January 2006. The Company had utilized Rs 650,282 from the proceeds of the issue towards the said radio business till 31 March 2006. With effect from the Appointed Date i.e. 31 March 2006, the remaining proceeds will be utilised by the Company to fund the radio business in RUL. During the period, the Company has utilised Rs. 1,012,800 for the radio business on behalf of RUL and has charged interest from RUL for the funds so utilised.

2. Acquisition of Rave Entertainment Private Limited ('REPL')

On 31 May 2007, the Company entered into a Share Purchase Agreement ('SPA') with the shareholders of Rave Entertainment Private Limited ('REPL'), a company engaged inter-alia in the business of owning and operating multiplexes, for acquisition of 100% stake in that company. One of the conditions precedent to the SPA is the approval by the Hon'ble High Court of Judicature at Allahabad of the Scheme of demerger filed by REPL for demerger of Kanpur properties. Pending approval of the scheme of demerger by the said Court, the shares of REPL are held in Escrow and the consideration of Rs 50,000 has been disclosed under loans and advances. The Company has also placed Rs 255,000 in escrow, which amount will be adjusted in future as per the terms of the conducting agreement.

3. Acquisition of Katch 22 Entertainment Private Limited ('Katch 22')

During the period, the Company acquired 100% stake in Katch 22 Entertainment Pvt. Limited. Subsequently, pursuant to the board of directors approval vide resolution dated 26 April 2007, the Company filed a Scheme of amalgamation of Katch 22 with the Hon'ble High Court of Judicature at Bombay for the merger of Katch 22 Entertainment Pvt. Limited with the Company effective 1 April 2006. The said scheme is pending approval of the Court and hence has not been given effect to in these financial statements.

4. Contingent Liabilities

On account of	**2007**	2006
Disputes with income tax department		
In respect of appeals filed by the Income Tax Department against the decision of CIT (Appeals) for the Assessment Years (A.Y.) 1993-1994, 1998-1999 and 1999-2000	Nil	5,879
In respect of Company's appeals pending before Income Tax Appellate Tribunal for A.Y. 1995-1996	Nil	15,054
Dispute with excise department		
Disputed Central Excise demand pending with the Central Excise Appellate Tribunal in respect of the film processing division	**98,636**	52,037

(Currency : Indian Rupees in thousand)

On account of	2007	2006
Entertainment tax		
In respect of a multiplex, the Company has made an application for availing exemption under the relevant Act retrospectively from the date of commencement of operations of the said multiplex and the application is pending approval	**9,297**	Nil
In respect of certain multiplexes, the Company is in dispute with the entertainment tax authorities regarding eligibility for availing exemption under the relevant Act.	**10,739**	Nil
In respect of the demand orders received for payment of entertainment tax collected and not paid to the authorities, the Company has made an appeal against said demand orders as it believes that the same is not payable, being exemption from payment available to it.	**5,689**	3,110
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	**404,267**	177,574
Bank guarantees	**283,474**	14,807

Provident Fund

Provident fund contribution on leave encashment relating to the period prior to 1 May 2005 has not been considered as the matter is kept in abeyance by the concerned authorities.

Note:

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

5. Commitments

	2007	2006
Estimated amount of contracts remaining to be executed on capital account and not provided for net of advances	**1,271,405**	51,344
Amount uncalled on 1,500,000 partly paid preference shares of Tree of Knowledge DOT Com Private Limited	**300,000**	Nil

6. Secured Loans

From banks

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 and stocks of chemicals.

7. Sundry creditors

a) Names of the Small Scale Industrial Undertakings to whom the Company owes any sum outstanding for more than 30 days are Cine Labs, Elico Limited, Jus Electronics, Shree Shakti Industries, 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.

b) Under the Micro, Small and Medium Enterprise Development Act, 2006 which came into force from 2 October 2006, certain disclosures are required to be made relating to micro and small enterprises. The Company is in the process of compiling relevant information from its suppliers about the coverage under the Act. Since the relevant information is not readily available, no disclosures have been made in the accounts. However, in view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of this Act is not expected to be material.

(Currency : Indian Rupees in thousand)

8. Remuneration to Directors

Remuneration to the managing director and the whole-time director:

	Fifteen months ended 30 June 2007	Year ended 31 March 2006
Salary	**6,750**	10,902
Contribution to provident fund	**810**	872
Perquisites	**3,825**	68
	11,385	11,842

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 amounts for the directors are not available.

No commission is paid to directors and hence disclosure under Section 198 of the Act is not made.

As the Scheme referred to in the Note 1 above has not been made legally effective, remuneration paid/payable to the directors is in excess of the limits prescribed under the Companies Act, 1956. The necessary approval of the Central Government would be required.

9. Other miscellaneous expenses include remuneration to Auditors as below

Auditors' remuneration (including service tax wherever applicable)

Particulars	**Fifteen months ended 30 June 2007**	Year ended 31 March 2006
Audit fees	**4,173**	1,000
Other attestation fee	**196**	1,290
Taxation	**-**	150
Reimbursement of out of pocket expenses	**165**	85
TOTAL	**4,534**	2,525

10. Quantitative details

Quantitative details of turnover

Particulars		**Fifteen months ended 30 June 2007**		Year ended 31 March 2006	
	Units	**Quantity**	**Value**	Quantity	Value
Processing and printing	Feet	**341,522**	**509,641**	264,176	405,888
Traded goods	Cans	**38,514**	**378,257**	22,785	225,937
Food and beverage sales					
Packaged food items	Pieces ('000)	**832**	**24,980**	400	14,955
Bottled beverages	Pieces ('000)	**564**	**15,926**	499	17,129
Non packaged food items			**112,600**		24,963
Others			**53,019**		28,878

(Currency : Indian Rupees in thousand)

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

Particulars		**Fifteen months ended 30 June 2007**		Year ended 31 March 2006	
	Units	**Quantity**	**Value**	Quantity	Value
Negative film rolls					
Opening stock	Cans	**636**	**4,395**	601	5,495
Purchases	Cans	**38,725**	**337,463**	22,820	196,216
Closing stock	Cans	**847**	**6,155**	636	4,395
Food and beverages					
Opening stock					
Packaged food items	Pieces ('000)	**10**	**58**	11	43
Bottled beverages	Pieces ('000)	**109**	**758**	11	412
Non packaged food items			**767**		566
Purchases					
Packaged food items	Pieces ('000)	**1,289**	**11,584**	962	14,468
Bottled beverages	Pieces ('000)	**962**	**10,635**	567	6,872
Non packaged food items			**40,055**		3,593
Closing stock					
Packaged food items	Pieces ('000)	**20**	**60**	10	58
Bottled beverages	Pieces ('000)	**192**	**1,016**	109	758
Non packaged food items			**3,148**		767

11. Value of Imports on CIF basis

	Fifteen months ended 30 June 2007	Year ended 31 March 2006
Film cost	**Nil**	874
Components and spare parts	**6,210**	5,749
Capital goods	**166,538**	30,773
12. Expenditure in foreign currency		
Technical know-how	**Nil**	3,513
Travelling	**4,504**	216
Professional fees	**6,665**	52,851
Commission	**56,051**	Nil
Others	**934**	41,309
13. Earnings in foreign exchange		
Film distribution income	**662,031**	72,388
Interest	**12,240**	Nil
Processing income	**5,477**	Nil

14. Leases

The Company is obligated under non-cancellable leases primarily for multiplex and single screen projects which are renewable thereafter as per the terms of the respective agreements. Rental expenses under non-cancellable operating lease accrue from the commencement of commercial operations.

(Currency : Indian Rupees in thousand)

The future minimum lease payments in respect of non-cancellable operating leases are as follows:

Period	Minimum lease payment	
	Fifteen months ended 30 June 2007	Year ended 31 March 2006
Amount due within one year from the balance sheet date	**171,025**	19,350
Amount due in the period between one year and five years	**703,258**	77,400
Amount due after five years	**621,676**	193,500

15. Disclosure of Segment Reporting under AS 17

	Film facilities		**Theatrical exhibition**		**Film production and distribution**		**Others****		**Total**	
	30 June 2007	31 March 2006	**30 June 2007**	31 March 2006	**30 June 2007**	31 March 2006	**30 June 2007**	31 March 2006	**30 June 2007**	31 March 2006
Revenue										
Revenue	**1,046,324**	667,971	**873,605**	252,795	**1,373,077**	152,329	-	-	**3,293,006**	1,073,095
Internal segment sales	**(92,158)**	(10,603)		-					**(92,158)**	(10,603)
Net revenue	**954,166**	657,368	**873,605**	252,795	**1,373,077**	152,329	-	-	**3,200,848**	1,062,492
Other income	**5,514**	58,457	**13,441**	970	**2,703**	10,127			**21,658**	69,554
Total revenue	**959,680**	715,825	**887,046**	253,765	**1,375,780**	162,456	-	-	**3,222,506**	1,132,046
Result (profit before interest and corporate expenses)										
Segment result	**342,752**	276,943	**2,588**	2,447	**168,779**	99,053	-	-	**514,119**	378,443
Unallocated corporate income									**716,026**	16,785
Unallocated corporate expenses									**(144,415)**	-
Profit/(loss) before interest and tax									**1,085,725**	395,228
Interest expenses									**(44,171)**	(8,873)
Income tax (including FBT)									**(188,202)**	(123,297)
Profit/(loss) for the year before incorporation of results of E-ONE and MADEL for 2006									**853,352**	263,058
Other Information										
Segmental assets (refer note below)	**857,260**	1,007,929	**2,299,169**	1,138,210	**2,933,261**	833,904	-	2,020,502	**6,089,690**	5,000,545
Unallocated corporate assets									**4,712,438**	4,359,348
Total assets									**10,802,128**	9,359,893
Segmental liabilities	**175,473**	84,203	**212,788**	64,914	**298,046**	46,076	-	-	**686,307**	195,193
Unallocated corporate liabilities									**6,950,675**	5,741,256
Total liabilities									**7,636,982**	5,936,449
Capital expenditure*	**265,053**	36,198	**706,571**	251,464	**2,175,530**	248,291	**-**	1,919,502	**3,147,154**	2,455,455
Unallocated corporate capital expenditure									**15,103**	
Total capital expenditure									**3,162,257**	2,455,455
Depreciation and amortization	**47,609**	24,862	**96,055**	38,688	**785,074**	25,226	-	-	**928,738**	88,776
Unallocated depreciation and amortization									**1,134**	-
Total depreciation and amortization									**929,872**	88,776
Total assets exclude:										
Advance tax and tax deducted at source									**440,832**	435,713
Total liabilities exclude:										
Provision for taxation (including net deferred tax liability)									**494,111**	473,378

* includes assets acquired at fair value on amalgamation (refer Note 1 of Schedule 22)

** reported segment has been demerged pursuant to the composite scheme of amalgamation and arrangement (refer Note 1 of Schedule 22)

The Company has disclosed Business Segment as the primary segment.

The business of the Company is divided into four segments - Film facilities, Theatrical exhibition, Film production and distribution and Others. Segments have been identified taking into account the nature of the business, the differing risks and returns, the organisation structure and internal reporting system.

Film facilities operation primarily comprise of processing of raw exposed films, colour correction, editing, digital processing, equipment rental, copying and printing of positive exhibitions 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 single screen, multiplex/Imax cinema exhibition, range of activities/services offered at cinema centers including catering food and beverages.

Film production represents share of net income from movies produced/co-produced or in which the Company has invested.

(Currency : Indian Rupees in thousand)

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

Segment Revenue, Segment Results, Segment Assets and Segment Liabilities include the respective amounts identifiable to each segment as also the amounts allocable on a reasonable basis.

Income and expenses which are not directly attributable to any Business Segment are shown as unallocated corporate income / expenses.

Assets and liabilities that cannot be allocated between the segments are shown as a part of unallocated corporate assets and liabilities respectively. Further, the Company caters largely to its subsidiaries for its international transactions and considers the market risks and rewards relating to overseas distribution as similar across various territories and in line with those applicable to domestic territories. Hence there are no reportable geographic segments.

16. Disclosure of Related Party under AS 18

Related Party Relationship

Parties where control exists

Holding Company

Reliance Capital Limited

Reliance Land Private Limited

Subsidiary Companies

- Adlabs Films (UK) Limited (with effect from 19 May 2007)
- Adlabs Films USA, Inc. (with effect from 17 May 2007)
- Mukta Adlabs Digital Exhibition Private Limited
- Adlabs Distributors and Exhibitors Limited (formally known as Gemini Exhibitors Limited)
- Synergy Adlabs Media Limited
- Katch 22 Entertainment Private Limited (with effect from 23 April 2007)

Fellow subsidiary Companies

- Reliance Unicom Limited (refer Note 1 of Schedule 22)

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

(b) Enterprises over which key management personnel have significant influence

- Dharma Productions Private Limited
- idream Productions Private Limited
- Whistling Woods International Private Limited
- Reliance Communication Infrastructure Limited
- Reliance Capital Asset Management Limited
- Reliance Web Stores Limited
- Reliance General Insurance Company Limited
- Hyde Park Entertainment, Inc.

(c) Joint Ventures

- Divyashakti Marketing Private Limited
- Cineplex Private Limited
- Swanston Multiplex Cinemas Private Limited
- Runwal Multiplex Private Limited

16. Disclosure of Related Party under AS 18 (Continued)

Transactions	Holding company	Subsidiary companies	Fellow subsidiary company	Significant shareholders, Key management personnel and their relatives	Enterprises over which Key management personnel have significant influence	Joint ventures
Rendering of services						
Adlabs Films USA, Inc.	-	173,527	-	-	-	-
Adlabs Films (UK) Limited	-	131,599	-	-	-	-
Others	3,143	5,000	-	-	31,542	12,127
	3,143	310,126	Nil	Nil	31,542	12,127
	(Nil)	(10,030)	(Nil)	(Nil)	(Nil)	(735)
Interest income						
Reliance Unicom Limited	-	-	208,668	-	-	-
Others	-	-	-	-	14,708	-
	Nil	Nil	208,668	Nil	14,708	Nil
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)

(Currency : Indian Rupees in thousand)

Transactions	Holding company	Subsidiary companies	Fellow subsidiary company	Significant shareholders, Key management personnel and their relatives	Enterprises over which Key management personnel have significant influence	Joint ventures
Receiving of services						
Reliance General Insurance Company Limited	-	-	-	-	13,616	-
Others	-	1,000	-	-	-	-
	Nil	1,000	Nil	Nil	13,616	Nil
	(Nil)	(15,000)	(Nil)	(Nil)	(Nil)	(Nil)
Reimbursement of expenses						
Adlabs Films USA, Inc.	**-**	**25,429**	**-**	**-**	**-**	**-**
Adlabs Films (UK) Limited	**-**	**30,717**	**-**	**-**	**-**	**-**
Synergy Adlabs Media Limited	**-**	**11,421**	**-**	**-**	**-**	**-**
Others	**-**	**-**	**-**	**-**	**-**	**2,905**
	Nil	**67,567**	**Nil**	**Nil**	**Nil**	**2,905**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Finance given for film production	**-**	**-**	**-**	**-**	**-**	**-**
	Nil	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	(Nil)	(509,554)	(Nil)	(Nil)	(Nil)	(Nil)
Finance for multiplex	**-**	**-**	**-**	**-**	**-**	**-**
	Nil	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	(Nil)	(16,422)	(Nil)	(Nil)	(Nil)	(2,509)
Issue of shares	**-**	**-**	**-**	**-**	**-**	**-**
	Nil	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	(2,592,960)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Purchase of fixed assets						
Cineplex Private Limited	**-**	**-**	**-**	**-**	**-**	**107**
	Nil	**Nil**	**Nil**	**Nil**	**Nil**	**107**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Managerial remuneration						
Manmohan Shetty	**-**	**-**	**-**	**7,590**	**-**	**-**
Pooja Shetty	**-**	**-**	**-**	**3,795**	**-**	**-**
	Nil	**Nil**	**Nil**	**11,385**	**Nil**	**Nil**
	(Nil)	(Nil)	(Nil)	(11,842)	(Nil)	(Nil)
Dividend paid	**-**	**-**	**-**	**67,829**	**-**	**-**
	Nil	**Nil**	**Nil**	**67,829**	**Nil**	**Nil**
	(Nil)	(Nil)	(Nil)	(16,582)	(Nil)	(Nil)
Premium on key managerial policy						
Manmohan Shetty	**-**	**-**	**-**	**4,806**	**-**	**-**
	Nil	**Nil**	**Nil**	**4,806**	**Nil**	**Nil**
	(Nil)	(Nil)	(Nil)	(6,537)	(Nil)	(Nil)
Loan given						
Reliance Unicom Limited	**-**	**-**	**2,542,384**	**-**	**-**	**-**
Others	**-**	**5,000**	**-**	**-**	**-**	**27,431**
	Nil	**5,000**	**2,542,384**	**Nil**	**Nil**	**27,431**
	(Nil)	(100,500)	(Nil)	(Nil)	(Nil)	(Nil)
Loan received back						
Reliance Unicom Limited	**-**	**-**	**580,000**	**-**	**-**	**-**
Others	**-**	**26,800**	**-**	**-**	**-**	**23,500**
	Nil	**26,800**	**580,000**	**Nil**	**Nil**	**23,500**
	(Nil)	(8,250)	(Nil)	(Nil)	(Nil)	(Nil)
Loan adjusted against security premium						
Reliance Unicom Limited (refer note 1 of schedule 22)	-	-	796,539		-	-
	Nil	**Nil**	**796,539**	**Nil**	**Nil**	**Nil**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)

(Currency : Indian Rupees in thousand)

Transactions	Holding company	Subsidiary companies	Fellow subsidiary company	Significant shareholders, Key management personnel and their relatives	Enterprises over which Key management personnel have significant influence	Joint ventures
Investment in Limited Liability Partnership						
Hyde Park Entertainment, Inc.	-	-	-	-	460,775	-
	Nil (Nil)	Nil (Nil)	Nil (Nil)	Nil (Nil)	460,775 (Nil)	Nil (Nil)
Purchase of shares						
Adlabs Films USA, Inc.	-	921	-	-	-	-
Synergy Adlabs Media Limited	-	64,155				
Adlabs Films (UK) Limited	-	847	-	-	-	-
Cineplex Private Limited	-	-	-	-	-	2,000
MADEL	-	450	-	-	-	-
Katch 22 Entertainment Private Limited	-	100	-	-	-	-
	Nil (Nil)	66,473 (Nil)	Nil (Nil)	Nil (Nil)	Nil (Nil)	2,000 (Nil)
Outstanding balance as on 30 June 2007						
Reliance Unicom Limited	-	-	2,271,552	-	-	-
Others	-	42,516	-	-	158	78,809
	Nil (Nil)	42,516 (468,833)	2,271,552 (Nil)	Nil (Nil)	158 (Nil)	78,809 (92,577)
Outstanding receivables as on 30 June 2007						
Adlabs Films USA, Inc.	-	48,792	-	-	-	-
Adlabs Distributors and Exhibitors Limited	-	11,203	-	-	-	-
Others	-	5,107	-	-	-	-
	Nil (Nil)	65,102 (Nil)	Nil (Nil)	Nil (Nil)	Nil (Nil)	Nil (Nil)

Previous year's figures are given in brackets.

17. Foreign Currency Convertible Bonds

On 25 January 2006 the Company ('Issuer') issued Zero Coupon Foreign Currency Convertible Bonds ('Bonds' or 'FCCB') aggregating Euro 84 million. 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 ('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 ('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.

As at 30 June 2007, there has been no conversion of the Bonds into Shares.

Premium on redemption of FCCB

	30 June 2007	31 March 2006
Opening balance	**988,094**	Nil
Add: Provision for the year*	**Nil**	988,094
Add: Adjustment on foreign exchange fluctuation	**12,565**	Nil
Less: Amounts utilized during the year	**Nil**	Nil
Less: Unutilized amounts reversed during the year	**Nil**	Nil
Closing balance	**1,000,659**	988,094

* - 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 utilisation of the proceeds of the FCCB issue up to 30 June 2007 is as under:

Purpose		Uses of funds as projected in the offer document	Actual funds used up to 30 June 2007	Actual funds used up to 31 March 2006
a.	New cinema complexes		**725,875**	122,450
b.	Expansion / modernization of existing cinema complexes			
c.	Expansion / modernization of film processing facilities			-
d.	Film distribution		**139,400**	32,000
e.	Film production		**1,527,111**	61,511
f.	New entertainment medium (Radio)**		**1,663,082**	650,282
g.	Other purposes allowed under Indian laws		**460,775**	-
h.	FCCB issue expense		**55,751**	55,751
		*****4,571,994**	*****4,571,994**	921,994

**- the Company has given effect to the demerger of the radio business pursuant to the composite scheme of amalgamation and arrangement (refer Note 1 above). Consequently, amounts utilised for the said radio business have been disclosed as recoverable from the transferee entity. Further, the amounts utilised for the said radio business are considered as a loan to the transferee entity and interest aggregating to Rs 208,668 has been accrued thereon.

*** - excluding foreign exchange fluctuation.

18. Earnings per Share ('EPS')

Particulars	Fifteen months ended 30 June 2007	Year ended 31 March 2006
No. of shares at the beginning of the period/ year	39,800,750	21,500,750
Fresh issue of shares during the period/ year	Nil	18,300,000
Total number of equity shares outstanding at period/ year end	39,800,750	39,800,750
Weighted average number of equity shares outstanding during the year for Basic EPS	39,800,750	31,575,545
Add: Potential equity shares		
Upon conversion of Equity Share Warrants	Nil	1,204,834
Upon conversion of FCCB*	8,387,325	Nil
Weighted average number of equity shares outstanding during the period for Dilutive EPS	48,188,075	32,780,379
Net profit after tax available for equity shareholders	833,833	263,058
Net profit after tax and before incorporation of profit/(loss) of E-ONE and the digital business of MADEL for the previous year ended 31 March 2006	853,352	Not applicable
Exchange loss on FCCB	16,800	27,254
Basic EPS	20.95	8.33
Basic EPS before incorporation of profit/(loss) of E-ONE and the digital business of MADEL for the previous year ended 31 March 2006	21.44	Not applicable
Dilutive EPS	17.65	8.02
Dilutive EPS before incorporation of profit/(loss) of E-ONE and the digital business of MADEL for the previous year ended 31 March 2006	18.05	Not applicable
Nominal value per share in Rs	5	5

* - these would be dilutive only in the event that the bondholders exercise the conversion option

(Currency : Indian Rupees in thousand)

19. Foreign currency exposures not covered by forward contracts

	Fifteen months ended 30 June 2007			Year ended 31 March 2006		
	Currency	**Amount (USD '000)**	**Amount (Rs. '000)**	Currency	Amount (USD '000)	Amount (Rs. '000)
Sundry Debtors	**USD**	**1,878**	**75,924**	USD	398	17,820
	GBP	**47**	**3,622**	GBP	-	-
	Euro	**7**	**365**	Euro	6	335
Sundry Creditors	**USD**	**660**	**26,896**		-	-

20. Taxation

The year end for tax purpose being 31 March, the Company's actual tax liability will be determined based on the results for the year ending 31 March 2008. Also, refer Note 1 of Schedule 22.

21. Interest in joint ventures

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

Name of the Company	**Country of incorporation**	**% of ownership interest as at 30 June 2007**	**% of ownership interest as at 31 March 2006**
Swanston Multiplex Cinemas Private Limited	India	50.00%	50.00%
Runwal Multiplex Private Limited	India	50.00%	50.00%
Cineplex Private Limited	India	50.00%	50.00%
Divya Shakti Marketing Private Limited	India	50.00%	50.00%

	Particulars	**2007**	2006
I	**Assets**		
	1. Fixed assets (including Capital work-in-progress)	**1,78,922**	136,121
	2. Investments	**7,859**	11,827
	3. Current assets, loans and advances		
	a) Inventories	**1,402**	2882
	b) Sundry debtors	**10,437**	6,401
	c) Cash and bank balances	**10,471**	6,155
	d) Interest Accrued but not due	**54**	-
	e) Loans and advances	**35,800**	46,208
II	**Liabilities**		
	1. Shareholders' fund - reserves and surplus	**97,023**	47,261
	2. Secured loans	**Nil**	5,500
	3. Unsecured loans	**68,211**	16,380
	4. Deferred tax (net)	**12,044**	9,195
	5. Current liabilities and provisions		
	a) Liabilities	**28,097**	18,260
	b) Provisions	**23,046**	43,092
III.	**Income**		
	1. Sales (net of excise duty)	**2,19,101**	82,851
	2. Other Income	**2,228**	1,173

	Particulars	2007	2006
IV	**Expenses**		
	1. Operating expenses	**1,55,386**	65,506
	2. Depreciation	**17,781**	7,506
	3. Interest	**835**	814
	4. Profit before Taxation	**47,386**	10,198
	5. Prior period Adjustments	**1,468**	427
	6. Provision for Taxation (including deferred taxation)	**17,789**	4,922
	7. Short provision for previous year	**Nil**	167
	8. Profit after Taxation before minority interests	**28,129**	4,681
	9. Minority Interests	**Nil**	-
	10. Net Profit	**28,129**	4,681
V.	**OTHER MATTERS**		
	1. Contingent Liabilities	**101,609**	97,405
	2. Capital Commitments	**-**	159,228
	Movement of the aggregate reserves of the joint ventures:		
	Reserves as at beginning of the period/year	**47,261**	22,267
	Add: Share of profits for the year	**49,762**	24,994
	Reserves as at the end of the period/year	**97,023**	47,261

22. Prior year comparatives

The figures for the previous year (12 months) are strictly not comparable to those of the current period, which comprises 15 months and the effect of the Scheme (as detailed in Note 1 above), and have been regrouped/ rearranged as necessary to conform to current period's presentation.

As per our report of even date attached.

For BSR & Co.
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Place : Mumbai
Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Mumbai: 13 September 2007

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(Currency : Indian Rupees in thousand)

I. Registration Details

Registration No.	45446	State Code	11
Balance Sheet Date	30 06 2007 (Date Month Year)		

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

Public Issue	NIL	Right Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

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

Total Liabilities	907452	Total Assets	907452
Sources of Funds			
Paid-up Capital	199004	Reserves & Surplus	2912858
Secured Loans	34812	Unsecured Loans	5799360
Deffered tax liability	12618		
Application of Funds			
Net Fixed Assets	3399451	Investment	816528
Net Current Assets	4858673	Misc. Expenditure	NIL
Accumulated Losses	NIL		

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

Turnover		3938534	Total Expenditure		2896979
Profit/Loss before tax	+	1041554	Profit/Loss after Tax	+	853352
(Please tick Appropriate box + for Profit - for Loss)					
Earnings per Share (Basic) in Rs.	+	20.95	Dividend %		50

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)	AI
Product Description	PROCESSING & PRINTING OF CINEMATOGRAPHIC FILMS
Item Code No. (ITC Code)	AI
Product Description	TRADING OF NEGATIVE STOCK

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director

Gautam Doshi Director

Kirti Desai Company Secretary

Mumbai: 13 September 2007

Mumbai

To the Board of Directors of
Adlabs Films Limited

We have audited the attached consolidated balance sheet of Adlabs Films Limited ('the Company' or 'the Parent Company') and its subsidiaries and joint ventures, as listed in note 2 of schedule 1 to the consolidated financial statements (collectively referred to as 'the Group'), as at 30 June 2007 and also the consolidated profit and loss account and the consolidated cash flow statement for the fifteen month period ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1 We have audited the financial statements of the parent company, Adlabs Films Limited, whose financial statements reflect total assets of Rs 11,243 million as at 30 June 2007, total revenues of Rs 3,939 million and net cash outflows amounting to Rs 3,347 million for the fifteen month period ended 30 June 2007. Our opinion, in so far as it relates to the amounts included in respect thereof, is based on our Auditors' Report

2 We did not audit the financial statements and other financial information of subsidiaries and joint ventures (other than a joint venture audited by us), whose financial statements reflect the Group's share of total assets of Rs 596 million (2006: Rs 660 million) as at 30 June 2007 and the Group's share of total revenues of Rs 492 million (2006: Rs 139 million) and net cash inflows amounting to Rs 241 million (2006: net cash outflows Rs 116 million) for the fifteen month period 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, in so far as it relates to the amounts included in respect of these subsidiaries and joint ventures, is based solely on the report of the other auditors.

3 We have relied on the unaudited financial statements of a joint venture whose financial statements reflect the Group's share of total assets of Rs 100 million as at 30 June 2007 and the Group's share of total revenues of Rs 67.5 million and net cash outflows amounting to Rs 0.25 million for the fifteen month period ended on that date, as considered in the consolidated financial statements. These unaudited financial statements as approved by the Board of Directors of the joint venture have been furnished to us by the management, and our report in so far as it relates to the amounts included in respect of the joint venture is based solely on such approved financial statements.

4 Further, the following information included in these consolidated financial statements is as certified by the management and not subject to audit by the auditors of the respective subsidiaries and joint ventures:

- Statement of cash flows in respect of Synergy Adlabs Media Limited, Runwal Multiplex Private Limited, Divya Multiplex Private Limited and Cineplex Private Limited (Group's share is net cash inflows of Rs 60 million); and
- Related party disclosures in respect of Synergy Adlabs Media Limited, Runwal Multiplex Private Limited, Divya Multiplex Private Limited and Cineplex Private Limited.

These consolidated financial statements do not include adjustments, if any, that would have been necessitated had the above mentioned financial statements/ information been subjected to an audit.

5 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 and AS 27 – Financial Reporting of Interest in Joint Ventures issued by the Institute of Chartered Accountants of India.

6 Without qualifying our report, we draw attention to note 1 of Schedule 22 to the consolidated financial statements. As more fully explained in the note, during the period, the Hon'ble High Court of Judicature at Bombay vide its order dated 15 September 2006 sanctioned a composite scheme of amalgamation and arrangement ('the Scheme') between the Company, Entertainment One India Limited ('E-ONE'), Mukta Adlabs Digital Exhibition Private Limited ('MADEL'), Reliance Unicom Limited ('RUL') and their respective shareholders and creditors. The Scheme inter-alia provides for the following:

- the amalgamation of E-ONE with the Company effective 1 April 2005;
- the merger of the digital business of MADEL with the Company effective 1 April 2005; and
- the demerger of the radio business of the Company to RUL effective 31 March 2006.

As represented by the Company's management, the Company has made an application to the Ministry of Information and Broadcasting for vesting radio licences held by it in the name of RUL. Pending the said approval, the Scheme has not been filed with the Registrar of Companies ('ROC') as required under section 391(3) of the Companies Act, 1956 ('the

Act’). However, for the purpose of these consolidated financial statements, pending completion of licensing and other procedural formalities, the Scheme has been given effect to by the Company’s management in view of the Court approval and to give effect to the substance of the Scheme as approved by the Hon’ble High Court of Judicature at Bombay. Management has represented that it is reasonably certain that the Scheme will be filed with the ROC in due course.

Also, we draw attention to note 15 of Schedule 22 to the consolidated financial statements. Should the Scheme referred to above not be made legally effective, remuneration paid/payable to the directors of the Parent Company on a standalone basis would be in excess of the limits prescribed under the Act and, consequently, necessary approval of the Central Government would be required to be obtained.

The ultimate outcome of the completion of the licensing and procedural formalities cannot be presently determined and hence, no adjustments have been made to the consolidated financial statements in case the Scheme is eventually/ subsequently modified, nullified or replaced with the sanction of the Hon’ble High Court of Judicature at Bombay.

7 The consolidated financial statements for the financial year ended 31 March 2006 were qualified in respect of account receivables and loans and advances aggregating to Rs 400 million and Rs 430 million respectively as at 31 March 2006, pending confirmation and reconciliation of the said balances. During the period, pursuant to a detailed analysis of the balances and based on developments vis-à-vis the parties involved, amounts have been written-off/ adjusted in these financial statements (also refer note 1 of Schedule 22 to the financial statements).

Based on our audit as aforesaid, and on consideration of reports of other auditors and accounts approved by the Board of Directors/ information certified by management as explained in paragraphs 3 and 4 above, and to the best of our information and according to the explanations given to us, read with matters stated in paragraphs 6 and 7 above, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 30 June 2007;

(b) in the case of the consolidated profit and loss account, of the profit of the Group for the fifteen month period then ended; and

(c) in the case of the consolidated cash flow statement, of the cash flows of the Group for the fifteen month period then ended.

For **BSR & Co.**
Chartered Accountants

Mumbai
13 September 2007

Akeel Master
Partner
Membership No: 046768

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2007

(Currency : Indian Rupees in thousand)

	Schedule	30 June 2007	31 March 2006
SOURCES OF FUNDS			
Shareholder funds			
Share capital	2	**199,004**	199,004
Reserves and surplus	3	**3,153,543**	3,224,462
		3,352,547	3,423,466
Minority interest		**145,128**	-
(includes preference shares issued by subsidiaries)			
Loan funds			
Secured loans	4	**34,812**	112,455
Unsecured loans	5	**5,831,707**	4,615,628
		5,866,519	4,728,083
Deferred tax liabilities (net)	6	**140,828**	78,236
		9,505,022	8,229,785
APPLICATION OF FUNDS			
Fixed assets	7		
Gross block		**3,254,803**	1,252,333
Less : Accumulated depreciation/amortisation		**1,286,805**	332,890
Net block		**1,967,998**	919,443
Capital work in progress (including Capital advances)		**1,618,557**	2,279,902
		3,586,555	3,199,345
Goodwill		**225,442**	66,163
Investments	8	**736,654**	4,384,436
Current assets, loans and advances			
Inventories	9	**20,993**	58,328
Sundry debtors	10	**589,529**	576,357
Cash and bank balances	11	**1,619,687**	253,566
Loans and advances	12	**5,106,723**	1,460,396
Interest accrued on investment		**23,134**	4,687
		7,360,066	2,353,334
Less: Current liabilities and provisions			
Current liabilities	13	**827,907**	231,637
Provisions	14	**1,577,313**	1,541,967
		2,405,220	1,773,604
Net current assets		**4,954,846**	579,730
Miscellaneous expenditure			
Deferred revenue expenditure		**1,525**	111
		9,505,022	8,229,785
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: 046768

Place : Mumbai
Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Mumbai: 13 September 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2007

(Currency : Indian Rupees in thousand)

	Schedule	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
INCOME			
Theatrical exhibition	*15*	**1,122,896**	410,074
Film facilities	*16*	**954,167**	657,369
Film distribution		**1,406,745**	53,118
Film/content production and related services		**70,339**	91,993
Other income	*17*	**727,838**	98,641
		4,281,985	1,311,195
EXPENDITURE			
Direct operational expenses	*18*	**1,241,967**	450,430
Personnel cost	*19*	**230,802**	76,201
Other operating and general administrative expenses	*20*	**691,515**	250,863
Interest	*21*	**45,006**	15,943
Depreciation/amortisation	*7*	**944,225**	99,745
		3,153,515	893,182
Profit before tax, prior period adjustments and minority interest		**1,124,370**	418,013
Prior period adjustment (includes results of entities not consolidated in the previous year - Refer Note 2 of Schedule 1)		**(3,662)**	(427)
Profit before tax and minority interest		**1,124,808**	417,586
Less : Provision for tax			
- Current tax		**146,011**	143,260
- Deferred tax charge/(credit)		**61,146**	(6,941)
- Fringe benefit tax		**5,112**	1,493
- Short provision for earlier years		**970**	167
Profit after tax		**911,569**	279,607
Share in Associates		**-**	10,127
Minority interest		**(6,676)**	(9,272)
Net Profit after tax		**904,893**	280,462
Accumulated balance brought forward		**281,755**	129,804
		1,186,648	410,266
Appropriations			
Transfer to general reserve		**90,354**	26,400
Proposed dividend		**99,502**	89,551
Dividend tax		**18,139**	12,560
Balance carried to balance sheet		**974,553**	281,755
		1,182,548	410,266
Basic earnings per share (Refer note 12 of schedule 22)		**22.74**	8.88
Diluted earnings per share (Refer note 12 of schedule 22)		**19.13**	8.18
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: 046768

Place : Mumbai
Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Mumbai: 13 September 2007

CONSOLIDATED CASH FLOW STATEMENT
FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2007

(Currency : Indian Rupees in thousand)

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
A. Cash flow from operating activities		
Net profit before tax	**1,128,470**	418,013
Prior period adjustment	**(3,662)**	-
(includes results of entities not consolidated in the previous year - Refer Note 2 of Schedule 1)		
Adjustment for:		
Depreciation and amortisation	**948,325**	99,745
Interest expense	**45,006**	15,943
Interest income	**(294,849)**	(6,563)
Dividend income	**(20,358)**	(14,310)
Loss on sale of fixed assets	**776**	3,400
Profit on sale of investments (net)	**(153,164)**	(42,461)
Bad debts and provision for doubtful debts	**2,143**	21,363
Miscellaneous expenditure written-off	**-**	609
Profit on option contract	**(267,124)**	-
Unrealised foreign exchange loss	**20,497**	27,254
Operating profit before working capital changes	**1,406,060**	522,993
(Increase) in sundry debtors	**(165,147)**	(229,343)
(Increase) in loans and advances	**(2,415,242)**	(458,290)
Decrease/(increase) in inventories	**37,862**	(48,796)
Increase / (decrease) in trade and other payable	**404,342**	(15,708)
Cash generated from operation	**(732,125)**	(229,144)
Taxes paid (net of refunds)	**(185,164)**	(169,659)
Net cash flow used in operating activities (A)	**(917,289)**	(398,803)
B. Cash flow from investing activities		
Purchase of fixed assets	**(3,093,339)**	(696,358)
Proceeds from sale of fixed assets	**4,847**	91,527
Purchase of investments	**(577,566)**	83,855
Business acquisition, net of cash acquired	**(131,995)**	-
Profit on sale of investments (net)	**153,164**	-
License fee paid for FM radio licenses (refer Note 1 of Schedule 22)	**-**	(1,919,502)
Interest income (net of TDS)	**66,615**	6,564
Dividend income	**20,358**	14,310
Effect of change in subsidiaries/ associates	**-**	(53,915)
Cash used in investing activities	**(3,557,916)**	(2,473,519)
Taxes paid (net of refunds)	**(11,981)**	(4,699)
Net cash flow used in investing activities (B)	**(3,569,897)**	(2,478,218)

CONSOLIDATED CASH FLOW STATEMENT FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2007

(Currency : Indian Rupees in thousand)

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
C. Cash flow from financing activities		
Proceeds from fresh issue of share capital (including share premium)/ preference shares	**250,000**	3,117,960
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(net)	**(160,715)**	(147,882)
Interest paid	**(32,992)**	(20,630)
Proceeds from Commercial Paper	**1,171,546**	-
Profit on option contract	**267,124**	-
Dividend (including dividend tax) paid	**(111,611)**	(82,100)
Net cash flow from financing activities (C)	**1,383,352**	7,361,278
	(3,103,834)	4,484,257
Cash and cash equivalents as at beginning of the period/ year	**4,512,914**	28,657
Cash and cash equivalents of entities not consolidated in the previous year - Refer Note 2 of Schedule 1	**1,974**	-
Cash and cash equivalents as at end of the period/year	**1,411,055**	4,512,914
	3,103,833	4,484,257
Note:		
Cash and cash equivalents at period/year end comprises:		
Cash on hand	**13,167**	3,447
Foreign currency denominated pre-loaded cards	**606**	-
Balances with scheduled banks		
- Deposit accounts	**962,177**	148,426
- Current accounts	**384,378**	101,693
- Margin money deposits	**4,360**	-
Liquid investment in mutual funds	**46,367**	4,259,348
	1,411,055	4,512,914

As per our report of even date attached.

For BSR & Co.
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Place : Mumbai
Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Mumbai: 13 September 2007

(Currency : Indian Rupees in thousand)

SCHEDULE – 1

Summary of significant accounting policies

1. Basis of preparation and consolidation

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

The financial statements of the subsidiaries and joint venture companies used in the consolidation are for the same reporting period as the Company, i.e. fifteen months ended 30 June 2007. These financial statements are audited by the auditors of the respective entities except for Runwal Multiplex Private Limited, where unaudited financial statements have been considered (Group's share of total revenues, assets and net cash inflows as at and for the fifteen months ended 30 June 2007 is Rs 535,260, Rs 605,255 and Rs 240,852 respectively).

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. The financial statements are presented in Indian Rupees in thousand except for number of shares/securities, per share data and where mentioned otherwise.

These financial statements have also been prepared after giving effect to the composite scheme of amalgamation and arrangement ('the Scheme') between the Company, Entertainment One India Limited ('E-ONE'), Mukta Adlabs Digital Exhibition Private Limited ('MADEL') and Reliance Unicom Limited ('RUL')- refer Note 1 of Schedule 22.

2. Principles of consolidation

The consolidated financial statements are prepared in accordance with AS 21 - 'Consolidated Financial Statements' and AS 27 - Financial Reporting of Interest in Joint Ventures issued by the ICAI. Consolidated financial statements are prepared using uniform accounting 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 value 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.

As more fully explained in Note 1 of Schedule 22, the merger of E-ONE with the Company has been given effect to in these consolidated financial statements. However, E-ONE being a subsidiary has been consolidated up to the year ended 31 March 2006 and, given that the above merger is an internal reorganization, there is no impact as such on the consolidated financial statements except that certain intangible assets of E-ONE have been fair valued and the resultant revaluation difference has been credited to 'Amounts pending transfer to the Securities premium account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the Registrar of Companies ('ROC'), the amount will be credited to General reserve account in line with the accounting treatment prescribed by the Scheme.

During the period, the Company increased its stake in MADEL, which was a joint venture entity up to 31 March 2006. Consequently, MADEL become a wholly-owned subsidiary with effect from 1 April 2006. Further, the financial statements of MADEL, then a jointly controlled entity, were not considered for consolidation purposes for the year ended 31 March 2006. The Group's share as at and for the year ended 31 March 2006 of total revenues, assets and net cash outflows in the joint venture was Rs 9,301, Rs 2,503 and Rs 1,930 respectively.

As more fully explained in Note 1 of Schedule 22, the merger of digital business of MADEL with the Company has been given effect to in these consolidated financial statements. However, given that the above merger is an internal reorganization, there is no impact as such on the consolidated financial statements.

Further, the demerger of radio business of the Company to RUL has also been given effect to in these consolidated financial statements - refer Note 1 of Schedule 22. To facilitate the demerger, the Company has eliminated its investment in RUL with a corresponding debit to 'Amounts pending transfer to the Securities premium account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, this amount will be debited to Securities premium account.

During the period,

- the Company set-up its wholly-owned subsidiaries in United Kingdom ('UK') and in United States of America ('USA') effective 18 May 2006 and 19 May 2006 respectively;

(Currency : Indian Rupees in thousand)

- the Company acquired 51% stake (comprising 5,100 equity shares) in Synergy Adlabs Media Limited (formerly known as Synergy Communications Private Limited.) for a consideration of Rs 64,155 (consolidated effective 12 January 2007). Pursuant to the related share purchase agreement, the Company also acquired 1,500,000, 0.5% cumulative redeemable preference shares of Tree of Knowledge DOT Com Private Limited for a consideration of Rs 120,000.
- the Company acquired 100% stake (comprising 10,000 equity shares) in Katch 22 Entertainment Private Limited for a consideration of Rs 100, effective 23 April 2007. Also refer Note 3 of Schedule 22.

Adlabs Films USA, Inc. depreciates its tangible assets under the straight line method as against the written down value method followed by the Parent Company. No adjustments have been made in these consolidated financial statements to align the said policy of Adlabs Films USA, Inc. with that of the Parent Company. The Group's share as at and for the fifteen months ended 30 June 2007 in the tangible assets and depreciation in respect of which a different accounting policy has been followed is Rs 114 and Rs 60 respectively.

Joint venture entities

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

During the year ended 31 March 2006, the joint venture entity Cineplex Private Limited ('CPL') commenced the operation of its multiplex at Mangalore on 24 March 2006. The financial statements of CPL were not considered for consolidation purposes for the year ended 31 March 2006.

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	Ownership Interest (%) 2007	2006
1	Entertainment One India Limited	India	Refer note 1 on Schedule 22	100%
2	Adlabs Distributors and Exhibitors Limited (formerly Gemini Exhibitors Limited)	India	100%	100%
3	Reliance Unicom Limited	India	Refer note 1 on Schedule 22	100%
4	Adlabs Films (UK) Limited	UK	100% (consolidated effective 18 May 2006)	N.A.
5	Adlabs Films USA, Inc	USA	100% (consolidated effective 19 May 2006)	N.A.
6	Synergy Adlabs Media Limited (formerly known as Synergy Communications Private Limited)	India	51% (consolidated effective 12 January 2007)	Nil
7	Mukta Adlabs Digital Exhibition Private Limited	India	100% (effective 01 April 2006)	50% (joint venture entity)
8	Katch 22 Entertainment Private Limited	India	100% (consolidated effective 23 April 2007)	Nil

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	Ownership Interest (%) 2007	2006
1	Swanston Multiplex Cinemas Private Limited	India	50%	50%
2	Runwal Multiplex Private Limited	India	50%	50%
3	Divya Shakti Marketing Private limited	India	50%	50%
4	Cineplex Private Limited	India	50%	50%

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ('GAAP') in India 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 the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

4. Goodwill

The excess of cost to the Parent company of its investments in the subsidiaries over its portion of equity in the subsidiaries, as at the date on which the investment was made, is recognized as goodwill in the consolidated financial statements. The Parent Company's portion of equity in the subsidiaries is determined on the basis of the book value of assets and liabilities as per the financial statements of the subsidiaries as on the date of investment.

Goodwill is reviewed for a decline other than temporary in its carrying value, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses the recoverability of goodwill by reference

(Currency : Indian Rupees in thousand)

to the valuation methodology adopted by it on the acquisition date, which included strategic and synergic factors that were expected to enhance the enterprise value. Accordingly, the Group would consider that there exists a decline other than temporary in the carrying value of goodwill when, in conjunction with its valuation methodology, its expectations with respect to the underlying acquisitions it has made deteriorates with adverse market conditions.

5. 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 expenses related directly/ indirectly 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 film production divisions is provided on the straight line method, at the rates prescribed in Schedule XIV to the Act which, in management's opinion, reflects the estimated useful lives of those fixed assets. Depreciation on fixed assets relating to Adlabs Films USA, Inc is provided on the straight line method, at the rates based on the following estimated useful lives as determined by management:

	Years
Office and computer equipment	3 – 10
Furniture	5 – 7

Depreciation on fixed assets relating to other than multiplex and film production divisions and Adlabs Films USA, Inc is provided on written down value method, at the rates prescribed in Schedule XIV of the Act or such other rates which, in management's opinion, reflect the estimated useful lives of those fixed assets.

Leasehold improvements are depreciated over the lower of the useful life of the asset and the lease term, on a straight line basis.

Individual assets costing up to Rs 5 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 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 amortize the cost of film rights acquired. Under this method, costs are amortized in the proportion that gross revenues realized 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 the realisable value of a right is less than its unamortised cost, a loss is recognised for the excess of unamortised cost over the film right's realisable value.

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

6. Impairment

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

Value in use is present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

7. 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.

8. Inventories

Inventories (comprising of food and beverage items, chemicals, negative film rolls, etc.) are stated at the lower of cost and net realizable value. Cost of content being produced for customers is carried forward as work-in-progress. Cost of other inventories is determined on the first-in first-out (FIFO) basis.

(Currency : Indian Rupees in thousand)

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

9. Retirement benefits

The Group's contribution to provident fund or a similar plan, which is a defined contribution scheme, is charged to the profit and loss account as incurred.

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.

10. 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. The amount recognised as sales is exclusive of value added tax and net of trade discounts. Amount of entertainment tax and service tax collected is shown as a reduction from revenue.

Revenue from film facilities

Revenue from processing/ printing of cinematographic films/ digital content is recognised upon completion of the related processing/ printing.

Sale of traded goods is recognised when the risks and rewards of ownership are passed on to the customer, which generally coincides with the dispatch of goods.

Income from equipment/ facility rental is recognized over the period of the relevant agreement/ arrangement.

Theatrical exhibition 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/content production and related income

Revenue from sale of content/ motion pictures is accounted for on the date of agreement to assign the rights in the concerned motion picture or on the date of release of the content/ movie, whichever is later.

Income from distribution activity

In case of distribution rights of motion pictures/ content, revenue is recognized on the date of release/exhibition.

Revenue from other rights such as satellite rights, overseas rights, music rights, video rights, etc. is recognized on the date when the rights are made available to the assignee for exploitation.

Revenue from sale of VCDs/ DVDs, etc is recognized when the risks and rewards of ownership are passed on to the customer, which generally coincides with the dispatch of the products.

In case of Adlabs Films USA, Inc refundable advances are recorded as deferred revenue, until such time that the revenue recognition criteria are met. Non-refundable advances (guaranteed minimum payments) generally meet the recognition criteria, and are recognized as revenue when received.

Rental income

Income from equipment/ facility rental is recognized over the period of the relevant agreement/ arrangement.

Interest income

Interest income, including from film/ content production financing, 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.

11. Foreign currency transactions

Transactions denominated in foreign currency are recorded at the exchange rate prevailing on the date of the 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 differences related to acquisition of imported fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date; the resultant exchange differences are recognised in the profit and loss account except those related to acquisition of fixed assets which are adjusted in the carrying amount of the related fixed assets.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitments or highly probable forecast transactions. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense

(Currency : Indian Rupees in thousand)

over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period. In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference on such a forward exchange contract is recognised in the profit and loss account in the reporting period in which the exchange rates change. Gains or losses on forward contracts to hedge the foreign currency risk of firm commitments or highly probable forecast transactions are recognised in the profit and loss account in the period in which the forecasted transaction occurs.

12. Foreign currency translation

The consolidated financial statements are reported in Indian rupees. The translation of the local currency of each integral foreign subsidiary within the Group into Indian rupees is performed in respect of assets and liabilities other than fixed assets, using the exchange rate in effect at the balance sheet date and for revenue and expense items other than the depreciation costs, using a monthly simple average exchange rate during the reporting period. Net exchange difference resulting from the above translation of the financial statements of integral foreign subsidiaries is recognised in the consolidated profit and loss account. Fixed assets are translated at exchange rates on the date of the transaction and depreciation on fixed assets is translated at exchange rates used for translation of the underlying fixed assets.

13. Taxation

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

Provision for current income-tax is recognized based on the estimated tax liability computed after taking credit for allowances and exemptions in accordance with the tax laws applicable to the respective companies.

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/up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized.

Provision for fringe benefits tax has been recognised on the basis of the harmonious contextual interpretation of the provisions of the Income tax Act, 1961.

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

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.

15. 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 statements.

16. Leases

The Group has various operating leases, principally for multiplex properties, single screen properties and office space, with various renewal options. Substantially all operating leases are non-cancellable or cancellable only by the payment of penalties. Rental expense in agreements with scheduled rent increases is recorded on a straight-line basis over the lease term.

17. Earnings per share ('EPS')

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

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
SCHEDULE – 2		
Share capital		
Authorised		
60,000,000 (2006: 60,000,000) equity shares of Rs.5/-each	**300,000**	300,000
Issued, subscribed and paid up capital		
39,800,750 (2006: 39,800,750) equity share of Rs.5/- each fully paid up	**199,004**	199,004
Of the above:		
- 17,000,000 (2006: 17,000,000) equity shares of Rs.5/-each fully paid-up were allotted as bonus share by capitalisation of general reserves;		
- 20,600,000 (2006: 20,600,000) equity shares of Rs.5/-each fully paid up are held by Reliance Land Private Limited; the holding company		
	199,004	199,004
SCHEDULE – 3		
Reserves and surplus		
Securities premium account		
At the commencement of the period/year	**2,466,319**	506,017
Add : Additions during the period/year	**128,700**	3,026,460
Less : Share / FCCB issue expenses	**-**	78,064
Less : Provision for premium on redemption of FCCB (Refer Note 11 of Schedule 22)	**12,565**	988,094
	2,582,454	2,466,319
Capital reserve	**3,388**	3,388
General reserve		
At the commencement of the year	**473,000**	446,600
Add: Transfer from profit and loss account	**90,354**	26,400
	563,354	473,000
Amounts pending transfer to the Securities premium account and/or General reserve account as per the Scheme of amalgamation and arrangement (refer Note 1 of Schedule 22)		
Pending transer to securities premium account		
On demerger of radio business	**(796,539)**	-
On reduction in value of Company's assets	**(205,025)**	-
Pending transer to general reserve account		
On merger of E-ONE	**27,258**	-
	(974,306)	-
Balance in profit and loss account	**978,653**	281,755
	3,153,543	3,224,462
SCHEDULE – 4		
Secured loans		
From banks for		
- Term loan	**-**	5,416
- Cash credit	**34,408**	49,980
- Overdraft	**-**	55,000
- Car loan (Refer Note 6 of Schedule 22)	**404**	2,059
	34,812	112,455

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
SCHEDULE – 5		
Unsecured loans		
Zero Coupon Foreign Currency Convertible Bonds ('FCCB')	**4,615,800**	4,599,248
Commercial Paper	**1,183,560**	-
Others	**32,347**	16,380
Repayable within 1 year - Rs. 1,183,560 (2006: Nil)	**5,831,707**	4,615,628
Also, refer Note 11 of Schedule 22		

SCHEDULE – 6

	30 June 2007	31 March 2006
(A) **Deferred tax asset**		
Arising on account of timing difference in:		
Provision for leave encashment and gratuity	**7,926**	500
Loss on sale of asset	**-**	953
Deduction u/s 35 D	**4,553**	-
Unrealised foreign exchange loss	**6,967**	9,173
Other provisions etc	**-**	1,367
	19,446	**11,993**
(B) **Deferred tax liability**		
Arising on account of timing difference in:		
Depreciation / amortisation	**160,274**	90,229
	160,274	90,229
Net deferred tax liability	**140,828**	78,236

SCHEDULE – 7

Fixed assets

Particulars	Gross Block				Accumulated Depreciation / Amortisation				Net Block	
	As at 1 April 2006 (refer note 1 below)	Additions during the period	Deductions during the period	As at 30 June 2007	As at 1 April 2006 (refer note 1 below)	Charge for the period	Depreciation on assets sold / discarded	As at 30 June 2007	As at 30 June 2007	As at 30 June 2006
Intangible assets										
Distribution rights	82,583	788,533	1,800	**869,316**	25,219	595,914	-	**621,133**	**248,183**	57,364
Negative rights	5,290	116,325	2,589	**119,026**	3,518	14,374	-	**17,892**	**101,134**	1,772
Computer software	1,541	827	176	**2,192**	545	442	-	**987**	**1,205**	996
Production Rights	-	251,772	-	**251,772**	-	184,128	-	**184,128**	**67,644**	-
Tangible assets										
Leasehold land *	22,573	-	-	**22,573**	-	-	-	**-**	**22,573**	22,573
Buildings:										
Leasehold	64,393	19,545	-	**83,938**	20,362	7,885	-	**28,247**	**55,691**	44,031
Freehold	358,026	231,554	-	**589,580**	43,689	27,718	-	**71,407**	**518,173**	314,337
Air conditioner plant	61,947	50,853	-	**112,800**	16,610	6,096	-	**22,706**	**90,094**	45,337
Electrical installation	84,296	79,294	-	**163,590**	23,037	9,291	11	**32,317**	**131,273**	61,259
Plant and machinery	216,954	90,927	521	**307,360**	77,701	31,300	218	**108,783**	**198,577**	139,253
Theatrical equipments	316,074	111,330	-	**427,404**	102,179	31,789	-	**133,968**	**293,436**	213,895
Furniture and fixtures	118,644	169,680	5,302	**283,022**	32,459	30,683	7,242	**55,900**	**227,122**	86,185
Vehicles	22,274	5,286	5,330	**22,230**	7,355	4,605	2,623	**9,337**	**12,893**	14,919
Total	1,354,595	1,915,926	15,718	**3,254,803**	352,674	944,225	10,094	**1,286,805**	**1,967,998**	1,001,921
Previous year	**1,008,590**	**332,553**	**88,810**	**1,252,333**	**227,028**	**99,745**	**(6,117)**	**332,890**		
Capital work in Progress (including capital advances)									**1,618,557**	2,279,902

Notes:

1) Opening balance as at 1 April 2006 includes balances incorporated in respect of entities not consolidated in the previous year - refer Note 2 of Schedule 1
2) Leasehold land in excess of 99 years is not depreciated as this is deemed ownership
3) Expenditure in foreign currency capitalised during the period Rs 26,896 (2006: Rs Nil)
4) CWIP includes Rs Nil (2006: Rs 1,919,502) as payment towards one time entry fee and related payments for license to operate FM radio Channels in 45 stations (refer Note 1 of Schedule 22)
5) Additions to fixed assets/ CWIP include following expenses capitalised:

	2007	2006
- Architectural and professional fees	**13,854**	Nil
- Personnel cost	**28,304**	Nil
- Other operational expenses	**47,474**	Nil
	89,632	Nil

(Currency : Indian Rupees in thousand)

		30 June 2007	31 March 2006
SCHEDULE – 8			
Investments			
Long term (trade, unquoted and at cost)			
A	*Government securities*		
	National saving certificates (Pledged with State government authorities)	**9,789**	8,200
Long term (non-trade, unquoted and at cost)			
B	*Investment in shares in*		
	Prime Focus Limited 964,000 (2006: 964,000) equity shares of Rs 5/- each fully paid up	**46,658**	46,658
	Cineplex Pvt. Ltd. 50,000 (2006: 50,000) equity shares of Rs.10/- each fully paid up Note: Not consolidated in the previous year - refer Note 2 of Schedule 1	**–**	500
	Mukta Adlabs Digital Exhibition Pvt. Ltd. 500 (2006: 500) equity shares of Rs.100/- each fully paid up Note: Not consolidated in the previous year - refer Note 2 of Schedule 1	**–**	50
	Tree of Knowledge DOT Com Pvt. Ltd. 1,500,000 (2006: Nil) 0.5% cumulative redeemable preference shares of Rs 1000/- each, Rs 800/- partly paid	**120,000**	-
	Hyde Park Entertainment Limited, USA (Investment in limited liability partnership)	**460,775**	–
	Investment in partnership firm	**53,065**	57,853
	Total long term investment	**690,287**	113,261
	Current investments (non-trade, unquoted and at lower of cost and fair value)		
C	*Investment in mutual funds*		
	198,064 (2006: 204,648) units of Reliance Liquid Fund - Cash Plan - Weekly Dividend Option [Net Asset Value: Rs 1,981 (2006: Rs 2,234)]	**1,981**	2,234
	Nil (2006: 50,000) units of Reliance Fixed Maturity Fund- Monthly Plan XI - Series II - Growth Option [Net Asset Value: Rs Nil (2006: Rs 500,000)]	**-**	500,000
	Nil (2006: 375,159,915) units of Reliance Liquid Fund - Weekly Dividend Reinvestment Option [Net Asset Value: Rs Nil (2006: Rs 3,757,114)]	**-**	3,757,114
	Others	**44,386**	11,827
	Total current investments	**46,367**	4,271,175
		736,654	4,384,436

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
SCHEDULE – 9		
Inventories		
Stores and spares	**4,029**	1,132
Chemical stock	**2,587**	5,924
Food and beverages	**4,782**	1,865
Negative film rolls	**6,155**	4,395
Work in process (Content)	**124**	-
Stock of DVD's	**3,316**	45,012
	20,993	58,328
SCHEDULE – 10		
Sundry debtors		
(Unsecured)		
Debts outstanding for a period exceeding six months		
- Considered good	**116,751**	339,422
- Considered doubtful	**1,433**	89
	118,184	339,511
Less : Provision for doubtful debts	**1,433**	89
	116,751	339,422
Other debts		
- Considered good	**472,778**	236,935
	589,529	576,357
SCHEDULE – 11		
Cash on hand	**13,167**	3,447
Foreign currency denominated pre-loaded cards	**606**	-
Balances with scheduled banks		
- in current accounts	**383,700**	148,426
- in fixed deposit account	**962,177**	101,693
- in escrow account (Refer Note 2 of Schedule 22)	**255,000**	-
- Margin money deposit	**4,360**	-
- Dividend Account	**677**	-
	1,619,687	253,566
SCHEDULE – 12		
Loans and advances		
(Unsecured and considered good)		
Advances recoverable in cash or in kind or for value to be received	**655,434**	905,069
Loans & advances to others	**3,383,806**	-
Deposits	**551,630**	76,972
Advance tax, tax deducted at source and advance fringe benefit tax	**515,853**	478,355
(Unsecured and considered doubtful)		
Advances recoverable in cash or in kind or for value to be received	**72**	209
Less: Provision for doubtful advances	**72**	209
	5,106,723	1,460,396

(Currency : Indian Rupees in thousand)

	30 June 2007	31 March 2006
SCHEDULE – 13		
Current liabilities		
Sundry creditors for goods and services	**301,474**	68,147
Outstanding liabilities	**262,121**	87,566
Advance payments received	**263,628**	75,328
Unclaimed dividend	**684**	596
	827,907	231,637

No amounts due and outstanding for credit to Investor education and protection fund (31 March 2006; Rs Nil)

	30 June 2007	31 March 2006
SCHEDULE – 14		
Provisions		
Taxation	**436,924**	444,478
Premium on redemption of FCCB	**1,000,659**	988,094
Proposed dividend	**99,502**	89,552
Tax on proposed dividend	**16,910**	12,560
Gratuity	**3,854**	1,716
Leave encashment	**19,464**	5,567
	1,577,313	1,541,967

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
SCHEDULE – 15		
Theatrical exhibition		
Sale of tickets	**887,483**	314,237
Less: Entertainment tax	**74,729**	18,653
	812,754	295,584
Advertisement/sponsorship revenue	**89,623**	16,981
Facilities provided at multiplex	**24,584**	15,655
Food and beverages	**195,935**	81,854
	1,122,896	410,074
SCHEDULE – 16		
Film facilities		
Processing/Printing of films	**628,763**	453,938
Less: Service Tax	**63,786**	48,050
	564,977	405,888
Equipment rental income	**7,663**	-
Trading income	**381,527**	251,481
	954,167	657,369

(Currency : Indian Rupees in thousand)

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
SCHEDULE – 17		
Other income		
Dividend income from:		
- Current investments	**20,358**	14,310
Interest income (gross) from:		
- Bank and other deposits (Tax deducted at source Rs. 11,883; 2006 Rs. 4,628)	**75,514**	6,273
- Others	**219,335**	28,204
Profit on sale of investments (net)	**153,164**	42,461
Foreign exchange gain/(loss) (net)	**(30,557)**	-
Profit on option contract (net)	**267,124**	-
Miscellaneous income	**22,900**	7,393
	727,838	98,641
SCHEDULE – 18		
Direct operational expenses		
Theatrical exhibition		
Film cost	**11,109**	11,415
Distributors' share	**257,705**	75,975
Electricity, power and water charges	**80,134**	25,051
Print and publicity expenses	**137,699**	1,834
Cost of food and beverage sold	**74,306**	33,472
	560,953	147,747
Film processing		
Chemical consumed	**36,442**	32,428
Consumables	**85,826**	5,669
Processing charges	**44,615**	21,467
Electricity, power and water charges	**15,802**	8,922
Cost of raw films sold	**335,703**	197,316
Rent, rates and taxes	**14,325**	14,364
Freight,coolie and cartage	**27,665**	1,167
Effluent treatment charges	**817**	278
	561,195	281,611
Film distribution		
Producers' share	**19,924**	21,072
	19,924	21,072
Film production	**99,895**	-
	99,895	-
	1,241,967	450,430
SCHEDULE – 19		
Personnel cost		
Salaries, wages and bonus	**193,797**	68,832
Contribution to provident and other funds	**8,874**	3,155
Gratuity	**3,889**	1,695
Leave encashment	**15,235**	1,087
Staff welfare expenses	**9,007**	1,432
	230,802	76,201

(Currency : Indian Rupees in thousand)

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
SCHEDULE – 20		
Other operating and general administrative expenses		
Advertisement	**118,079**	32,119
Bank charges	**2,791**	3,526
Business promotion	**9,263**	4,975
Rent, Rates and taxes	**223,993**	43,371
Commission and brokerage	**3,537**	573
Travelling and conveyance	**26,010**	10,677
Deferred revenue expenses written off	**326**	1,328
Donation	**2,554**	475
Insurance	**17,302**	9,883
Legal and professional fees	**58,386**	21,141
Loss on sale of assets (net)	**776**	3,400
Miscellaneous expenses	**33,050**	6,192
Printing, postage and telephone	**26,687**	9,640
Repairs and maintenance		
- Building	**5,670**	4,790
- Machinery	**19,774**	3,088
- Others	**37,638**	28,285
Bad debts	**710**	21,274
Provision for doubtful debts	**1,433**	89
Facility maintenance charges	**64,142**	17,722
Royalty and sponsorship expenses	**39,394**	800
Foreign exchange loss (net)	**-**	27,515
	691,515	250,863

	For fifteen months ended 30 June 2007	For the year ended 31 March 2006
SCHEDULE – 21		
Interest		
On fixed loans	**31,496**	12,055
On other loans	**13,510**	3,888
	45,006	15,943

SCHEDULE – 22

NOTES TO THE ACCOUNTS

1. Composite scheme of amalgamation and arrangement

The Board of Directors of the Company at their meeting held on 22 April 2006 approved the composite scheme of amalgamation and arrangement (the Scheme) between the Company, E-ONE, MADEL and RUL. The shareholders of the Company accorded their approval to the Scheme in terms of the Companies Act, 1956 (the Act) at the Annual General Meeting on 29 July 2006. The Scheme was approved by the Hon'ble High Court of Judicature at Bombay vide its order dated 15 September 2006. The Scheme inter-alia provides for the following:

- the amalgamation of E-ONE with the Company effective 1 April 2005;
- the merger of the digital business of MADEL with the Company effective 1 April 2005; and
- the demerger of the radio business of the Company to RUL effective 31 March 2006.

The Company has made an application to the Ministry of Information and Broadcasting for vesting of radio licences held by it in the name of RUL. Pending the said approval, the Scheme has not been filed with the Registrar of Companies (ROC) as required under section 391(3) of the Act. However, for the purpose of these consolidated financial statements, pending completion of licensing and other procedural formalities, the Scheme has been given effect to in view of the Court approval and to give effect to the substance of the Scheme as approved by the Hon'ble High Court of Judicature at Bombay.

In accordance with the requirements of the Scheme, the merger of E-ONE as well as the digital business of MADEL and the demerger of the radio business of the Company has been accounted for as follows in the standalone financial statements of the Parent Company:

- *Amalgamation of E-ONE with the Company with effect from 1 April 2005*

  As per the Scheme, E-ONE amalgamates with the Company retrospectively from 1 April 2005, the Appointed Date. All assets and liabilities of E-ONE as at 1 April 2005 have been recorded by the Company at their fair values. Since E-ONE was a wholly owned subsidiary of the Company, the investment by the Company in the shares of E-ONE have been cancelled against the assets and liabilities acquired on amalgamation. The excess of net assets taken over (at fair value) over the cost of investment in E-ONE amounting to Rs 27,258 has been credited to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, the amount will be credited to General reserve account as per the requirements of the Scheme. The profit and loss account for the fifteen months ended 30 June 2007 also includes the loss of E-ONE for the period from 1 April 2005 to 31 March 2006 as per the financial statements of E-ONE for that period which were audited by a firm of Chartered Accountants other than BSR & Co.

- *Merger of the digital business of MADEL with the Company with effect from 1 April 2005*

  As per the Scheme, the digital business of MADEL merges with the Company retrospectively from 1 April 2005, the Appointed Date. All assets and liabilities of the digital business of MADEL as at 1 April 2005 have been recorded by the Company at their book values. Since MADEL is a wholly owned subsidiary of the Company, no consideration has been paid against the assets and liabilities acquired. The excess of liabilities over the assets taken over (at book value) amounting to Rs 4,469 has been debited to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, the amount will be debited to securities premium account as per the requirements of the Scheme. The profit and loss account for the fifteen months ended 30 June 2007 also includes the net loss of the digital business of MADEL for the period from 1 April 2005 to 31 March 2006 as per the financial statements of MADEL for that period which were audited by a firm of Chartered Accountants other than BSR & Co.

- *Demerger of the radio business of the Company to RUL with effect from 31 March 2006*

  As per the Scheme, the radio business of the Company stands transferred to RUL with effect from 31 March 2006, the Appointed Date. All assets and liabilities of the radio business of the Company as at 31 March 2006 have been transferred at their respective book values. In consideration of the demerger of the radio business, RUL will pay Rs 1,000,000 to the Company and allot shares to the existing shareholders of the Company as per the scheme. The aggregate value of net assets to be transferred pursuant to the Scheme in excess of Rs 1,000,000 (which is recorded as receivable from RUL) has been recorded in 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, the amount will be debited to Securities premium account as per the requirements of the Scheme. The details of the income, expenses, assets and liabilities of the radio business not included in these financial statements are given below.

- To facilitate the demerger, the Company has cancelled its investment in RUL with a corresponding debit to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, this amount will be debited to Securities premium account.

- The Company has also recorded reduction of Rs 205,025 in value of its assets (debtors and loans and advances) by debit to 'Amounts pending transfer to the Securities Premium Account and/or General reserve account as per the Scheme of amalgamation and arrangement'. On the filing of the Scheme with the ROC, this amount will be debited to Securities premium account.

The above is in conformity with accounting treatment prescribed by the Scheme (except that pending filing of the Scheme with the ROC, the relevant adjustments required to be made to Securities premium account/ General reserve account have been recorded in 'Amounts pending transfer to the Securities Premium Account and/or other reserves as per the Scheme of amalgamation and arrangement').

The provision for taxation has been calculated by management on the basis of the financial statements including the effect of the Scheme. However, the actual tax liability of the respective companies for the tax financial year ended 31 March 2007 and thereafter would be determined based on the status of filing of the Scheme.

Had the Company followed the accounting treatment prescribed by AS-14 - Accounting for amalgamations / generally accepted accounting principles in India for its standalone financial statements:

- Rs 27,258 arising from the merger of E-ONE with the Company and credited to the General Reserve account would have been credited to Capital Reserve account;
- Rs 4,469 arising from the merger of digital business of MADEL and debited to the Securities Premium Account would have been debited to Goodwill;
- Rs 796,539 arising on demerger of radio business and debited to the Securities Premium Account would have been debited to the Profit and loss account;
- the loss of Rs 500 on cancellation of investment of the Company in RUL would have been debited to the Profit and loss account instead of the Securities premium account; and
- reduction of Rs 205,025 in value of the Company's assets would have been debited to the Profit and loss account instead of the Securities premium account.

Accordingly, had the Scheme been accounted for in compliance with the requirements of AS 14 - Accounting for amalgamations/ generally accepted accounting principles in India, on a standalone basis for the Parent Company - the profit for the period before tax would have been lower by Rs 1,001,564, General reserve account would have been lower by Rs 27,258, Capital reserve account would have been stated at 27,258, Securities Premium account would have been higher by Rs 1,006,533 and Goodwill would have been stated at Rs 4,469.

During the period, the Company carried on the radio business in trust for and on behalf of RUL. The amount of revenue and expenses for the fifteen months ended 30 June 2007 and the assets and liabilities as at 30 June 2007 relating to the demerged radio business and which, pursuant to the Court approved Scheme, have not been recognised in these financial statements are as under:

	Period ended 30 June 2007
Income	332,032
Expenditure*	1,269,504
Fringe benefit tax	7,553
Profit before current and deferred tax	(945,025)
Fixed assets**	2,945,169
Current assets	453,021
Current liabilities	4,143,215
Loans	200,000

* - includes Rs 208,668 being interest charged by the Company on net funds utilized in carrying on the radio business in trust for and on behalf of RUL. Also, Rs 34,740 being interest on loan taken by the Company from RUL has not been considered above as the said loan has been considered as repayment towards funding by the Company of the radio business.

** - represents the gross value of the fixed assets of the radio business, i.e. prior to giving effect to the adjustment of Rs 796,039 as per the Scheme

Accounting policies specific to the radio business are as under:

- *Intangible assets and amortisation*

  One Time Entry Fees paid for acquiring new licenses has been capitalised as an asset and is amortised over a period of ten years, being the period of the license, from the date of operationalisation of the station.

- *Revenue recognition*

  Revenue from radio broadcasting is recognised on an accrual basis on the airing of customer's commercials.

- *License fees*

  As per the new Frequency Module (FM) broadcasting policy, effective April 1, 2005 license fees are charged to revenue at the rate of 4% of gross revenue for the period or 10% of Reserve One Time Entry Fee (ROTEF) for the concerned city, whichever is higher. Gross Revenue for this purpose shall mean revenue on the basis of billing rates inclusive of any taxes and without deduction of any discount given to the advertiser and any commission paid to advertising agencies. Barter advertising contracts shall also be included in the gross revenue on the basis of relevant billing rates. ROTEF means 25% of highest valid bid in the city.

  As the Scheme has been given effect to, the aggregate of the Company's qualifying loans and advances and investments (on a standalone basis) is in excess of the limits prescribed under Section 372A of the Act and for which prior approval of the shareholders has not been obtained. These financial statements do not include adjustments, if any, that would be required should the shareholders not accord their approval.

Further, the Company has raised money by way of issue of FCCB on 25 January 2006. The Company had utilized Rs 650,282 from the proceeds of the issue towards the said radio business till 31 March 2006. With effect from the Appointed Date i.e. 31 March 2006, the remaining proceeds will be utilised by the Company to fund the radio business in RUL. During the period, the Company has utilised Rs. 1,012,800 for the radio business on behalf of RUL and has charged interest from RUL for the funds so utilised.

2. *Acquisition of Rave Entertainment Private Limited ('REPL')*

On 31 May 2007, the Company entered into a Share Purchase Agreement ('SPA') with the shareholders of Rave Entertainment Private Limited ('REPL'), a company engaged inter-alia in the business of owning and operating multiplexes, for acquisition of 100% stake in that company. One of the conditions precedent to the SPA is the approval by the Hon'ble High Court of Judicature at Allahabad of the Scheme of demerger filed by REPL for demerger of Kanpur properties. Pending approval of the scheme of demerger by the said Court, the shares of REPL are held in Escrow and consideration of Rs 50,000 has been disclosed under loans and advances. The Company has also placed Rs. 255,000 in escrow, which amount will be adjusted in future as per the terms of the conducting agreement.

3. *Acquisition of Katch 22 Entertainment Private Limited ('Katch 22')*

During the period, the Company acquired 100% stake in Katch 22. Subsequently, pursuant to the board of directors approval vide resolution dated 26 April 2007, the Company filed a Scheme of amalgamation of Katch 22 with the Hon'ble High Court of Judicature at Bombay for the merger of Katch 22 with the Company effective 1 April 2006. The said scheme is pending approval of the Court and hence has not been given effect to in these consolidated financial statements.

4. *Contingent Liabilities*

On account of	**2007**	2006
For the Company :		
Disputes with income tax department		
In respect of appeals filed by the Income Tax Department against the decision of CIT (Appeals) for the Assessment Years (A.Y.) 1993-1994, 1998-1999 and 1999-2000	Nil	5,879
In respect of Company's appeals pending before Income Tax Appellate Tribunal for A.Y. 1995-1996	Nil	15,054
Dispute with excise department		
Disputed Central Excise demand pending with the Central Excise Appellate Tribunal in respect of the film processing division	**98,636**	52,037
Entertainment tax		
In respect of a multiplex, the Company has made an application for availing exemption under the relevant Act retrospectively from the date of commencement of operations of the said multiplex and the application is pending approval	**9,297**	Nil
In respect of certain multiplexes, the Company is in dispute with the entertainment tax authorities regarding eligibility for availing exemption under the relevant Act.	**10,739**	Nil
In respect of the demand orders received for payment of entertainment tax collected and not paid to the authorities, the Company has made an appeal against said demand orders as it believes that the same is not payable, being exemption from payment available to it.	**5,689**	3,110
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	**404,267**	177,574
Bank guarantees	**283,474**	14,807

Share of 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**	8,990
(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.	**Nil**	6,675
(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.	**92,619**	81,740

Provident Fund

Provident fund contribution on leave encashment relating to the period prior to 1 May 2005 has not been considered as the matter is kept in abeyance by the concerned authorities.

Note:

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

5. Commitment

	2007	2006
Estimated amount of contracts remaining to be executed on capital account and not provided for net of advances	**1,271,405**	51,715
Amount uncalled on 1,500,000 partly paid preference shares of Tree of Knowledge DOT Com Private Limited	**300,000**	Nil
Estimated amount of finance commitment remaining to be paid on account of film production.	**Nil**	158,857

6. Secured Loans of the Group

From Banks

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 and stocks of chemicals.

Loan taken by the subsidiary company is 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 moveable properties.

7. Disclosure for operating lease

The Group is obligated under non-cancellable leases primarily for multiplex and single screen projects which are renewable thereafter as per the terms of the respective agreements. Rental expenses under non-cancellable operating lease accrue from the commencement of commercial operations.

The future minimum lease payments in respect of non-cancellable operating leases are as follows:

Period	**Minimum lease payment**	
For the Company	**Fifteen months ended 30 June 2007**	Year ended 31 March 2006
Amount due within one year from the balance sheet date	**171,025**	19,350
Amount due in the period between one year and five years	**703,258**	77,400
Amount due after five years	**621,676**	193,500
	1,495,959	290,250

Period	**Minimum lease payment**	
For Subsidiaries	**Fifteen months ended 30 June 2007**	Year ended 31 March 2006
Amount due within one year from the balance sheet date	**1,200**	Nil
Amount due in the period between one year and five years	**1,206**	Nil
	2,406	Nil

Period	**Minimum lease payment**	
For Joint Ventures (Group's share)	**Fifteen months ended 30 June 2007**	Year ended 31 March 2006
Amount due within one year from the balance sheet date	**10,640**	10,433
Amount due in the period between one year and five years	**17,733**	30,429
	28,373	40,862

8. *Disclosure of Segment Reporting under AS 17*

	Film Facilities		**Theatre exhibition**		**Film production and distribution**		**Others****		**Total**	
	30 June 2007	31 March 2006	**30 June 2007**	31 March 2006	**30 June 2007**	31 March 2006	**30 June 2007**	31 March 2006	**30 June 2007**	31 March 2006
Revenue										
Operating revenue	**1,046,325**	667,971	**1,122,896**	410,074	**1,477,084**	173,088	-	-	**3,646,305**	1,251,133
Internal segment sales	**(92,158)**	(10,603)	-	-	-	-	-	-	**(92,158)**	(10,603)
Net revenue	**954,167**	657,368	**1,122,896**	410,074	**1,477,084**	173,088	-	-	**3,554,147**	1,240,530
Other income	**5,514**	58,457	**13,224**	2,143	**2,899**	10,127	-	-	**21,637**	70,727
Total segment revenue	**959,680**	652,509	**1,136,119**	316,102	**1,479,983**	12,686	-	-	**3,575,784**	1,311,257
Result (profit before interest and corporate expenses)										
Segment result	**338,652**	276,943	**77,184**	50,273	**191,592**	75,856	-	-	**607,428**	403,072
Unallocated corporate income									**706,201**	31,839
Unallocated corporate expenses									**(144,253)**	-
Profit before interest and tax									**1,169,376**	434,911
Interest expenses									**(45,006)**	(15,943)
Prior period adjustment (includes results of entities not consolidated in the previous year - Refer Schedule 2)									**(3,662)**	-
Income tax (including FBT)									**(213,239)**	(137,979)
Share in associate									**-**	10,126
Minority interest									**(6,676)**	(9,272)
Profit for the period/year									**900,793**	281,843
Other Information										
Segment assets	**857,269**	944,635	**2,452,093**	1,242,793	**3,264,853**	891,482	-	2,020,502	**6,574,206**	5,099,412
Unallocated corporate assets									**4,818,662**	4,425,511
Total assets									**11,392,868**	9,524,923
Segment liabilities	**175,473**	84,203	**245,908**	106,866	**440,657**	124,884	-	-	**862,038**	315,953
Unallocated corporate liabilities									**7,117,905**	5,741,256
Total liabilities									**7,979,943**	6,057,209
Capital expenditure*	**265,053**	36,198	**716,448**	261,043	**2,177,481**	249,578	**-**	1,919,502	**3,158,982**	2,466,321
Unallocated corporate capital expenditure									**15,103**	-
Total capital expenditure									**3,174,085**	2,466,321
Depreciation and amortisation	**47,609**	24,861	**113,836**	49,242	**781,645**	25,641	-	1,919,502	**943,091**	99,744
Unallocated depreciation and amortization									**1,134**	-
Total depreciation and amortization									**948,325**	99,744
Total assets exclude:										
Advance tax and tax deducted at source									**515,853**	478,355
Miscellaneous expenditure (to the extent not written off)									-	
Deferred revenue expenditure									**1,525**	-
Total liabilities exclude:										
Provision for taxation (including net deferred tax liability)									**577,752**	522,714

* includes assets acquired at fair value on amalgamation (refer Note 1 of Schedule 22)

** reported segment has been demerged pursuant to the composite scheme of amalgamation and arrangement (refer Note 1 of Schedule 22)

8. ***Disclosure of Segment Reporting under AS 17 (Continued)***

The Group has disclosed Business Segment as the primary segment.

The business of the Group is divided into four segments - Film facilities, Theatrical exhibition, Film production and distribution and Others. Segments have been identified taking into account the nature of the business, the differing risks and returns, the organisation structure and internal reporting system.

Film facilities operation primarily comprise of processing of raw exposed films, colour correction, editing, digital processing, equipment rental, copying and printing of positive exhibitions 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 single screen, multiplex/Imax cinema exhibition, range of activities/services offered at cinema centers including catering food and beverages.

Film production represents share of net income from movies produced/co-produced or in which the Company has invested, and content production.

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

Segment Revenue, Segment Results, Segment Assets and Segment Liabilities include the respective amounts identifiable to each segment as also the amounts allocable on a reasonable basis.

Income and expenses which are not directly attributable to any Business Segment are shown as unallocated corporate income / expenses.

Assets and liabilities that cannot be allocated between the segments are shown as a part of unallocated corporate assets and liabilities respectively.

Further, the Group considers the market risks and rewards relating to overseas distribution as similar across various territories and in line with those applicable to domestic territories. Hence there are no reportable geographic segments.

9. ***Disclosure of Related Party under AS 18***

Related Party Relationship

Parties where control exists

Holding Company

Reliance Capital Limited

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

(b) Fellow Subsidiary

- Reliance Unicom Limited

(c) Enterprises over which Key Management Personnel have significant influence

- Dharma Productions Private Limited
- idream Productions Private Limited
- Whistling Woods International Private Limited
- Reliance Communication Infrastructure Limited
- Reliance Capital Asset Management Limited
- Reliance Web Stores Limited
- Reliance General Insurance Company Limited
- Hyde Park Entertainment, Inc.

(d) Other related parties

- Shringar Cinemas Limited
- South Yarra Holdings
- Shringar Films Limited
- M/s. Shringar Films
- Adlabs Shringar Multiplex Cinemas Private Limited (ASMCPL)

Related Party Transactions

Transactions	Holding company	Fellow Subsidiary	Significant shareholders, Key management personnel and their relatives	Enterprises over which Key management personnel have significant influence	Other related parties
Rendering of services					
Dharma Productions Private Limited	**-**	**-**	**-**	**11,126**	**-**
Reliance Communication Infrastructure limited	**-**	**-**	**-**	**19,175**	**-**
Others	**3,143**	**-**	**-**	**1,241**	**-**
	3,143	**Nil**	**Nil**	**31,542**	**Nil**
	(Nil)	**(132)**	**(Nil)**	**(Nil)**	**(Nil)**
Interest income					
Reliance Unicom Limited	**-**	**208,668**	**-**	**-**	**-**
Others	**-**	**-**	**-**	**14,708**	**-**
	Nil	**208,668**	**Nil**	**14,708**	**Nil**
	(Nil)	**(Nil)**	**(Nil)**	**(Nil)**	**(Nil)**
Other expenses paid					
Adlabs Shringar Multiplex					
Cinemas Private Limited	**-**	**-**	**-**	**-**	**17,973**
Shringar Cinemas Limited	**-**	**-**	**-**	**-**	**4,380**
Others	**-**	**-**	**-**	**-**	**2,399**
	Nil	**Nil**	**Nil**	**Nil**	**24,752**
	(Nil)	**Nil)**	**(Nil)**	**(Nil)**	**(Nil)**
Receiving of services					
Reliance General Insurance Company Limited	**-**	**-**	**-**	**13,616**	**-**
	Nil	**Nil**	**Nil**	**13,616**	**Nil**
	(Nil)	(Nil)	(Nil)	(Nil)	(15,452)
Reimbursement of expenses (Paid)					
Shringar Cinemas Limited	**-**	**-**	**-**	**-**	**3,237**
	Nil	**Nil**	**Nil**	**Nil**	**3,237**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Reimbursement of expenses (Received)					
Shringar Cinemas Limited	-	-	-	-	992
	Nil	**Nil**	**Nil**	**Nil**	**992**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Managerial remuneration					
Manmohan Shetty	-	-	**7,590**	**-**	**-**
Pooja Shetty	**-**	**-**	**3,795**	**-**	**-**
	Nil	**Nil**	**11,385**	**Nil**	**Nil**
	(Nil)	(Nil)	(14,130)	(Nil)	(Nil)
Dividend paid	**49,173**	**-**	**18,656**	**-**	**-**
	49,173	**Nil**	**18,656**	**Nil**	**Nil**
	(Nil)	(Nil)	(16,582)	(Nil)	(Nil)

Related Party Transactions *(Continued)*

Transactions	Holding company	Fellow Subsidiary	Significant shareholders, Key management personnel and their relatives	Enterprises over which Key management personnel have significant influence	Other related parties
Premium on key managerial policy					
Manmohan Shetty	-	-	**4,806**	-	-
	Nil	**Nil**	**4,806**	**Nil**	**Nil**
	(Nil)	(Nil)	(6,537)	(Nil)	(Nil)
Loan given					
Reliance Unicom Limited	-	**2,542,384**	-	-	-
	Nil	**2,542,384**	**Nil**	**Nil**	**Nil**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Investment in Limited Liability Partnership					
Hyde Park Entertainment, Inc.	-	-	-	**460,775**	-
	Nil	**Nil**	**Nil**	**460,775**	**Nil**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Loan received back					
Reliance Unicom Limited	-	**580,000**	-	-	-
	Nil	**580,000**	**Nil**	**Nil**	**Nil**
	(Nil)	(Nil)	(Nil)	(Nil)	(4,084)
Issue of shares	-	-	-	-	-
	Nil	**Nil**	**Nil**	**Nil**	**Nil**
	(2,592,960)	(Nil)	(Nil)	(Nil)	(Nil)
Outstanding balance of loans and advances as on 30 June 2007					
Shringar Cinemas Limited	-	-	-	-	**65**
Others	-	-	-	-	**1**
	Nil	**Nil**	**Nil**	**Nil**	**66**
	(Nil)	(Nil)	(Nil)	(Nil)	(1,335)
Outstanding receivables as on 30 June 2007					
idream Productions Private Limited	-	-	-	**79**	-
Reliance Communications Infrastructure Limited	-	-	-	**35**	-
Whistling Woods International Private Limited	-	-	-	**38**	-
Others	-	-	-	**6**	-
	Nil	**Nil**	**Nil**	**158**	**Nil**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Outstanding payables as on 30 June 2007					
Shringar Cinemas Limited	-	-	-	-	699
	Nil	**Nil**	**Nil**	**Nil**	**699**
	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)

Previous year figures are given in brackets.

10. 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 Cinemas Private Limited (refer note 2 of schedule 1)	India	50.00%	50.00%
Runwal Multiplex Private Limited (refer note 2 of schedule 1)	India	50.00%	50.00%
Cineplex Private Limited (refer note 2 of schedule 1)	India	50.00%	50.00%
Divya Shakti Marketing Private Limited (refer note 2 of schedule 1)	India	50.00%	50.00%

Particulars			**2007**	2006
I	**Assets**			
1.	Fixed assets (including Capital work-in-progress)		**1,78,922**	136,121
2.	Investments		**7,859**	11,827
3.	Current assets, loans and advances			
	a)	Inventories	**1,402**	2882
	b)	Sundry debtors	**10,437**	6,401
	c)	Cash and bank balances	**10,471**	6,155
	d)	Interest Accrued but not due	**54**	-
	e)	Loans and advances	**35,800**	46,208
II	**Liabilities**			
1.	Shareholders' fund - reserves and surplus		**97,023**	47,261
2.	Secured loans		**Nil**	5,500
3.	Unsecured loans		**68,211**	16,380
4.	Deferred tax (net)		**12,044**	9,195
5.	Current liabilities and provisions			
	a)	Liabilities	**28,097**	18,260
	b)	Provisions	**23,046**	43,092
III.	**Income**			
1.	Sales (net of excise duty)		**2,19,101**	82,851
2.	Other Income		**2,228**	1,173
IV.	**Expenses**			
1.	Operating expenses		**1,55,386**	65,506
2.	Depreciation		**17,781**	7,506
3.	Interest		**835**	814
4.	Profit before Taxation		**47,386**	10,198
5.	Prior period Adjustments		**1,468**	427
6.	Provision for Taxation (including deferred taxation)		**17,789**	4,922
7.	Short provision for previous year		**Nil**	167
8.	Profit after Taxation before minority interests		**28,129**	4,681
9.	Minority Interests		**Nil**	-
10.	Net Profit		**28,129**	4,681
V.	**OTHER MATTERS**			
1.	Contingent Liabilities		-	-
2.	Capital Commitments		-	-
Movement of the aggregate reserves of the joint ventures:				
Reserves as at 1 April 2006			**47,261**	22,267
Add: Group share of profits for the year			**49,762**	24,994
Reserves as at 30 June 2007			**97,023**	47,261

11. Foreign Currency Convertible Bonds

On 25 January 2006 the Company ('Issuer') issued Zero Coupon Foreign Currency Convertible Bonds ('Bonds' or 'FCCB') aggregating Euro 84 million. 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 ('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 ('SGXST').

(Currency : Indian Rupees in thousand)

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.

As at 30 June 2007, there has been no conversion of the Bonds into Shares.

Premium on redemption of FCCB

	30 June 2007	31 March 2006
Opening balance	**988,094**	Nil
Add: Provision for the year*	**Nil**	988,094
Add: Adjustment on foreign exchange fluctuation	**12,565**	Nil
Less: Amounts utilized during the year	**Nil**	Nil
Less: Unutilized amounts reversed during the year	**Nil**	Nil
Closing balance	**1,000,659**	988,094

* - 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.

The utilization of the proceeds of the FCCB issue up to 30 June 2007 is as under:

Purpose		**Uses of funds as projected in the offer document**	**Actual funds used up to 30 June 2007**	Actual funds used up to 31 March 2006
a.	New cinema complexes		**725,875**	
b.	Expansion / modernization of existing cinema complexes			122,450
c.	Expansion / modernization of film processing facilities			-
d.	Film distribution		**139,400**	32,000
e.	Film production		**1,527,111**	61,511
f.	New entertainment medium (Radio)**		**1,663,082**	650,282
g.	Other purposes allowed under Indian laws		**460,775**	-
h.	FCCB issue expense		**55,751**	55,751
		4,571,994*	**4,571,994***	921,994

* - excluding foreign exchange fluctuation.

**- the Company has given effect to the demerger of the radio business pursuant to the composite scheme of amalgamation and arrangement (refer Note 1 above). Consequently, amounts utilised for the said radio business have been disclosed as recoverable from the transferee entity. Further, the amounts utilised for the said radio business are considered as a loan to the transferee entity and interest aggregating to Rs 208,668 has been accrued thereon.

12. Earnings per Share ('EPS')

Particulars	**Fifteen months ended 30 June 2007**	Year ended 31 March 2006
No. of shares at the beginning of the period/ year	**39,800,750**	21,500,750
Fresh issue of shares during the period/ year	**Nil**	18,300,000
Total number of equity shares outstanding at period/ year end	**39,800,750**	39,800,750
Weighted average number of equity shares outstanding during the year for Basic EPS	**39,800,750**	31,575,545
Add: Potential equity shares		
Upon conversion of Equity Share Warrants	**Nil**	1,204,834
Upon conversion of FCCB*	**8,387,325**	1,493,633
Weighted average number of equity shares outstanding during the period for Dilutive EPS	**48,188,075**	34,274,012
Net profit after tax available for equity shareholders	**904,893**	280,462
Exchange loss on FCCB	**16,800**	27,254
Basic EPS	**22.74**	8.88
Dilutive EPS	**19.13**	8.18
Nominal value per share	**5**	5

* - these would be dilutive only in the event that the bondholders exercise the conversion option.

(Currency : Indian Rupees in thousand)

13. *Foreign currency exposures (other than investments) not covered by forward contracts*

	Fifteen months ended 30 June 2007			Year ended 31 March 2006		
	Currency	**Amount (USD '000)**	**Amount (Rs. '000)**	Currency	Amount (USD '000)	Amount (Rs. '000)
Sundry Debtors	**USD**	**678**	**27,513**	USD	398	17,820
	GBP	**8**	**643**	GBP	Nil	Nil
	Euro	**7**	**365**	Euro	6	335
Sundry Creditors	**USD**	**660**	**26,896**	USD	Nil	Nil

14. *Taxation*

- The year end for tax purpose for Indian companies being 31 March, the actual tax liability for the Group will be determined based on the results for the year ending 31 March 2008. Also, refer note 1 of Schedule 22.
- Adlabs Films USA, Inc. has not recorded any deferred tax liabilities or assets as of 30 June 2007. The Company has provided Rs 64 for accrued federal and state income taxes. A summary of deferred tax components of Adlabs Films USA Inc. at 30 June 2007 is as follows:

Provision for doubtful accounts	146
Provision for sales returns	49
Deferred tax asset	195
Deferred tax valuation allowance	(195)
Deferred tax assets, net	Nil

- Provision for deferred tax liability for Synergy Adlabs Media Limited has not been made for 3 months ended 30 June 2007. However, in management's opinion, the impact of this non-provision is not likely to be significant.

15. *Managerial remuneration*

Should the Scheme referred to in note 1 above not be made legally effective, remuneration paid/payable to the directors of the Parent Company would be in excess of the limits prescribed under the Companies Act, 1956 and, consequently, necessary approval of the Central Government would be required to be obtained.

16. *Retirement benefits*

No provision for leave encashment and gratuity for the 3 months ended 30 June 2007 has been made in respect of Cineplex Private Limited. However, in management's opinion, the impact of this non-provision is not likely to be significant.

17. *Sundry debtors*

The management is in the process of obtaining external confirmations and reconciling balances relating to sundry debtors and loans and advances of Cineplex Private Limited aggregating Rs 1,120 and Rs 1,726 respectively as at 30 June 2007. Accordingly, the need to make provision for doubtful debts / loans and advances, if any, will be assessed upon completion of the exercise mentioned herein above.

18. *Synergy Adlabs Media Limited*

Synergy Communications Limited was converted from a private limited company to a limited company on 25 May 2007. The name of the company was then changed from Synergy Communications Limited to Synergy Adlabs Media Limited on 7 June 2007.

19. *Prior year comparatives*

The figures for the previous year (12 months) are strictly not comparable to those of the current period, which comprises 15 months and the effect of the Scheme (as detailed in Note 1 above), and have been regrouped/ rearranged as necessary to conform to current period's presentation.

As per our report of even date attached.

For BSR & Co.
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Place : Mumbai
Date : 13 September 2007

For and on behalf of the Board

Manmohan Shetty Chairman & Managing Director
Gautam Doshi Director
Kirti Desai Company Secretary

Mumbai: 13 September 2007

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO COMPANY'S INTEREST IN THE SUBSIDIARY COMPANIES

1. Name of the subsidiary company	Synergy Adlabs Media Limited	Mukta Adlabs Digital Exhibition Pvt. Limited	Adlabs Distributors & Exhibitors Limited	Katch 22 Entertainment Private Limited	Adlabs U.K. Limited	Adlabs USA, Inc.
2. Financial year of the subsidiary company ended on	31 March 2007	30 June 2007	31 March 2007	30 June 2007	31 March 2007	31 March 2007
3. Date from which they become subsidiary companies	12 January 2007	1 April 2006	19 May 2003	23 April 2007	19 May 2006	19 May 2006
4. a) Number of shares held in subsidiary company on the above date	5,100 Equity Shares of Rs. 100/- each	5,000 Equity Shares of Rs. 100/- each	50,000 Equity Shares of Rs. 10/- each	10,000 Equity Shares of Rs. 10/- each	10,000 Ordinary Shares of £ 1 each	200 Common Stock
b) Extent of holding	51%	100%	100%	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	6,948,995	(6,742)	19,891,192	10,000,000	1,56,903	(92,564)
b) For the previous financial years of the subsidiaries since it became the holding company's subsidiary	NIL	NIL	10,386,228	NIL	NIL	NIL
ii) Dealt with in the holding company's accounts:	NIL	NIL	NIL	NIL	NIL	NIL
a) For the financial year of the subsidiaries as aforesaid	NIL	NIL	NIL	NIL	NIL	NIL
b) For the previous financial years of the subsidiaries since it became the holding company's subsidiary	NIL	NIL	NIL	NIL	NIL	NIL
6. Where the financial year/years of the subsidiary do not coincide with the financial year of the holding company						
i) Change in the holding company's Interest in subsidiary between the end of the financial year or of the last of the financial years of the subsidiary and the end of the holding company's financial year.	No	NA	No	NA	No	No

ii Any material changes which have occurred between the end of the financial year or of the last of the financial years of the subsidiary and the holding Company's financial year in respect of:	No	NA	No	NA	No	No
a Subsidiary's Fixed Assets	No	NA	No	NA	No	No
b) Investments	No	NA	No	NA	No	No
c) Moneys lent by it	No	NA	No	NA	No	No
d) Moneys borrowed by it for the purpose other than meeting current liabilities	No	NA	No	NA	No	No

Note: Synergy Adlabs Media Limited was formerly known as Synergy Communications Private Limited. The name of the erstwhile company was changed on June 7, 2007 to Synergy Adlabs Media Limited.

For and on behalf of the Board

Manmohan Shetty	Chairman & Managing Director
Gautam Doshi	Director
Kirti Desai	Company Secretary

Mumbai: 13 September 2007

DIRECTORS REPORT

To the Members,

Your Directors have pleasure in presenting the 19th Annual Report and the audited accounts of the Company for the year ended March 31, 2007.

FINANCIAL RESULTS

(Rs. in Lakhs)

Particulars	2007	2006
Sales and Other income	**1341.85**	1175.41
Profit / (Loss) before Depreciation and Tax	**224.53**	382.81
Depreciation	**9.91**	10.33
Profit / (Loss) Before Taxation	**214.61**	372.48
Provision for Current Tax & Deferred Tax	**77.19**	122.37
Profit / (Loss) after Taxes	**137.42**	250.11
Balance brought forward from previous	**75.28**	25.48
Total	**212.70**	275.59
Appropriation		
General Reserve	**22.00**	200.00
Interim Dividend (Paid / Unpaid)	**82.50**	–
Dividend Tax	**13.38**	–
Balance Carried Forward	**94.83**	75.70
Total	**212.70**	275.59

The total income from operations for the year ended March 31, 2007 was Rs 1341.85 lakhs which resulted in a Net Profit after Tax of Rs.137.42 lakhs as against Rs.250.11 lakhs in the previous year.

On March 30, 2007 Adlabs Films Limited, a well integrated entertainment Company, member of the Reliance ADA group, acquired controlling interest pursuant to acquisition of 51% of the equity shareholding of your Company.

DIVIDEND

Your Board of Directors have declared its first interim dividend of 180% on fully paid up equity share of Rs.100/- each aggregating to Rs.18,00,000/- and second Interim dividend of 645% on fully paid up equity share of Rs.100/- each aggregating to Rs.64,50,000/- for the financial year ended March 31, 2007.

Keeping in mind the future expansion programme of the company the directors have not recommended any final dividend for the year ended March 31, 2007. Hence, the Interim Dividend declared should be treated as final Dividend.

During the year the company has received Preference share application money for issue of 7% Cumulative Redeemable Preference Shares amounting to Rs.12 Crores. Your Board of directors is yet to accept the allotment of these shares.

PROJECTS AND FUTURE PLAN

There has been an exponential growth in the television industry in the last few years. Television continues to dominate the Entertainment and Media Industry by acquiring a share of over 43 per cent in the overall pie. From a single public service broadcaster, television in India has grown into a thriving industry with over 300 channels beaming across India. It is one of the fastest growing industries with local, as well as international players in the fray.

With the burgeoning market as the backdrop, Synergy Communications Private Limited is at the helm of providing world class programming and content across the huge media umbrella. The Company has chalked out a major expansion plan during the current as well as the forthcoming years. Over the years, Synergy Communications Private Limited has acquired a synthesis of sound credibility and high production values. Its core strengths have been its impeccable research, its ability to work in different genres and systems oriented, organizational skills. The brand worth of the company as a leader in multi-camera, high end productions, coupled with strong content provision, has pitted it as a natural choice for all broadcasters.

In an effort to broad base its skills, the Company will be producing cross-genre programming in the realms of Reality, Quiz and Game Shows, Youth and Kids Programming to Life Style and Fiction series. The company is also looking at international markets for marketing its content, indigenous formats and production skills. The company has a huge amount of interest from broadcasters, international format providers and television companies for business tie-ups and programme provision.

The company also has very aggressive plans to deploy self generated funds into various capital investments like editing and shooting equipment, to enhance its capabilities of producing end to end programming.

DIRECTORS

Mr.Venkat Devarajan, Mr.Anil Arjun and Ms.Pooja Shetty were appointed as Additional Directors of the Company to hold office upto the conclusion of the ensuing Annual General Meeting. The Company has received Notice under Section 257 of the Companies Act, 1956 from members proposing the candidature of Mr.Venkat Devarajan, Mr.Anil Arjun and Ms.Pooja Shetty respectively for the office of Director.

AUDITORS

M/s. Mukul & Ganesh, Chartered Accountants, as Statutory Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and are eligible for reappointment.

The Company has received a letter from M/s Mukul & Ganesh, Chartered Accountants, to the effect that their appointment, if made, would be within the prescribed limits under section 224(1B) of the Companies Act, 1956 and that they are not disqualified for such appointment within the meaning of Section 226 of the Companies Act, 1956.

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 the other particulars of the employees are as under:-

No.	Name	Designation	Date of Joining	Qualification	Last Employment	Amount
1	Mr. Vipul Mayank	Creative Director	25-01-2007	M.A.	Star India Pvt Ltd.	Rs.4,93,791/- *

***paid/payable for the period January'2007 to March' 2007.**

PUBLIC DEPOSITS

The Company has not accepted any deposits by way of invitation to the public.

CONSERVATION OF THE ENERGY AND TECHNOLOGY ABSORPTION

Information in respect of conversation of energy, technology absorption is not required to be provided by the company since the relevant provisions in this regard are not applicable to your Company.

FOREIGN EXCHANGE EARNINGS & OUTGO

During the year, company has incurred expenditure of Rs.91,461.03 on traveling in foreign currency. Foreign exchange earning during the year is Rs.6,18,66,199.92.

DIRECTOR'S RESPONSIBILY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956 as amended by Companies (Amendment) Act, 2001, your directors state:-

i. that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

ii. that the directors have selected 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 ended March 31, 2007 and of profit and loss of the Company for the year ended on March 31, 2007;

iii. 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 for preventing and detecting fraud and other irregularities;

iv. that the directors have prepared annual accounts on a going concern basis.

ACKNOWLEDGEMENT

Your directors wish to place on record their sincere gratitude for the cooperation and support provided by the Bankers, Government Authorities, Clients and Business Associates. Finally we would like to express our thanks to the shareholders for their unflinching faith and wholehearted support, which has always been a source of inspiration to us.

By Order of the Board of Directors

(SIDDHARTHA BASU) **(ANITA KAUL BASU)**

Place : New Delhi
Date : 12 April 2007

AUDITORS REPORT

To the Member of
Synergy Communications Private Limited

We have audited the attached Balance Sheet of M/s Synergy Communications Pvt. Ltd. as at 31st March 2007 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto which are in agreement with the books of accounts.

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 from any 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 required by the Companies (Auditor's Report) Order, 2005 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 , we have given below a statement on the matters specified in paragraph 4 and 5 of the said order which are applicable to the company :-

i) a. The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets.

   b) All the assets have not been physically verified by the management during the year but there is a regular programme of verification which in our opinion is reasonable having regard to the size of the Company and the nature of its business. No material discrepancies were noticed on such verification.

   c) The company has not disposed off substantial part of its assets during the year.

ii) Since the business of the company is such that no stocks of finished goods, stores, spares and raw materials is held, sub clauses (iii) (a) (b) & (c) of paragraph 4 of the order are not applicable to the company.

iii) a. According to the information and explanations given to us the Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the register maintained under section 301 or to the companies under the same management, as defined under sub-section (1B) of Section of the Companies Act, 1956. The company has taken over an interest free loan of Rs.50 Lacs from a company listed in the register maintained under section 301 of the Companies Act, 1956. The maximum amount due at any time during the year was Rs.50 Lacs and there was no outstanding as at the year-end.

   b. In our opinion, the rate of interest and other terms and conditions on which loans have been taken from the company listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie prejudicial to the interest of the company.

   c. In our opinion, and explanation given to us the company has repaid the principal amount during the year as per the terms agreed.

iv. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard of purchases of fixed assets and with regard to the sale of programmes. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

v. a. According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 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 entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of rupees five lacs in respect of any party during the year have been made at price which are reasonable having regard to prevailing market prices at the relevant time.

vi. The Company has not accepted any deposits covered under the provisions of sections 58(A) and 58(AA) of the Companies Act, 1956 and the companies (acceptance of deposits) rules, 1975.

vii. The company has taken steps to set up an internal audit system, which will complete its coverage over all transactions in the next two financial years.

viii. Maintenance of cost records has not been prescribed for the company.

ix. a. The company is regular in depositing with appropriate authorities undisputed statutory dues including income tax.

b. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax were in arrears, as at 31st March, 2007.

c. According to the information and explanations given to us, there are no dues of income tax, which have not been deposited on account of any dispute.

x. The company has no accumulated losses as at 31st March, 2007 and has not incurred any cash losses in the financial year ended on that date or 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 any financial institution or Bank.

xii. According to the information and explanations given to us, the Company has not given any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and hence the question of maintenance of adequate records for this purpose does not arise.

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. Therefore, the provisions of clause (xiii) of paragraph 4 of the Companies (Auditors Report) Order, 2003 are not applicable to the Company.

xiv. In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditors Report) Order, 2005 are not applicable to the company.

xv. In our opinion according to information and explanation given to us, the company has not given any guarantee for loans taken by others from any bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

xvi. The company has not taken any term loans during the year. Accordingly clause (xvi) of the order is not applicable.

xvii. According to the information and explanations given to us and on an overall examination of the Balance sheet of the company, we report that no funds raised on short-term basis have been used for long term investment.

xviii. The company has received share application money for issue of 12 Lakhs 7% preference shares from a company listed in the register maintained u/s 301 in the Companies Act, 1956.

xix. The company did not have any outstanding debentures during the year. Accordingly provisions of clause 4(xix) of the order are not applicable to the Company.

xx. The Company has not raised any money by way of public issues during the year.

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.

We further report that :

i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

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

iii. In our opinion, Profit and Loss Account and Balance Sheet comply with the according standards referred to in sub section (3C) of Section 211 of the Companies Act, 1956.

iv. On the basis of the written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as directors in terms of clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.

v. In our opinion and to the best of our information and according to the explanations given to us the said accounts together with schedules and notes give the information required by the Companies Act, 1956, in the manner so required and gives 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 the Company's affairs as at 31st March, 2007, and ;

b) the Profit & Loss account gives a true and fair view of the profit for the year ended on that date.

For Mukul & Ganesh
Chartered Accountants

Place : New Delhi
Dated : 12 April, 2007

(V. Ganesh)
Partner
M.No. 81994

BALANCE SHEET AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

PARTICULARS	SCH.	As at 31-Mar-07	As at 31-Mar-06
SOURCES OF FUNDS			
SHARE HOLDERS FUND			
Share Capital	1	121,000,000.00	1,000,000.00
Reserves & Surplus	2	56,782,630.13	52,659,686.13
Deferred Tax Liability		166,174.00	207,153.00
		177,948,804.13	53,866,839.13
APPLICATION OF FUNDS			
Fixed Assets	3		
Gross Block		7,361,289.14	6,855,182.14
Less: Depreciation		3,871,935.12	3,140,861.14
NET BLOCK (A)		3,489,354.02	3,714,321.00
Investments (B)	4	45,756,525.33	35,273,505.16
Current Assets, Loans & Advances			
Current Assets	5	150,720,131.20	23,652,157.36
Advances	6	31,397,900.62	24,633,418.62
Total Current Assets		182,118,031.82	48,285,575.98
Less: Current Liabilities & Provisions			
Current Liabilities	7	30,275,107.04	17,250,563.01
Provisions	8	23,916,000.00	16,156,000.00
Total Current Liabilities		54,191,107.04	33,406,563.01
Net Current Assets (C)		127,926,924.78	14,879,012.97
PRELIMINARY EXPENSES (D)	9	776,000.00	-
TOTAL (A+B+C+D)		177,948,804.13	53,866,839.13
Notes forming part of the accounts	13		

As per our report of even date attached

For Mukul & Ganesh
Chartered Accountants

V. Ganesh
Partner
M. No. 81994

Siddhartha Basu
Director

Anita Kaul Basu
Director

Place : New Delhi
Dated : 12 April 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

(Currency : In Indian Rupees)

PARTICULARS	SCH.	As at 31-Mar-07	As at 31-Mar-06
INCOME			
Programme Sales		**132,238,928.00**	114,416,369.00
Profit on redemption of Mutual Fund(Net)		**–**	1,055,815.10
Other Income	**10**	**1,915,158.28**	1,979,790.18
Profit on sale of Fixed Assets		**30,932.00**	89,356.00
Total "A"		**134,185,018.28**	117,541,330.28
EXPENDITURE			
Production Expenses	**11**	**100,774,628.40**	73,321,229.12
Administrative Expenses	**12**	**8,554,718.23**	5,938,465.28
Depreciation		**991,239.98**	1,032,940.86
Loss on redemption of Mutual Fund(Net)		**2,207,223.19**	–
Loss on sale of Fixed Assets		**1,591.00**	–
Preliminary Expenses written off		**194,000.00**	–
Total "B"		**112,723,400.80**	80,292,635.26
Profit before Tax (A-B)		**21,461,617.48**	37,248,695.02
Less: Provision for Taxation		**7,600,000.00**	12,210,000.00
Less: Provision for Fringe Benefit Tax		**160,000.00**	96,000.00
Add /(Less): Deferred Tax liability		**40,979.00**	69,112.00
Profit after Tax		**13,742,596.48**	25,011,807.02
Less : Prior period expenses		**31,667.48**	–
Balance in Profit and Loss Account		**7,559,686.13**	2,547,879.11
Profit available for appropriation		**21,270,615.13**	27,559,686.13
Less : General Reserve		**2,200,000.00**	20,000,000.00
Less : Interim Dividend - Paid		**1,800,000.00**	–
Less : Interim Dividend - Un Paid		**6,450,000.00**	–
Less : Dividend Tax		**1,337,985.00**	–
Balance of profit carried to Balance Sheet		**9,482,630.13**	7,559,686.13
Notes forming part of the accounts	**13**		

As per our report of even date attached

For Mukul & Ganesh
Chartered Accountants

V. Ganesh
Partner
M.No. 81994

Siddhartha Basu
Director

Anita Kaul Basu
Director

Place : New Delhi
Dated : 12 April 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

(Currency : In Indian Rupees)

		As at 31-Mar-2007
A.	**CASH FLOW FROM OPERATING ACTIVITIES**	
	Net profit / (Loss) before taxation Adjustments for	21,461,617
	Depreciation	991,240
	Other Income	(1,915,158)
	Loss on Sale of Investments	2,207,223
	Profit on sale of fixed assets (Net)	(29,341)
	Prior Period Expenses	(31,667)
	Preliminary Expenses w/off	194,000
	OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	**22,877,914**
	Inventories	1,593,055
	Sundry Debtors	(188,961)
	Other Current Assets and Advances	136,256
	Current Liabilities & Provisions	5,489,009
	Income Tax Paid	(8,493,793)
	NET CASH FROM OPERATING ACTIVITIES - (A)	**21,413,480**
B.	**CASH FLOW FROM INVESTING ACTIVITIES**	
	Purchase of Fixed Assets	(855,932)
	Sale of Fixed Assets	119,000
	Dividend and other income	1,915,158
	Purchase of Investments	(43,873,675)
	Sale of Investments	33,390,655
	Loss on Sale of Investments	(2,207,223)
	Total - (B)	**(11,512,017)**
C.	**CASH FLOW FROM FINANCING ACTIVITIES :**	
	Proceeds from / (Payments towards)	
	Share Application Money	120,000,000
	Dividend and Dividend Tax Paid	(2,052,450)
	Preliminery Expenses	(970,000)
	Total - (C)	**116,977,550**
	NET CASH USED IN FINANCING ACTIVITIES - (A+B+C)	**126,879,013**
	Net increase in cash and cash equivalents (I)	126,879,013
	Cash and cash equivalents as at 31.3.2006 (II)	2,259,816
	CASH AND CASH EQUIVALENTS AS AT 31.3.2007 (I + II)	129,138,829

As per our report of even date attached

For Mukul & Ganesh
Chartered Accountants

V. Ganesh	**Siddhartha Basu**	**Anita Kaul Basu**
Partner	Director	Director
M. No. 81994		

Place : New Delhi

Dated : 12 April 2007

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

Schedule-1

	As at 31-Mar-2007	As at 31-Mar-2006
SHARE CAPITAL		
Authorised		
20,000 (Previous Year:20,000) Equity Shares of Rs. 100/- each	**2,000,000.00**	2,000,000.00
12,00,000 (Previous Year:Nil) 7%Preference Shares of Rs.100/- each	**120,000,000.00**	–
(Preference Shares are cumulative, redeemable and non-convertible)	**122,000,000.00**	2,000,000.00
Issued, Subscribed and Paid-up		
10,000 (Previous year 10,000) Equity Shares of Rs. 100/- each fully paid up	**1,000,000.00**	1,000,000.00
Share Application Money	**120,000,000.00**	–
	121,000,000.00	1,000,000.00

Schedule-2

RESERVES & SURPLUS		
General Reserve		
As per Balance Sheet	**45,100,000.00**	25,100,000.00
Add : Transfer from Profit and Loss a/c	**2,200,000.00**	20,000,000.00
	47,300,000.00	45,100,000.00
Profit and Loss Account	**9,482,630.13**	7,559,686.13
	56,782,630.13	52,659,686.13

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

SCHEDULE - 3

FIXED ASSETS

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 31.03.2006	Additions during the Year	Deletions during the Year	As at 31.03.2007	As at 31.03.2006	For the Year	Deletions	As at 31.03.2007	As at 31.03.2007	As at 31.03.2006
Vehicles	2,055,116.00	36,283.00	349,825.00	1,741,574.00	395,871.00	410,323.33	260,166.00	546,028.33	1,195,545.67	1,659,245.00
Office Equipments	1,756,953.14	-	-	1,756,953.14	634,360.14	156,152.69	-	790,512.83	966,440.31	1,122,593.00
Plant & Machinery	7,947.00	-	-	7,947.00	2,876.00	705.38	-	3,581.38	4,365.62	5,071.00
Furniture & Fixtures	376,477.00	136,528.00	-	513,005.00	133,762.00	57,986.89	-	191,748.89	321,256.11	242,715.00
Computers	2,621,777.00	683,121.00	-	3,304,898.00	1,960,632.00	362,795.61	-	2,323,427.61	981,470.39	661,145.00
Buzzer System	36,912.00	-	-	36,912.00	13,360.00	3,276.08	-	16,636.08	20,275.92	23,552.00
TOTAL	**6,855,182.14**	**855,932.00**	**349,825.00**	**7,361,289.14**	**3,140,861.14**	**991,239.98**	**260,166.00**	**3,871,935.12**	**3,489,354.02**	**3,714,321.00**
PREVIOUS YEAR	**5,450,905.14**	**2,197,048.00**	**792,771.00**	**6,855,182.14**	**2,715,047.28**	**1,032,940.86**	**607,127.00**	**3,140,861.14**	**3,714,321.00**	**2,735,857.86**

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

Schedule-4

INVESTMENTS

(A) NON- TRADE INVESTMENTS - (UNQUOTED)

No.of Units	Description	As at 31-Mar-2007	As at 31-Mar-2006
PMS	ASK Raymond James		10,003,498.78
120845.921	Franklin India Flexi Cap Fund	**2,000,000.00**	–
2281986.462	Kotak Flexi Debt	**22,890,834.40**	–
20000.000	Osian's Art Fund	**2,000,000.00**	–
	Prudential ICICI Infrastructure Bond	**–**	2,634,718.83
PMS	Reliance Capital Asset Manangement Ltd-PMS	**12,748,783.15**	4,933,769.85
300000.000	Reliance Equity Fund	**3,000,000.00**	3,000,000.00
117474.077	Reliance Equity Opportunities Fund	**–**	2,000,000.00
	Reliance Fixed Tenor Fund - GP-Plan A	–	6,000,000.00
177410.524	Sundaram Capex Opportunities-Dividend	**3,116,907.78**	–
	Sundaram Monthly Income Plan	–	2,075,121.44
	Sundaram Select Midcap	–	2,000,000.00
	Tata Equity Opportunities Fund	–	2,626,396.26
		45,756,525.33	35,273,505.16

(B) Details of Investments purchased and redeemed/sold during the year

Particulars of Investments	Number	Face Value	Balance as on 1st April 2006	Purchase during the year	Proceeds from sale / redemption
ASK Raymond James - PMS	PMS	–	10,003,498.78	–	9,781,711.41
Franklin India Flexicap Fund -Dividend Payout	120845.921	16.55	–	2,000,000.00	–
Kotak Flexi Debt	2243024.195	10.03	–	22,890,834.40	–
Optimix Dynamic Multi Manager-FOF Schm-Div	220000.000	10.00	–	2,200,000.00	2,226,972.00
Osian's Art Fund	20000.000	100.00	–	2,000,000.00	–
Prudential ICICI Infrastructure Bond	252248.238	10.225	2,634,718.83	–	2,926,313.01
Reliance Capital Asset Manangement Ltd-PMS	PMS	–	4,933,769.85	7,815,013.30	–
Reliance Equity Fund	300000.000	10.00	3,000,000.00	–	–
Reliance Equity Opportunities Fund	117474.077	18.13	2,000,000.00	110,317.44	2,261,745.15
Reliance Fixed Tenor Fund - GP-Plan A	600000.000	10.00	6,000,000.00	–	6,129,240.00
Sundaram Capex Opportunities Fund	177410.524	17.57	–	3,116,907.78	–
Sundaram Money Fund	299127.826	10.24	–	3,092,235.41	3,116,907.78
Sundaram Monthly Income Plan	231235.277	10.00	2,075,121.44	241,966.55	2,452,504.57
Sundaram Select Midcap	110882.780	19.93	2,000,000.00	200,741.74	2,172,425.86
Tata Equity Opportunities Fund	117204.637	25.7976	2,626,396.26	218,125.58	2,322,834.89
			35,273,505.16	**43,886,142.20**	**33,390,654.67**

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

	As at 31-Mar-2007	As at 31-Mar-2006
Schedule-5		
CURRENT ASSETS		
Cash in hand	**68,810.00**	149,474.00
Cheques in Hand	**120,159,000.00**	-
Cash at Bank		
(With a Scheduled Bank)		
in Current Account	**8,762,708.01**	1,833,764.07
in EEFC Account	**148,311.11**	236,328.61
in Fixed Deposit	**-**	40,249.68
Sundry Debtors		
(Unsecured, considered good)		
Outstanding for a period less than six months	**21,581,302.08**	21,392,341.00
	150,720,131.20	23,652,157.36
Schedule-6		
ADVANCES		
(Recoverable in cash or in kind or for value to be received, unsecured, considered good)		
Security Deposit	**800,456.00**	717,000.00
Advance for Services	**342,146.00**	372,343.00
TDS on Advance from Customers	**-**	141,408.00
Income Tax Paid	**24,521,932.62**	16,190,829.62
Work in progress (at cost)	**4,257,203.00**	5,850,258.00
Service tax credit available	**950,791.00**	416,168.00
Pre-paid Expenses	**99,591.00**	81,741.00
Expenses Reimbursement	**113,755.00**	469,535.00
Service Tax paid on advance	**-**	244,800.00
Fringe Benefit Tax	**312,026.00**	149,336.00
	31,397,900.62	24,633,418.62
Schedule-7		
CURRENT LIABILITIES		
Sundry Creditors	**17,804,130.04**	9,295,663.73
Bank Overdraft	**-**	676,367.28
Advances from Customers	**2,252,540.00**	4,589,567.00
Expenses Payable	**599,301.00**	266,757.00
TDS Payable	**660,789.00**	399,473.00
Dividend Tax Payable	**1,085,535.00**	-
Dividend Payable	**6,450,000.00**	-
Stale Cheques	**-**	45,204.00
Service Tax Payable	**1,422,812.00**	1,977,531.00
	30,275,107.04	17,250,563.01
Schedule-8		
PROVISIONS		
Provision for Taxation	**23,660,000.00**	16,060,000.00
Provision for Fringe Benefit Tax	**256,000.00**	96,000.00
	23,916,000.00	16,156,000.00

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

	As at 31-Mar-2007	As at 31-Mar-2006
Schedule-9		
PRELIMINARY EXPENSES		
Preliminary Expenses	970,000.00	-
Less: Preliminary Expenses written off	194,000.00	-
	776,000.00	-
Schedule-10		
OTHER INCOME		
Interest Received	-	124,823.72
Dividend Received	1,558,398.82	1,153,862.22
Foreign exchange variation	(1,338.83)	21,312.88
Excess/Shortage written off	358,098.29	679,791.36
	1,915,158.28	1,979,790.18
Schedule-11		
PRODUCTION EXPENSES		
Equipment Hire Charges	30,557,987.00	19,886,936.00
Video Tapes	1,382,333.00	3,245,457.00
Set Expenses	6,639,918.00	5,125,385.00
Participants Expenses	28,921.00	458,421.00
Professional and Technical Fees	42,719,830.00	29,258,087.00
Research Expenses	521,393.40	325,486.12
Wardrobe Expenses	2,858,702.00	1,154,230.00
Production Expenses	11,844,015.00	10,125,070.00
Unit Transportation	4,213,429.00	3,581,073.00
Prizes to Participants	8,100.00	161,084.00
	100,774,628.40	73,321,229.12
Schedule-12		
ADMINISTRATIVE EXPENSES		
Directors Remuneration	900,000.00	750,000.00
Salaries	2,958,629.63	1,121,133.00
Staff Welfare	132,302.00	91,779.00
Rent	1,256,419.00	844,500.00
Vehicle Repairs and Maintenance	96,868.86	74,451.25
Conveyance Charges	93,582.00	197,113.00
Printing and Stationery Expenses	79,528.00	93,358.00
Postage Expenses	86,961.00	98,244.00
Electricity and Water Charges	405,354.00	296,738.00
Telephone Expenses	695,557.00	566,888.00
Travelling Expenses	239,387.62	678,771.00
Office Maintenance Expenses	549,744.00	405,614.00
Auditors Remuneration	275,000.00	175,000.00
Repairs and Maintenance Charges	202,489.00	42,508.00
Bank Charges and Interest	7,355.57	105,436.78
Business Promotion	217,863.22	155,178.72
Insurance Charges	71,337.00	107,858.00
Computer Consumables	180,792.00	105,648.00
Miscellaneous Expenses	105,548.33	28,246.53
	8,554,718.23	5,938,465.28

(Currency : In Indian Rupees)

SCHEDULE -13

Significant Accounting policies

A. Accounting Policies

i. 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') as issued by the Institute of the Chartered Accountants of India('ICAI') and the relevant provisions of the Companies Act,1956(the 'Act') , to the extent applicable.

ii. Use of Estimates:-

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

iii. Fixed Assets and depreciation / amortisation:-

Tangible Fixed assets are stated at cost less accumulated depreciation. 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 assets to its working condition for its intended use.

Depreciation on fixed assets is provided pro-rata to the period of use, under Written down Value Method, at the rates prescribed in Schedule XIV of the Companies Act, 1956.

iv. Inventories:-

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

v. Revenue Recognition:-

Revenue is recognized to the extent that it is certain that the economic benefit will flow to the company and the revenue can be reliably measured. Program sales are accounted on the delivery of the tape to the channel. Sales are recorded net of service tax.

vi. Taxation:-

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

vii. Expenditure is accounted for on accrual basis.

viii. Difference / variation on account of foreign exchange transaction is reflected in the same year.

B. Notes forming part of the accounts

i. Schedule 1 to 13 forms an integral part of the Balance Sheet and Profit and Loss Account and has been duly authenticated.

ii. Auditors remuneration consists of:

	31.3.2007	31.3.2006
Audit fee	**1,15,000**	1,15,000
Taxation matters	**60,000**	60,000
Other Matters	**1,00,000**	-
Service tax	**33,660**	21,420
	3,08,660	1,96,420

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

iii. Previous year figures have been re-grouped wherever necessary to make them comparable with current year's figures.

iv. Statement of additional information

		As at 31-Mar-2007	As at 31.3.2006
1.	Value of imports calculated at CIF value	**NIL**	NIL
2.	Value of imported raw material, spare parts and components consumed during the year.	**NIL**	NIL
3.	Remittance in foreign exchange on account of dividends	**NIL**	NIL
4.	Earning in foreign exchange	**Rs.6,18,66,199.92**	NIL
5.	Expenditure in foreign exchange	**Rs. 91,461.03**	Rs. 3,98,500.00
6.	Quantitative details in respect of purchases and sales do not appear as the items purchased and sold by the company do not have any standard unit of measurement.	NIL	NIL

As per our report of even date attached

For Mukul & Ganesh
Chartered Accountants

V.Ganesh
Partner
M.No. 81994

Siddhartha Basu
Director

Anita Kaul Basu
Director

Place : New Delhi
Dated : 12 April 2007

SYNERGY COMMUNICATIONS PRIVATE LIMITED

STATEMENT PURSUANT TO PART IV OF SCHEDULE VI OF THE COMPANIES ACT, 1956 BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. 30732 State - 55

Balance Sheet Date : 31.03.2007

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue	:	NIL	Rights Issue	:	NIL
Bonus Issue	:	NIL	Private Placements	:	120000

III. Position of Mobilisation and Deployment of Funds (Amounts is Rs. Thousand)

Total Liabilities	:	177949	Total Assets	:	177949
Sources of Funds					
Share Capital	:	121000	Reserves & Surplus	:	56783
Secured Loans	:	NIL	Unsecured Loans	:	NIL
Deferred Tax	:	166			
Application of funds					
Net Fixed Assets	:	3489	Investments	:	45756
Net Current Assets	:	127928	Misc. Expenditure	:	776
Accumulated Losses	:	NIL			

IV. Performance of Company (Amount in Rs. Thousands)

Turnover	:	134185	Total Expenditure	:	112723
Profit / Loss Before Tax	:	21462	Profit / Loss After tax	:	13742
Earning per share in Rs.	:	1370	Dividend	:	825

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

PRODUCTION OF T.V. SERIALS ETC.

Item Code No. : N.A

(ITC Code)

PRODUCT :

Item Code No. : N.A.

(ITC Code)

Product Description:

As per our report of even date attached

For Mukul & Ganesh
Chartered Accountants

V.Ganesh
Partner
M.No. 81994

Siddhartha Basu
Director

Anita Kaul Basu
Director

Place : New Delhi
Dated : 12 April 2007

DIRECTORS REPORT

Dear Shareholders,

Your Board of Directors takes pleasure in presenting the Fourth Annual Report for the fifteen month period ended June 30, 2007.

FINANCIAL RESULTS:

(Amount in Rupees)

Particulars	**2006-07 15 months**	2005-06 12 months
Sales and Other Income	NIL	18,600,570
Profit / (Loss) before Depreciation & Tax	(6,742)	62,03,263
Depreciation	NIL	73,76,484
Profit Before Taxation	(6,742)	(11,73,221)
Provision for tax	NIL	NIL
Profit / (Loss) after Taxes	(6,742)	(11,73,221)
Balance brought forward from previous	(48,59,119)	(36,85,898)
Less:Transferred pursuant to the demerger of the Digital business of the Company	48,59,119	NIL
Profit / (Loss) carried to Balance Sheet	(6,742)	(48,59,119)

The financial results covered and forming part of this report include fifteen month period from April 1, 2006 to June 30, 2007 since the accounting year of the Company has been extended from erstwhile accounting year, April 1- March 31 to April 1 - June 30, 2007 to account for transactions of fifteen months.

The results of the Company for the accounting period ended June 30, 2007 are included in the operations of Adlabs Films Limited and hence may not be strictly comparable with the previous period.

OPERATIONS:

Mukta Adlabs Digital Exhibition Private Limited (MADEL) became a wholly owned subsidiary of Adlabs Films Limited (Adlabs) on 01.04.2006.

The Company has transferred the digital cinema business of the company along with all assets, liabilities and obligations to Adlabs Films Ltd., the parent Company. The Honourable High Court of Judicature at Bombay sanctioned the composite Scheme (the Scheme) for the merger of Adlabs Films Limited and Entertainment One India Limited (EOIL) and to merge the digital business of Mukta Adlabs Digital Exhibition Private Limited (MADEL) and the demerger of the radio business of the Company into Reliance Unciom Limited (RUL). The order will be be filed with the Registrar of Companies as required by law. As the Scheme has already been sanctioned and approved by the Honourable High Court under Sections 391-394 of the Companies Act, 1956, the results have been prepared giving effect to the Scheme.

The digital cinema business of MADEL is transferred to and vested in Adlabs Films Limited as a going concern with effect from the appointed date ie April 1, 2005.

DIVIDEND:

In view of absence of profits for the period ended June 30, 2007, the Directors have not recommended dividend on the equity shares of the Company.

DIRECTORS:

Shri Manmohan Shetty and Shri Kapil Bagla continue to be Directors on the Board of the Company. None of the directors are liable to retire at the ensuing Annual General Meeting.

Shri Subhash Ghai resigned from directorship of the Company with effect from March 31, 2007. The Board of Directors records its appreciation of the valuable services rendered by Shri Subhash Ghai during his tenure as Directors of the Company.

AUDITORS:

The present Auditors of the Company, M/s Shamit Majmudar Associates, 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 2007-08.

REMUNERATION TO EMPLOYEES:

As there are no employees, the Company particulars of Section 217 (2A) of the Companies Act, 1956 read with the Companies (particulars of employees) Rules 1975 are not applicable.

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:

As no business is carried on by the Company, there is no conservation of energy or technological absorption by the Company.

FOREIGN EXCHANGE EARNING AND OUTGO:

There is no foreign exchange earning and outgo.

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 had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the Company for that period;

c) the directors had 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 directors had prepared the annual accounts 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.

For and on behalf of Board

Mr. Manmohan Shetty	**Mr. Kapil Bagla**
Director	Director

Place : Mumbai

Dated : 5 September 2007

AUDITORS REPORT

To the Members

Mukta Adlabs Digital Exhibition Pvt. Ltd.

1. We have audited the attached Balance Sheet of Mukta Adlabs Digital Exhibition Pvt. Ltd. as at June 30, 2007 and the related profit and loss Account and the Cash Flow 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 have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that, we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Companies (Auditor's Report) Order, 2003 as amended by issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, is not applicable to the company.

4. Further to our comments in the Annexure referred to in paragraph 3 above:

   (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (ii) in our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of such 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 accounts;

   (iv) in our opinion, the Balance Sheet, Profit & Loss Account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   (v) on the basis of the written representation received from the directors as on June 30, 2007, and taken by the Board of Directors, we report that none of the directors is disqualified as on June 30, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act,1956.

   (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with significant accounting policies and other 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 Balance Sheet, of the state of affairs of the Company as at June 30, 2007;

      (ii) in the case of Profit and Loss Account, of the loss of the Company for the period ended on that date.

      (iii) in the case of Cash Flow Statement, of the Cash Flow for the fifteen months period ended on that date.

For SHAMIT MAJMUDAR ASSOCIATES
Chartered Accountants

SHAMIT MAJMUDAR
Proprietor
Membership No. 10595

Place : Mumbai

Date: 5 September 2007

MUKTA ADLABS DIGITAL EXHIBITION PRIVATE LIMITED

BALANCE SHEET AS AT 30 JUNE 2007

(Currency : In Indian Rupees)

	Schedule	Current Period 30-Jun-2007	Previous Year 31-Mar-2006
SOURCES OF FUNDS			
Share Capital	A	**500,000**	100,000
Capital Reserves		**673,139**	-
Total		**1,173,139**	100,000
APPLICATION OF FUNDS			
Fixed Assets	B		
Gross Block		–	44,531,507
Less:- Depreciation		–	15,733,336
		–	28,798,171
Investments	C	–	7,500,000
Current Assets, Loans & Advances			
Debtors	D	–	10,072,627
Cash & Bank Balance	E	–	1,161,627
Loans, Advances & Deposits	F	**400,000**	4,750,215
		400,000	15,984,469
Less:-			
Current Liabilities & Provisions	G	**6,742**	57,814,899
Net Current Assets		**393,258**	(41,830,430)
Miscellaneous Expenditure (To the extent not written off)		**773,139**	773,139
Profit & Loss A/c		**6,742**	4,859,119
Total		**1,173,139**	100,000
Statement of Significant Accounting Policies and Notes forming part of Accounts	L		

As per our Report of even date

For Shamit Majmudar Associates
Chartered Accountants

Shamit Majmudar
Proprietor
(Membership No. 10595)

Place : Mumbai
Date : 5 September 2007

For and on behalf of the Board

Mr. Manmohan Shetty
Director

Mr. Kapil Bagla
Director

PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 30 JUNE 2007

(Currency : In Indian Rupees)

	Schedule	Current Period 30-Jun-2007	Previous Year 31-Mar-2006
INCOME			
Digital Exhibition Income	H	–	18,384,527
Other Income	I	–	216,043
		–	18,600,570
EXPENDITURE			
Digital Exhibition Expenses	J	–	6,151,783
Administrative Expenses	K	**6,742**	6,135,076
Depreciation		–	7,376,484
Preliminary Expenses w/off		–	110,448
		6,742	19,773,791
Profit/(Loss)		**(6,742)**	(1,173,221)
Add:Balance B/F from previous Year		**(4,859,119)**	(3,685,898)
Less: Transferred pursuant to the demerger of the Digital Business of the Company		**4,859,119**	–
Net Loss transferred to Balance Sheet		**(6,742)**	(4,859,119)
Statement of Significant Accounting Policies and Notes forming part of Accounts	L		

As per our Report of even date

For Shamit Majmudar Associates
Chartered Accountants

Shamit Majmudar
Proprietor
(Membership No. 10595)

Place : Mumbai
Date : 5 September 2007

For and on behalf of the Board

Mr. Manmohan Shetty
Director

Mr. Kapil Bagla
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

(Currency : In Indian Rupees)

		30-Jun-2007	31-Mar-2006
A.	**Cash flow from operating activities**		
	Net Profit /(Loss) before tax	**(6,742)**	(1,173,221)
	Adjustment for:		
	Depreciation and amortisation	**–**	7,376,484
	Loss on sale of fixed assets	**–**	255,098
	Miscellaneous expenditure written off	**–**	110,448
	Operating profit before working capital changes	**(6,742)**	6,568,809
	Increase in sundry debtors	**10,072,627**	(5,841,200)
	Increase in loans and advances	**4,350,216**	2,441,167
	Increase in trade and other payable	**(52,275,899)**	547,257
	Cash generated from operation (A)	**(37,859,798)**	3,716,033
B.	**Cash flow from investing activities**		
	Purchase of fixed assets	**–**	(6,012,022)
	Proceeds from sale of fixed assets	**–**	5,985,493
	Transfer of Fixed Assets	**28,798,171**	–
	Proceeds from sale of investments	**7,500,000**	–
	Purchase of Investments	**–**	(7,500,000)
	Net cash flow used in investing activities (B)	**36,298,171**	(7,526,529)
C.	**Cash flow from financing activities**		
	Proceeds from fresh issue of share capital	**400,000**	(50,000)
	Net cash flow from financing activities (C)	**400,000**	(50,000)
	Net increase in cash and cash equivalent (A+B+C)	**(1,161,627)**	(3,860,496)
	Cash and cash equivalents as at beginning of the year	**1,161,627**	5,022,123
	Cash and cash equivalents as at end of the year	**–**	1,161,627
		(1,161,627)	(3,860,496)

Note: Refer Note no 2 of Significant Accounting Policies And Notes forming part of Accounts

As per our report attached

For Shamit Majmudar Associates
Chartered Accountants

Shamit Majmudar
Proprietor
(Membership No. 10595)

Place : Mumbai
Date : 5 September 2007

For and on behalf of the Board

Mr. Manmohan Shetty
Director

Mr. Kapil Bagla
Director

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

(Currency : In Indian Rupees)

	As on 30-Jun-2007	As on 31-Mar-2006
Schedule "A"		
Share Capital		
Authorised Share Capital		
10,00,000 Equity shares of Rs.100/- each (Previous period 10,00,000 Equity shares of Rs.100/- each)	**100,000,000**	100,000,000
Issued Subscribed and Paid-up Capital		
1,000 Equity Shares of Rs 100/- each fully paid-up	**100,000**	100,000
Add: Alloted During the Year		
4,000 Equity Shares of Rs. 100/- each fully paid-up	**400,000**	–
	500,000	100,000

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

(Currency : In Indian Rupees)

Schedule "B"

Fixed Assets

Particulars	Rate of Depreciation	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As on 1/4/2006	Addition During the Period	Transfer During the Period	Total as on 30/6/2007	As on 1/4/2006	Provided during the Period	Transfer during the Period	Total Depreciation Up to 30/6/2007	As on 30/6/2007	As on 1/4/2006
Block A Plant & Machinery	20%	34,478,779	–	34,478,779	–	9,204,845	–	9,204,845	–	–	25,273,934
Block B Computers	40%	9,890,127	–	9,890,127	–	6,468,780	–	6,468,780	–	–	3,421,347
Block C Furniture & Fixtures	18.1%	162,601	–	162,601.00	–	59,711	–	59,711	–	–	102,890
CWIP	–	–	–	–	–	–	–	–	–		
TOTAL		**44,531,507**	**–**	**44,531,507**	**–**	**15,733,336**	**–**	**15,733,336**	**–**	**–**	**28,798,171**
Previous Period		48,062,129	6,012,022	9,542,644	44,531,507	11,658,905	7,376,484	3,302,053	15,733,336	28,798,171	36,403,224

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

(Currency : In Indian Rupees)

	As on 30-Jun-2007	As on 31-Mar-2006
Schedule "C"		
Investments		
Fixed Deposit with Bank of Baroda (Chakala)	–	7,500,000
	–	7,500,000
Schedule "D"		
Sundry Debtors (Unsecured) Considered Good		
Debts Outstanding for a period exceeding Six Months	–	4,762,266
Other Debts		5,310,361
	–	10,072,627
Schedule "E"		
Cash & Bank Balance		
Cash in Hand	–	15,959
With Scheduled Banks	–	1,145,668
	–	1,161,627
Schedule "F"		
Loans & Advances		
Advances Recoverable in cash & kind or for value to be received (Including from a shareholder Rs. 4,00,000 Previous Year Rs. 7,39,414)	**400,000**	4,317,801
Advance Taxes and other Payments	–	270,117
Prepaid Expenses	–	137,038
Advances to Staff	–	15,259
Security Deposit	–	10,000
	400,000	4,750,215
Schedule "G"		
Current Liabilities & Provisions		
Sundry Creditors for Goods & Services Rendered	**6,742**	57,153,217
Other Liabilities	–	661,682
	6,742	57,814,899

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

		Current Period 30-Jun-2007	Previous Year 31-Mar-2006
Schedule "H"			
Income			
Equipment Hire (Hard Disk)		–	9,768,192
Exhibition Income		–	3,240,046
Royalty Income		–	200,000
Installation Income		–	60,000
Other Income		–	5,116,289
	Total (i)	–	18,384,527
Schedule "I"			
Other Income			
Interest on Finance		–	216,043
	Total (ii)	–	216,043
Schedule "J"			
Expenditure			
Operational Expenses			
Digital Comission		–	912,000
Octroi Charges		–	5,599
Repairs & Maintainace -Mach		–	2,922,401
Telecine Charges		–	2,311,783
	Total (i)	–	6,151,783
Schedule "K"			
Administrative Expenses			
Advertisement Expenses		–	–
Audit/Legal fees		**6,742**	391,210
Bank Charges		–	12,942
Consumables		–	664,873
Custom Duty		–	1,177,884
Conveyance		–	182,475
Electricity Charges		–	7,138
Freight Clearing & Forwarding		–	89,041
Legal Expenses		–	26,100
Hotel Expenses		–	24,707
Internet Expenses		–	15,567
Insurance Expenses		–	716,712
Loss on sale of assets		–	255,098
Misc. Expenses		–	13,950
Office Expenses		–	6,400
Printing & Stationery		–	12,490
Professional/Consultancy Charges		–	1,278,999
Postage & Telegraph		–	2,831
Rent		–	60,000
Fringe Benefit Tax		–	33,513
Repairs & Maintainance (Office)		–	20,280
Prior Period Expenses		–	44,843
Sales Promotion Expenses		–	60,273
Salary		–	482,995
Security Charges		–	120,000
Staff Welfare Expenses		–	91,895
Telephone Expenses		–	129,826
Travelling Expenses		–	213,035
	Total (ii)	**6,742**	6,135,076

Schedule " L"

Statement of Significant Accounting Policies and Notes forming part of Accounts.

1 **Significant of Accounting Policies**

(a) Basis of Preparation of Accounts

The Financial statement have been prepared under the historical cost convention on the accrual basis of accounting and comply with Accounting Standards issued by the institute of Chartered Accountants of India and the relevant provision of the Companies Act,1956 and adopted consistently.

The Preparation of financial statement in conformity with Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of the financial statements.

(b) (i) Fixed Assets

Fixed Assets are stated at cost of acquisition including any cost attributable to bring the assets to its working condition for its intended use, less accumulated depreciation.

(ii) Depreciation

The Company provides depreciation on Written Down Value Method (WDV) as per the provisions of Companies Act,1956 and at the rate specified in Schedule XIV of the Companies Act,1956.

(c) Transaction in Foreign Currencies

The transactions in Foreign Currency are accounted at the equivalent rupee value on the date of the transaction.

(d) Revenue Recognition

Income is recognised as and when accrues.

2 Pursuant to the Sanction of the Honourable High Court of Judicature of Mumbai to the Demerger Scheme of the Company, the digital business of the Company was taken over by the holding Company M/s ADLABS Films Ltd. along with all the Assets, liabilities and obligations with effect from the appointed date ie April 1, 2005.

The Company has applied for certified copy of the order of the Honourable High Court and will file the order with the registrar of the Companies as required by law.

3 The Company Mukta Adlabs Digital Exhibition Private Limited (MADEL) became a wholly owned subsidiary of Adlabs Films Limited (Adlabs) on 01.04.2006.

4 Current period figures are not comparable with previous year as specified in note no. 2 above and the current financials are for a period of 15 months.

		Current Period Rs.	Previous Year Rs.
5	**Contingent Liabilities**	**NIL**	NIL
6	**CIF Vaue of Imports**		
	Capital Goods	**NIL**	6,731,868
7	**Expenditure In Foreign Currency**		
	Repair & Maintenance - Machinery	**NIL**	4,040,236
	Travelling Expenses	**NIL**	34,512
	Hotel Expenses	**NIL**	14,000
		–	4,088,748

8	**Auditors Remuneration**		
	Audit Fees	**6,742**	55,100
	Tax Audit Fees	**NIL**	55,100
	Company Law Matter	**NIL**	27,550
	Other Fees	**NIL**	55,100
		6,742	192,850
9	**Disclosure of Related Party Transactions under AS 18**		
	Related Party Relationship		
	Parties where Control Exist		
	Holding Company		
	ADLABS FILMS LTD		
	Issue of Shares	**400,000**	NIL
	Outstanding Balance as on 30th June 2007	**400,000**	NIL
10	Previous period figures have been regrouped wherever necessary.		

As per our Report of even date

For Shamit Majmudar Associates
Chartered Accountants

Shamit Majmudar
Proprietor
(Membership No. 10595)

Place : Mumbai
Date : 5 September 2007

For and on behalf of the Board

Mr. Manmohan Shetty
Director

Mr. Kapil Bagla
Director

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. U 92114 MH 2003 PTC 142048 State Code : 011

Balance Sheet Date: 30.06.2007

II. Capital Raised **(Amount in Rs. Thousands)**

Public Issue :	Nil
Rights Issue :	Nil
Bonus Issue:	Nil
Private Placement :	400

III. Position of Mobilisation and Deployment of Funds (Amounts in Rs. Thousands)

Total Liabilities	Total Assets
1173	1173

Sources of Funds

Paid-up Capital	Reserves & Surplus
500	673
Secured Loans	**Unsecured Loans**
Nil	Nil

Application of Funds

Net Fixed Assets	Investments
–	Nil
Net Current Assets	**Misc. Expenditure**
393	773
Accumulated Losses	
7	

IV. Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
–	7
Profit /Loss before tax	**Profit /Loss after tax**
(7)	(7)
Earning per Share	**Dividend rate %**
–	Nil

V. Generic Names of Principal Products / Services of Company

Item Code No. : Not Applicable

Product Description : Not Applicable

For and on behalf of the Board

Mr. Manmohan Shetty
Director

Mr. Kapil Bagla
Director

Place : Mumbai

Date : 5 September 2007

DIRECTOR'S REPORT

Dear Shareholders,

Your Board of Directors takes pleasure in presenting the Fourth Annual Report for the year ended March 31, 2007.

FINANCIAL RESULTS:

(Amount in Rupees)

	2007 (12 months ended)	2006 (12 months ended)
Income from Operations (share of profit)	**19,761,415**	10,414,958
Profit / (Loss) before Depreciation & Tax	**19,957,192**	10,397,138
Depreciation	**NIL**	NIL
Profit Before Taxation	**19,957,192**	10,397,138
Provision for Current Tax & Deferred Tax	**66,000**	NIL
Profit / (Loss) after Taxes	**19,891,192**	10,397,138
Balance brought forward from previous	**10,386,228**	(10,910)
Profit / (Loss) carried to Balance Sheet	**30,277,420**	10,386,228

OPERATIONS:

Being a wholly owned subsidiary of Adlabs Films Limited, the name of the Company was changed from Gemini Exhibitors Limited to Adlabs Distributors and Exhibitors Limited with effect from 2nd February, 2007 to reflect the parent company's brand name and its main areas of business.

The partnership firm run by the company registered an impressive performance in the multiplex business (GoldAdlabs at Pune) with occupancy going upto 37% and total revenues increasing to Rs.14.56 crores. Our share of profit therein for the year ended March 31, 2007 was Rs 1.97 crores. During the said year the Company also forayed into a new area of business viz. domestic distribution of films.

The Company entered into the domestic distribution business in January 2007 by distributing Mani Ratnam's Guru and has established its offices in key territories of Mumbai, Delhi, UP and East Punjab. Some of the major films released were Guru, Black Friday, Spider-Man 3, Bheja Fry, Aap Ka Suroor and CASH. The Company is looking to further expand its distribution infrastructure in South India and other distribution territories.

DIVIDEND:

The Directors have not recommended any dividend on the equity shares of the Company for the year ended March 31, 2007.

DIRECTORS:

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

Mr. Sunir Kheterpal was appointed as Additional Director of the Company on October 9, 2006 pursuant to Section 260 of the Companies Act, 1956 to hold office upto the date of this Annual General Meeting. The Company has received Notice under Section 257 of the Companies Act, 1956 from a Member proposing the appointment of Mr. Sunir Kheterpal as Director of the Company.

Ms. Pooja Shetty has resigned from Directorship of your Company with effect from October 9, 2006. The Board places on record its sincere appreciation to the active involvement and support of Ms. Pooja Shetty during her tenure.

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 2007-08.

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 in accordance 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 had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year March 31, 2007 and of the profit or loss of the Company for that period;

c) the directors had 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 directors had prepared the annual accounts 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

Place : Mumbai
Date : 9 June 2007

Mr. Vasanji Mamania
Director

Mr. Suresh Bhardwaj
Director

AUDITORS REPORT

We have audited the attached Balance Sheet of **ADLABS DISTRIBUTORS AND EXHIBITORS LIMITED** as at March 31, 2007, 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 March 31, 2007 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2007 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 March 31, 2007;

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 : 9 June 2007

ANNEXURE TO THE AUDITORS REPORT

(Referred to in paragraph (1) of our report of even date on the account for the year ended March 31, 2007 of ADLABS DISTRIBUTORS AND 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 Internet Control Systems during the course of our Audit.

iv) The Company has no formal internal audit department as such. However, its control procedures ensure reasonable internal checking of its financial and other records.

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 May 19, 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 : 9 June 2007

BALANCE SHEET AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

	SCHEDULE	31-Mar-07	31-Mar-06
SOURCES OF FUNDS			
Shareholder's Funds			
Share Capital	A	**500,000.00**	500,000.00
Reserve & Surplus	B	**30,277,419.54**	10,386,227.80
		30,777,419.54	10,886,227.80
Loan Funds			
Unsecured Loans	C	**31,094,904.00**	52,892,904.00
		61,872,323.54	63,779,131.80
APPLICATION OF FUNDS :			
FIXED ASSETS			
Intangible assets		**5,000,000.00**	NIL
Investments	D	**53,902,533.59**	57,853,019.00
Current Assets,Loans & Advances			
Cash and bank balances	E	**7,721,932.18**	5,834,887.00
Loans and advances	F	**94,011.00**	NIL
		7,815,943.18	5,834,887.00
Less :Current Liabilities & Provisions			
Liabilities	G	**4,877,722.83**	18,540.00
Provisions	H	**66,000.00**	–
Net Current Assets		**2,872,220.35**	5,816,347.00
Miscellaneous Expenditure			
(To the extent not written off or adjusted)		**97,569.60**	109,765.80
		61,872,323.54	63,779,131.80
ACCOUNTING POLICIES & NOTES ON ACCOUNTS	I		

The schedule referred to above form an intergral part of the Balance Sheet. Signature to Balance Sheet and Schedule A to I.

As per our report of even date

For H. O. AGARWAL & CO.,
Chartered Accountants

H.O. AGARWAL
Proprietor
M.NO. 14270

Place : Mumbai
Date : 9 June 2007

For and on behalf of the Board

Mr.Vasanji Mamania Director

Mr. Suresh Bharadwaj Director

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	31-Mar-07	31-Mar-06
INCOME		
Income - theatre operations-share of profit from firm	**19,761,414.59**	10,414,957.00
Other Income (Distribution commision)	**1,000,000.00**	–
	20,761,414.59	10,414,957.00
EXPENDITURE		
Audit fees	**14,928.00**	5,510.00
Bank charges	**1,162.65**	113.00
Legal & professional fees	**25,936.00**	–
Advertisment & publicity	**750,000.00**	–
Miscellaneous Expenditure W/off.	**12,196.20**	12,196.20
	804,222.85	17,819.20
PROFIT BEFORE TAX	**19,957,191.74**	10,397,137.80
Provision for tax- Current	**66,000.00**	–
PROFIT AFTER TAX	**19,891,191.74**	10,397,137.80
Add:Balance brought forward from previous years	**10,386,227.80**	(10,910.00)
Balance carried to balance sheet	**30,277,419.54**	10,386,227.80

As per our report of even date
For H. O. AGARWAL & CO.,
Chartered Accountants

H.O. AGARWAL
Proprietor
M.NO. 14270

Place : Mumbai
Date : 9 June 2007

For and on behalf of the Board

Mr.Vasanji Mamania Director

Mr. Suresh Bharadwaj Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

(Currency : In Indian Rupees)

		31-Mar-07	31-Mar-06
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net profit before tax & extraordinary items	**19,957,191.74**	10,397,137.80
	Adjustment for:		
	Deferred revenue expenditure	**12,196.20**	12,196.20
	Operating profit before working capital changes	**19,969,387.94**	10,409,334.00
	Increase/(Decrease) in trade payable	**4,859,182.83**	5,510.00
	(Increase)/decrease in Loans & Advances	**(94,011.00)**	0.00
	Cash generated from operation	**24,734,559.77**	10,414,844.00
	Cash flow before extraordinary items	**24,734,559.77**	10,414,844.00
	Net cash flow from operating activities (A)	**24,734,559.77**	10,414,844.00
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
	(Increase)/decrease in investment	**3,950,485.41**	(13,251,552.00)
	(Purchase)/Sale of Fixed Assets	**(5,000,000.00)**	0.00
	Net cash used in investing activities (B)	**(1,049,514.59)**	(13,251,552.00)
C	**CASH FLOW FROM FINANCE ACTIVITIES**		
	(Repayment)/ Proceeds from long term borrowings / issue of shares	**(21,798,000.00)**	8,171,595.00
	Net cash used for financing activities (C)	**(21,798,000.00)**	8,171,595.00
	NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENT (A+B+C)	**1,887,045.18**	5,334,887.00
	Cash & cash equivalents as at April 1, 2006	**5,834,887.00**	500,000.00
	Cash & cash equivalents as at March 31, 2007	**7,721,932.18**	5,834,887.00

As per our report of even date

For H. O. AGARWAL & CO.,
Chartered Accountants

H.O. AGARWAL
Proprietor
M.NO. 14270

Place : Mumbai
Date : 9 June 2007

For and on behalf of the Board

Mr.Vasanji Mamania Director

Mr. Suresh Bharadwaj Director

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

SCHEDULE	31-Mar-07	31-Mar-06
A. SHARE CAPITAL		
Authorised		
5,00,000 equity share of Rs.10/- each fully paid up	**5,000,000.00**	5,000,000.00
Issued,Subscribed & Paid up Capital		
50,000 equity share of Rs.10/- each fully paid up	**500,000.00**	500,000.00
	500,000.00	500,000.00
B. RESERVE & SURPLUS		
Profit & Loss Account	**30,277,419.54**	10,386,227.80
	30,277,419.54	10,386,227.80
C. UNSECURED LOANS		
From Adlabs Films Ltd.	**31,094,904.00**	52,892,904.00
	31,094,904.00	52,892,904.00
D. INVESTMENT (AT COST)		
Investment in Partnership Firm	**53,902,533.59**	57,853,019.00
	53,902,533.59	57,853,019.00
E. CASH & BANK BALANCES		
Cash with scheduled banks-in Current Accounts	**7,721,932.18**	5,834,887.00
	7,721,932.18	5,834,887.00
F. LOANS AND ADVANCES		
(Unsecured Considered Good)		
Advances receivable in Cash or kind on value to be received	**37,911.00**	–
Tax deducted at source	**56,100.00**	–
	94,011.00	–
G. LIABILITIES		
Sundry creditors for expenses	**33,738.00**	18,540.00
Due to Subsidiaries/ Principal Co.	**4,843,984.83**	–
	4,877,722.83	18,540.00
H. PROVISIONS		
Provision for Taxation	**66,000.00**	–
	66,000.00	–

(Currency : In Indian Rupees)

SCHEDULE- I

NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2007.

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 Marigold Complex, Kalyani Nagar, Pune. During the year the Company has also done the business of Distribution of Films on Commission basis.

2. The Company name is changed from "Gemini Exhibitors Limited" to "Adlabs Distributors and Exhibitors Limited" w.e.f. 02.02.2007.

3. The Company has paid Rs. 50,00,000/- as Exhibition Rights (Second) for Distribution of Films. The same has been shown as intangible assets in fixed assets schedule. The same will be charged to accounts in the year in which the Company allowed to exhibit the films

4. 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 is recognized on the basis of actual financial statements available from the partnership firm.

Income from Distribution of Films is recognized on the basis of actual performance or mutual understanding with the respective parties.

iii) Investments:

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

5. Payment to auditors:

	March 31, 2007	March 31, 2006
Audit fees	**5,510**	5,510
Total	**5,510**	5,510

6. Segment Reporting:

The Company has two reporting segments i.e. Exhibition and Distribution.

	Exhibition	**Distribution**
Revenue	1,97,61,415	10,00,000
Profit before Tax	1,97,08,298	2,48,893
Capital Employed	2,99,30,957	2,48,893

7. Related Party Disclosures:

i) List of Related Parties:

Name of Party	Relationship
a) Adlabs Films Limited	Holding Company

ii) Transaction with Related Parties:

Particulars	**31.03.2007**	31.03.2006
a) Adlabs Films Limited	**NIL**	5,00,000
b) Amount Received from Holding Company for Investment	**NIL**	5,28,92,904
c) Amount payable to Holding Company for Distribution	**48,43,985**	NIL
d) Amount paid to Holding Company for Rights	**50,00,000**	NIL

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2007

(Currency : In Indian Rupees)

8. Earning Per Share:

Particulars	**31.03.2007**	31.03.2006
Net Profit/(Loss) after tax	**1,98,91,191**	1,03,97,138
Weighted average number of Shares	**50,000**	50,000
Face value per share	**10**	10
Earning Per Share (Basic and Diluted)	**397.82**	207.94

10. Earning and expenditure in foreign currency: Nil

11. **Taxation:**

The Company has made provision for taxation as per Income Tax Act, 1961.

12. Sundry Creditors, Loans & Advances & Loan from holding Company are subject to confirmation.

13. 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.

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

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

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

17. 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 : 9 June 2007

For and on behalf of the Board

Mr.Vasanji Mamania Director

Mr. Suresh Bharadwaj Director

BALANCE SHEET ABSTRACT AND A COMPANY'S GENERAL BUSINESS PROFILE

I. Registration details

Registration No. 1 4 0 4 6 7 State code 1 1

Balance sheet date 3 1 (Date) 0 3 (Month) 2 0 0 7 (Year)

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

Public Issue	Rights Issue
NIL	NIL
Bonus issue	Private Placement
NIL	NIL

III. Position of mobilisation and deployment of funds (Amount in Rs. thousands)

Total Liabilities	Total Assets
61872	61872

Sources of Funds

Paid up capital	Reserves & surplus
0500	30277
Secured loans	Unsecured loans
NIL	31095

Application of Funds

Net fixed assets	Investments
5000	53902
Net current assets	Misc.expenditure
2872	98
Accumulated Losses	
NIL	

IV. Performance of Company (Amount in Rs. Thousands)

	Turnover		Total Expenditure
	20761		804
	Profit/Loss Before Tax		Profit/Loss after Tax
+	19957	+	19891

(Please tick Approximate box + for profit - for loss)

	Earning per share in Rs.	Dividend %
+	397.82	N I L

V. Generic names of three principal products/services of Company (as per monetary terms)

Item Code No. (ITC Code) N I L

Product description E X H I B I T I O N O F F I L M S

For and on behalf of the Board

Mr.Vasanji Mamania
Director

Mr. Suresh Bharadwaj
Director

Place : Mumbai
Date : 9 June 2007

DIRECTORS REPORT

The Members,

The Directors hereby present the Second Annual Report with the audited accounts of the Company for the fifteen month period ended June 30, 2007

1. FINANCIAL RESULTS

(Rs. in Lakhs)

Particulars	2007	2006
Sales and Other income	**701.91**	NIL
Profit / (Loss) before Depreciation and Tax	**(1121.06)**	NIL
Depreciation	–	NIL
Profit / (Loss) Before Taxation	**(1121.06)**	NIL
Provision for Current Tax & Deferred Tax	–	NIL
Profit / (Loss) after Taxes	**(1121.06)**	NIL
Balance brought forward from previous	–	NIL
Total	**(1121.06)**	NIL

The financial results covered and forming part of this report include 15 month period from April 1, 2006 to June 30, 2007 since the accounting year of the Company has been extended from erstwhile accounting year, April 1 to March 31 to April 1 to June 30, 2007 to account for transactions of 15 months.

Katch 22 Entertainment Private Limited (Katch 22) became a wholly owned subsidiary of Adlabs Films Ltd. (Adlabs) on April 23, 2007.

During the said period, on June 30, 2007 your Company issued 13,00,000 - 9% Non-Cumulative Redeemable Preference Shares of Face Value Re. 1/- each to Swan Consultants Private Limited. The shares are redeemable at any time after the date of allotment by giving not less then than 10 days advance notice to the offeror, but not later than 20 years from the date of issue.

2. DIVIDEND

The Directors have not recommended any dividend during the period.

3. STATUTORY INFORMATION

The Company is not engaged in any manufacturing activity and hence particulars in respect of conservation of energy and technology absorption are not applicable.

There was no earning or expenditure in foreign currency during the year under review.

The Company has no employee drawing remuneration in excess of limits prescribed under section 217 (2A) of the Companies Act, 1956 and hence the relevant particulars are not furnished.

The Company has not accepted any deposits by way of invitation to the public under Section 58A of the Companies Act, 1956

4. DIRECTORS

As per the provisions of Articles of Association of the Company none of the Directors are liable to retire by rotation. Therefore, Mr. Venkat Devarajan and Mr. Himanshu Agarwal continue to be the Directors of the Company.

5. MERGER OF THE COMPANY WITH ADLABS FILMS LIMITED

In order to achieve business synergies and operational consolidation with Adlabs Films Limited, its parent Company which is also engaged in similar line of film production, distribution etc., it was considered desirable to amalgamate your Company with Adlabs films Limited with effect from April 1, 2006.

An application has been made under Section 391-394 of the Companies Act, 1956 to the Bombay High Court for amalgamation of the Company with Adlabs Films Limited. The approval Is under process. Upon the Scheme being approved and effective the entire business and undertaking of your Company shall be transferred and vested in Adlabs and your Company shall stand dissolved

6. DIRECTORS RESPONSIBILITY STATEMENT

Your Directors confirm that:

1. In the preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any.
2. 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 state of affairs of the Company at June 30, 2007 and of the profit or loss of the Company for the period ended June 30, 2007.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. The Directors have prepared the Annual Accounts on a going concern basis.

7. AUDITORS

During the year the Auditors of the Company, M/s Bharat J Rughani & Co. Chartered Accountants, Mumbai have resigned as the statutory auditors of the Company and M/s Snehal & Associates have been appointed in place of M/s Bharat J. Rughani & Co. to act as statutory auditors of the Company to hold office until the conclusion of the ensuing Annual general meeting and are eligible for re-appointment. Members are requested to appoint the auditors and fix their remuneration.

8. ACKNOWLEDGEMENT

The Directors would like to express their grateful appreciation for the assistance and cooperation received from Company's business associates, bankers and others. The Directors also wish to place on record their appreciation for employees at all levels in the organization for their sustained efforts and contribution.

For KATCH 22 ENTERTAINMENT PRIVATE LIMITED

Place : Mumbai.	**Mr. Venkat Devarajan**	**Mr. Himanshu Agarwal**
Dated : 3 September 2007	Director	Director

AUDITORS REPORT

To, the members of Katch 22 Entertainment Private Limited

1. We have audited the attached Balance sheet of Katch 22 Private Limited as at 30th June, 2007, the Profit and Loss Account and the Cash Flow Statement for the 15 months 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 the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. 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 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 comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   (v) on the basis of the written representations received from the directors, as on 30th June, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 30th June, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   In our opinion, and to the best of our information and according to the explanations given to us, the said accounts, read with the significant accounting policies and 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:

   (a) in the case of the Balance sheet, of the state of affairs of the Company as at 30th June, 2007; and

   (b) in the case of the Profit and Loss account, of the loss for the period ended on that date.

   (c) in the case of Cash Flow statement, of the cash flow for the year ended on that date.

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership no. 40016

Place : Mumbai

Date : 3 September 2007

ANNEXURE TO THE AUDITOR'S REPORT

Re: Katch 22 Entertainment Private Limited

(Referred to in paragraph 3 of our report of even date)

(i) The nature of the Company's activities during the year is such that the requirements of clauses (i), (ii), (ix), (xi), (xiii), (xiv) and (xix) of paragraph 4 of the Order are not applicable.

(ii) The Company has not taken/ granted any loans from/ to companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act, 1956, and consequently, clauses iii(a) to iii(g) of paragraph 4 of the Order are not applicable.

(iii) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business of production of films and sale of film rights.

(iv) According to the information and explanations given to us, we are of the opinion that there is no transaction that needs to be entered into the Register maintained under section 301 of the Companies Act, 1956.

(v) The Company has not accepted deposits from the public within the meaning of sections 58A and 58AA of the Companies Act, 1956 and the Rules framed there under.

(vi) As the paid up capital and reserves of the Company does not exceed Rs. 50 Lakhs at the commencement of the financial year or the average turnover does not exceed Rs. 5 crores for a period of three consecutive financial years immediately preceding the financial year, the company is not required to have an internal audit system.

(vii) The maintenance of cost records has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956.

(viii) The company was incorporated on 8th August 2005 and according to the paragraph 4(x) of the Order is not applicable to the company.

(ix) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(x) 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.

(xi) The Company has not raised any term loan during the period under reporting.

(xii) 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 the no funds raised on short-term basis have been used for long-term investment and vice versa.

(xiii) The Company has made preferential allotment of shares during the year. The company has issued 13,00,000 (Thirteen Lac) 9% Non- Cumulative Redeemable Preference Shares of Rs. 1 each at a premium of Rs. 99 per share. All the required procedures have been complied with.

(xiv) During the period, the Company has not raised money by public issue(s).

(xv) 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 Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership no. 40016

Place : Mumbai

Date : 3 September 2007

BALANCE SHEET AS AT JUNE 30, 2007.

(Currency : In Indian Rupees)

	SCHEDULE	30-Jun-07	31-Mar-06
SOURCES OF FUNDS			
Shareholder's Funds			
Share Capital	A	14 00 000	1 00 000
Reserves & surplus			
Share Premium A/c	B	12 87 00 000	–
Loan Funds			
Unsecured Loans	C	122 095 137	–
		252 195 137	1 00 000
APPLICATION OF FUNDS			
Current assets, loans & advances	D		
Sundry Debtors		1 00 00 000	–
Cash and bank balances		13 00 81 759	81 760
		14 00 81 760	81 760
Less : Current Liabilities and Provisions	E		
Liabilities		17 124	5 900
		17 124	5 900
Net current assets		14 00 64 636	75 860
Miscellaneous expenditure			
Preliminary expenses (To the extent not written off or adjusted)	F	24 140	24 140
Profit & loss account		(11 21 06 361)	–
		25 21 95 137	1 00 000

Significant accounting policies and notes to the accounts I

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

As per our report of even date attached

For **Snehal & Associates**
Chartered Accountant

Snehal Shah
Proprietor
M. No. 40016

Place : Mumbai
Date : 3 September 2007

For and on behalf of Board of Directors

Venkat Devarajan
Director

Himanshu Agarwal
Director

Date : 3 September 2007

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED JUNE 30, 2007.

(Currency : In Indian Rupees)

Particulars	Schedule	30-Jun-07	31-Mar-06
INCOME			
Sale of Distribution of Film rights	G	7 01 91 352	–
		7 01 91 352	–
EXPENDITURE			
Cost of production of films	H	16 91 23 707	–
Payment To Auditors		11 224	–
Interest Expenses		1 31 62 782	–
		1 82 97 713	–
PROFIT/(LOSS) BEFORE TAX		(11 21 06 361)	–
Less : Provision for tax			
Current		–	–
Deferred		–	–
NET PROFIT/(LOSS) AFTER TAX		(11 21 06 361)	–
Profit B/F from Previous Year		–	–
Loss Carried Over To Balance Sheet		(11 21 06 361)	–

Significant accounting policies and notes to the accounts **I**

The schedules referred to above form an integral part of Profit and Loss Account

As per our report of even date attached

For **Snehal & Associates**
Chartered Accountant

Snehal Shah
Proprietor
M. No. 40016

Place : Mumbai
Date : 3 September 2007

For and on behalf of Board of Directors

Venkat Devarajan
Director

Himanshu Agarwal
Director

Date : 3 September 2007

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT JUNE 30, 2007

(Currency : In Indian Rupees)

SCHEDULE	Particulars	30-Jun-07	31-Mar-06
A.	**SHARE CAPITAL**		
	Authorised	–	–
	Issued, Subscribed & Paid up Capital		
	10,000 Equity Shares of Rs.10/- each.	100,000	100,000
	13,00,000 9% Non-cumulative Redeemable Preference Shares of Rs.1/- each. (Last year - NIL)	1,300,000	–
		1,400,000	100,000
B	**Reserves & Surplus**		
	Share Premium Account	128,700,000	–
		128,700,000	–
C	**Unsecured Loans**		
	Body Corporates	122,095,137	–
		122,095,137	–
D	**CURRENT ASSETS, LOANS AND ADVANCES**		
	Sundry Debtors		
	(Unsecured considered good)		
	outstanding for period exceeding six months	–	–
	Other Debts		
	SGL Entertainment Ltd.	10,000,000	–
		10,000,000	–
	Cash and Bank Balances		
	Cash in hand	–	–
	Balance with scheduled banks in current A/c	130,081,760	81,760
		130,081,760	81,760
E	**Current Liabilities and Provisions**		
	Liabilities		
	Audit Fees Payable	11,224	–
	Others	5,900	5,900
		17,124	5,900
F	**PRELIMINARY EXPENSES**		
	Preliminary Expenses	24,140	24,140
	Less : Written off during the year	–	–
		24,140	24,140
G	**SALE OF DISTRIBUTION OF FILM RIGHTS**	70,277,724	–
		70,277,724	–
H	**COST OF SALES**	169,123,707	–
		169,123,707	–

SCHEDULE TO THE FINANCIAL STATEMENTS AS AT JUNE 30, 2007

(Currency : In Indian Rupees)

SCHEDULE - I

ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

I) Significant Accounting Policies:

The company is in business of production of films as well as funding of production of films. For the purpose of calculating the profit of the company for a period, it is essential to determine the policy for evaluating the value of the stock or other recognizable assets in the form of film rights as they are typical to film production industry. After detail deliberation, the board of directors of the company has concluded on the following policies for recognizing the revenues from the business.

1) General :

The accompanying financial statements have been prepared under 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 and the relevant provisions of the Companies Act, 1956 to the extent applicable.

2) Revenue Recognition:

The cost of a film produced by the company is accumulated till the completion and release of the film. The advertisement expenses are also capitalized till the film is under production and not ready for release. All the expenses incurred for the production of the film even if they are paid after the release of the film are capitalized as the cost of the film. However, any revenue expenditure incurred after release of the film are not capitalized.

II) NOTES TO ACCOUNTS:

1. The Current Assets referred to in the Balance Sheet are in the opinion of the Management, approximately of the value realizable in the ordinary course of Business.
2. 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.
3. The Company is a wholly owned subsidiary of Adlabs Films Limited. The Company has applied for amalgamation with Adlabs Films Limited w.e.f. 01-04-2006 which is pending before the Mumbai High Court.
4. Value of Import and Exports: NIL
5. Value of Earnings and Expenditure in Foreign Currency: NIL
6. Additional information pursuant to Part II of the Schedule VI of the Companies Act, 1956 has not been furnished as the same is either nil or not applicable.
7. Balances of Debtors, Creditors, Loans and Advances are taken as per Books of Accounts and are subject to confirmation.
8. Figures of previous Year are regrouped wherever necessary.
9. The current year figures are not comparable with previous year as the current period is for 15 months i.e. 01 April 2006 to 30 June 2007.

As per our report of even date attached

For **Snehal & Associates**
Chartered Accountant

Snehal Shah
Proprietor
M. No. 40016

Place : Mumbai
Date : 3 September 2007

For and on behalf of Board of Directors

Venkat Devarajan
Director

Himanshu Agarwal
Director

Date : 3 September 2007

CASH FLOW STATEMENT FOR THE PERIOD ENDED JUNE 30, 2007

(Currency : In Indian Rupees)

		30 June 2007	31 March 2006
A.	**Cash flow from operating activities**		
	Net Profit /(Loss) before tax	**(112,106,361)**	
	Adjustment for:		
	Depreciation and amortisation	**-**	-
	Miscellaneous expenditure written off	**-**	-
	Operating profit before working capital changes	**(112,106,361)**	**-**
	Increase in sundry debtors	**(10,000,000)**	-
	Increase in loans and advances	-	-
	Increase in inventories	-	-
	Increase in trade and other payable	**11,224**	5,900
	Cash generated from operation	**(122,095,137)**	5,900
	Taxes paid (net of refunds)	-	-
	Cash generated from operation (A)	**(122,095,137)**	5,900
B.	**Cash flow from investing activities**		
	Net cash flow used in investing activities (B)	-	-
C.	**Cash flow from financing activities**		
	Proceeds from fresh issue of share capital (including share premium)	**130,000,000**	100,000
	Payment for preliminary expenses	-	(24,140)
	Proceeds from long term borrowings	**122,095,137**	-
	Net cash flow from financing activities (C)	**252,095,137**	75,860
	Net increase in cash and cash equivalent (A+B+C)	**130,000,000**	81,760
	Cash and cash equivalents as at beginning of the year	**81,760**	-
	Cash and cash equivalents as at end of the year	**130,081,760**	81,760
		130,000,000	81,760

As per our report of even date attached

For **Snehal & Associates**
Chartered Accountant

Snehal Shah
Proprietor
M. No. 40016

Place : Mumbai
Date : 3 September 2007

For and on behalf of Board of Directors

Venkat Devarajan
Director

Himanshu Agarwal
Director

Date : 3 September 2007

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration details

Registration No.	1 5 5 1 7 6	State code	1 1
Balance sheet date	3 0 (Date) / 0 6 (Month)		2 0 0 7 (Year)

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

Public Issue	Rights Issue
N I L	N I L
Bonus issue	Private Placement
N I L	1 3 0 0

III. Position of mobilisation and deployment of funds (Amount in Rs. thousands)

Total Liabilities	Total Assets
2 5 2 1 9 5	2 5 2 1 9 5

Sources of Funds

Paid up capital	Reserves & surplus
1 4 0 0	1 2 8 7 0 0
Secured loans	Unsecured loans
N I L	1 2 2 0 9 5

Application of Funds

Net fixed assets	Investments
N I L	N I L
Net current assets	Misc.expenditure
1 4 0 0 6 5	2 4
Accumulated Losses	
1 1 2 1 0 6	

IV. Performance of Company (Amount in Rs. Thousands)

	Turnover		Total Expenditure
	7 0 1 9 1		1 8 2 2 9 8
	Profit/Loss Before Tax		Profit/Loss after Tax
-	1 1 2 1 0 6	-	1 1 2 1 0 6

(Please tick Approximate box + for profit - for loss)

	Earning per share in Rs.	Dividend %
-	1 1 2 1 0 . 6 4	N I L

V. Generic names of three principal products/services of Company (as per monetary terms)

Item Code No. (ITC Code)	N A
Product description	P R O D U C T I O N O F F I L M S

For and on behalf of the Board

Venkat Devarajan
Director

Himanshu Agarwal
Director

Date : 3 September 2007

Place : Mumbai
Date : 3 September 2007

Company Registration No. 5823117 (England and Wales)

ADLABS FILMS (UK) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2007

COMPANY INFORMATION

Directors	Pooja Shetty	(Appointed 23 May 2006)
	Pranab Kapadia	(Appointed 23 May 2006)
Secretary	Hill Street Registrars Limited	
Company number	5823117	
Registered office	7/10 Chandos Street Cavendish Square London W1G 9DQ	
Auditors	Simmons Gainsford LLP 7/10 Chandos Street Cavendish Square London W1G 9DQ	
Business address	Unit 9 Belvue Business Centre Belvue Road Northolt Middlesex UB55QQ	

DIRECTORS REPORT

FOR THE PERIOD ENDED MARCH 31, 2007

The directors present their report and financial statements for the period ended March 31, 2007.

Principal activities

The company was incorporated on 19 May 2006, as a wholly owned subsidiary of Adlabs Films Limited and commenced trading on May 26, 2006.

The principal activities of the company were that of the distribution of Bollywood Films and sales of Bollywood DVDs.

Review of the Business

The results for the year and the financial position of the company at the Balance Sheet date are as shown in the annexed financial statements.

The director's are satisfied with the company's overall financial position for the first period of trading. They anticipate profits for the year to March 31, 2008.

The directors manage the performance of the company's trade primarily by controlling the gross profit margin of its activities and the level of the company's overheads. This control also involves critically assessing new business.

Key Performance Indicators

	2007 £
Turnover	1,756,118
Gross Profit	176,116
Net Profit before tax	3,430
Corporation tax	1,591
Profit after tax	1,839
Net Assets	11,839

Financial Instruments

The company's principal financial instruments comprises of bank balances, trade debtors, and the inter-company account with its Indian parent. The main purpose of the instruments is to raise funds for the company's operations and to finance the company's cashflow.

Due to the trading arrangements with its parent company, there is an inherent exchange risk, but this is managed insofar as possible with the assistance of the parent company.

The company manages its liquidity risk by ensuring that there are sufficient funds to meet payments due to third party creditors.

The company mitigates its exposure to sales risk by agreeing prices with its customers in advance.

Results and dividends

The results for the period are set out as per annexure.

Business Outlook and Future Developments

The company continues to research the market place and look for new products and services to satisfy demand.

Charitable Donations

The company did not make any charitable donations during the year.

Directors

The following directors have held office since May 19, 2006:

Pooja Shetty	(Appointed May 23, 2006)
Pranab Kapadia	(Appointed May 23, 2006)

Directors interests

The directors interests in the shares of the company were as stated below:

	Ordinary shares of £1each	
	31 March 2007	19 May 2006
Pooja Shetty	–	–
Pranab Kapadia	–	–

The directors do not hold any beneficial interest in the shares of the company.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Simmons Gainsford LLP, auditors of the company hold office until the conclusion of the ensuing AGM and are eligible for reappointment. The company to consider the appointment of auditors at its ensuing Annual general meeting.

Directors responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- prepare the financial statememts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

Pranab Kapadia
Director

Date : 23 May 2007

INDEPENDENT AUDITORS REPORT

TO THE SHAREHOLDERS OF
ADLABS FILMS (UK) LIMITED

We have audited the financial statements of Adlabs Films (UK) Limited for the period ended 31 March 2007 set out on pages 6 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis. of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the period then ended;

the financial statements have been properly prepared in accordance with the Companies Act 1985; and the information given in the directors' report is consistent with the financial statements.

Simmons Gainsford LLP

Chartered Accountants
Registered Auditor

7/10 Chandos Street
Cavendish Square London
W1G 9D

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 MARCH 2007.

	Notes	Period ended 31 March 2007 £
Turnover	**2**	1,756,118
Cost of sales		(1,580,002)
Gross profit		176,116
Administrative expenses		(172,686)
Profit on ordinary activities before taxation	**3**	3,430
Tax on profit on ordinary activities	**4**	(1,591)
Profit for the period	**10**	1,839

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

BALANCE SHEET AS AT 31 MARCH 2007.

	Notes		2007
		£	£
Fixed assets			
Tangible assets	**5**		4,186
Current assets			
Stocks	**6**	13,609	
Debtors	**7**	180,123	
Cash at bank and in hand		75,850	
		269,582	
Creditors: amounts falling due within one year	**8**	(261,929)	
Net current assets			7,653
Total assets less current liabilities			11,839
Capital and reserves			
Called up share capital	**9**		10,000
Profit and loss account	**10**		1,839
Shareholders fund	**11**		11,839

Approved by the Board and authoried for issue on 23/5/07

Pranab Kapadia
Director

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2007

		Period ended 31 March 2007
	£	£
Net cash inflow/(outflow) from operating activities		71,431
Capital expenditure		
Payment to acquire tangible assets	(5,581)	
Net cash outflow for capital expenditure		(5,581)
Net cash inflow/(outflow) before management of liguid resources and financing		65,850
Financing		
Issue of ordinary share capital	10,000	
Net cash inflow/(outflow) from financing		10,000
Increase/(decrease) in cash in the period		75,850

NOTES TO THE CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2007

1 Reconciliation of operating profit to net cash inflow/(outflow) from operating

	2007
	£
Operating profit/(loss)	3,430
Depreciation of tangible assets	1,395
(Increase)/decrease in stocks	(13,609)
Increase in debtors	(180,123)
Increase in creditors within one year	260,338
Net cash inflow/(outflow) from operating activities	71,431

2 Analysis of net funds/(debt)

	19 May 2006	Cash Flow	Other non-cash changes
	£	£	£
Net cash:			
Cash at bank and in hand	-	75,850	-
Bank deposits	-	-	-
Net (debt)/funds	-	75,850	-

3 Reconciliation of net cash flow to movment in net funds

	2007
	£
Increase in cash in the period	75,850
Movement in net funds in the period	75,850
Opening net debt	-
Closing net funds	75,850

NOTES TO THE FINANCIALS STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2007

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financials statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each assets over its expected useful life, as follows:

Fixture, fitting & Equipment 25% Reducing balance

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Stock

Stock is valued at the lower of cost and net realisable value.

2 Turnover

Geographical market	**Turnover 2007 £**
UK	1,715,640
EU	24,351
Rest of the World	16,127
	1,756,118

3 Operating profit

	2007 £
Operating profit is stated after charging	
Depreciation of tangible assets	1,395
Operating lease rentals	12,700
Auditors remuneration	2,000
Remuneration of auditors for non-audit work	14,875

4 Taxation

	2007 £
Domestic current year tax	
U.K.Corporation tax	1,591
Current tax charge	1,591
Factors affecting the tax charge for the period	
Profit on ordinary activities before taxation	3,430
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19.00%	652

	Effects of:	
	Non deductible expenses	899
	Depreciation add back	265
	Capital allowances	(225)
		939
	Current tax charge	1,591

5	Tangible fixed assets	**Fixtures, fitting & equipment £**
	Cost	
	At 19 May 2006	-
	Additions	5,581
	At 31 March 2007	5,581
	Depreciation	
	At 19 May 2006	-
	Charge for the period	1,395
	At 31 March 2007	1,395
	Net book value At 31 March 2007	4,186

6	Stocks	**2007 £**
	Finished goods and goods for resale	13,609

7	Debtors	**2007 £**
	Trade debtors	133,179
	Amounts owed by parent undertaking	43,719
	Prepayments and accured income	3,225
		180,123

8	**Creditors:amounts falling due within one year**	**2007 £**
	Trade Creditors	30,558
	Corporation tax	1,591
	Other taxes and Social Security Costs	163,988
	Other Creditors	55,759
	Accruals and deferred income	10,033
		261,929

9	**Share Capital**	**2007**
		£
	Authorised	
	1,000,000 Ordinary shares of £1 each	1,000,000
	Allotted, called up and fully paid	
	10,000 Ordinary shares of £ 1 each	10,000
10	**Statement of movements on profit and loss account**	**Profit & Loss Accounts**
		£
	Profit for the period	1,839
11	**Reconciliation of Movements in shareholders funds**	**2,007**
		£
	Profit for the financial period	1,839
	Proceeds from issue of shares	10,000
	Net addition to shareholders funds	11,839
	Opening shareholders funds	-
	Closing shareholders funds	11,839

12 Financial Commitments

At 31 March 2007 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 March 2008:

	Land & Buildings
	2,007
	£
Operating leases which expire:	
Between two and five years	15,000

13	Directors emoluments	**2,007**
		£
	Emoluments for qualifying services	64,167

14 Employees

Number of employees

The average monthly number of employees (Including directors) during the period was:	**2,007**
	Number
	2
Employment Costs	**2,007**
	£
Wages and salaries	92,500
Social security costs	10,980
	103,480

15 Control

Adlabs Films (UK) Limited is a wholly owned subsidiary of Adlabs Films Limited, a company registered in India.

16 Related party transactions

During the period the company purchased Film prints and DVDs amounting to £ 240,554 from its parents company, Adlabs Films Limited . Ms. Pooja Shetty is also a directors in Adlabs Films Limited.

Also during the period company received £ 342,255 in respect of reimbursement of advertising and promotional and the film related expenses from its parent company.

During the period a total of £ 1,254,280 in respect ot royalty was paid to the parent company.

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31ST MARCH 2007.

		Period ended 31 March 2007
	£	£
Turnover		1,756,118
Sales		
Cost of sales		
Cost of prints of Films	165,461	
Cost of DVD's	82,659	
Licence and tracking expenses	34,445	
Import duty, clearance charges, agents commssion and charges	45,432	
Advertising and promotional expenses	287,990	
Reimbursement of advertising, promotional & other direct costs	(324,255)	
Royalty paid Film	1,158,703	
Royalty accrued Film	65,599	
Royalty paid DVD	95,577	
	1,593,611	
Closing stock of DVD's	(13,609)	
		(1,580,002)
Gross Profit	10.03%	176,116
Administrative Expenses		(172,686)
Operating Profit		3,430

SCHEDULE OF ADMINISTRATIVE EXPENSES FOR THE PERIOD ENDED 31 MARCH 2007

	Period ended 31 March 2007 £
Administrative Expenses	
Wages and Salaries (excl.N.I)	28,333
Directors remuneration	64,167
Employer's N.I. contributions	10,980
Rent re operating leases	12,700
Insurance	8,336
Repairs and maintenance	649
Printing, postage and stationery	4,015
Telephone	2,260
Computer running costs	2,800
Motor running expenses	5,484
Travelling expenses	2,648
Legal and prof fees	1,031
Consultancy fees	7,000
Bookkeeping fees	900
Audit fees	2,000
Other non-audit fees	14,875
Bank charges	876
Sundry expenses	1,243
Subscriptions	994
Depreciation on FF & E	1,395
	172,686

ADLABS FILMS USA, INC.

FINANCIAL STATEMENTS

With Supplementary Information

For the Period Beginning

May 17, 2006 (Date of Incorporation) and ending March, 31, 2007

With Independent Auditors' Report

DIRECTORS REPORT

FOR THE PERIOD ENDED MARCH 31, 2007

The directors present their First Annual Report and financial statements for the year ended March 31, 2007.

Principal activities

The Company was incorporated on May 17, 2006, as a wholly owned subsidiary of Adlabs Films Limited.

The principal activities of the Company include distribution of films for theatrical and non – theatrical exploitation.

Review of the Business

The results for the year and the financial position of the Company at the balance Sheet date are as shown in the annexed financial statements.

Being the First year of operation, the focus was move on establishing the infrastructure to exploit the growing demand of Indian films in the US Market. The Company is constantly exploring various possibilities to ensure that the market for Indian films get a wide audience across all segments of revenue streams.

Key performance Indicators

	2007 (US $)
Turnover	4,020,666
Gross Profit	25,248
Net Profit before tax	3,902
Corporation tax	6,000
Profit after tax	(2,098)

Results and Dividends

The results for the period are set out as annexed.

The Company did not make any charitable donations during the year.

Directors

Mr. Suri Gopalan was a director of the Company since May 17, 2006 and resigned during the year.

Mr. Manmohan Shetty became the Chairman and Director of the Company with effect from January 29, 2007 and continues to be till date.

Auditors

WithumSmith + Brown, a professional corporation, are the auditors of the Company and hold office until the conclusion of the ensuing AGM. They are eligible for reappointment. The Company to consider the appointment of auditors at its ensuing Annual general meeting.

Director's responsibility

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United States Generally Accepted Accounting Practice (United States Accounting Standards and applicable law). The financial statements are required by the law to give a true and fair view of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statement, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the statutory provision. They are also responsible for safeguarding the assets of the company and hence for taking responsible steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Date : April 18, 2007 Director

INDEPENDENT AUDITORS REPORT

To the Stockholder,

Adlabs Films USA, Inc.

We have audited the accompanying balance sheet of Adlabs Films USA, Inc. as of March 31, 2007, and the related statements of operations and changes in stockholder's equity, and cash flows for the period beginning May 17, 2006 (date of incorporation) through March 31, 2007. 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 the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adlabs Films USA, Inc. as of March 31, 2007, and the results of its operations and its cash flows for the period from May 17, 2006 (date of incorporation) through March 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information included in the Schedule of Costs of DVDs and Operating Expenses on page 9 is presented by management for purposes of additional analysis and is not a required part of the basic financial statements of the Company. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

WithumSmith+Brown

A Professional Corporation

Certified Public Accountants and Consultants

April 18, 2007

BALANCE SHEET MARCH 31, 2007

Assets	
Current assets	
Cash and cash equivalents	$ 482,745
Accounts receivable, net	492,509
Inventory	42,932
Other current assets	20,394
Total current assets	1,038,580
Property and equipment, net	3,175
Security deposits	2,500
	$ 1,044,255
Liabilities and Stockholders' Equity	
Current liabilities	
Payable to Adlabs Films Ltd	912,793
Accounts payable and accrued expenses	63,810
Deferred revenues	49,750
Total current liabilities	1,026,353
Stockholder's equity	
Common stock, 200 shares authorized, issued and outstanding with no par value	20,000
Accumulated deficit	(2,098)
Total stockholder's equity	17,902
	$ 1,044,255

The Notes to Financial Statements are an intergral part of these statements.

STATEMENT OF INCOME
PERIOD BEGINNING MAY 17, 2006 (DATE OF INCORPORATION) THROUGH MARCH 31, 2007

Revenues	
Theatrical exhibition	$ 2,845,618
DVD sales, net	1,175,048
Total revenues	4,020,666
Cost of Goods Sold	
Royalty expenses - theatrical exhibition	2,141,027
Cost of movie prints	447,011
Royalty expenses - DVD sales	691,525
Cost of DVDs	411,694
Total cost of goods sold	3,691,257
Gross margin	329,409
Operating expenses	
General and administrative expenses	325,405
Income from operations	4,004
Other income (expense), net	
Interest income	766
Other expense	(868)
Total other income (expense), net	(102)
Income before provision for income taxes	3,902
Provision for income taxes	6,000
Net loss	$ (2,098)

The Notes to Financial Statements are an intergral part of these statements.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
PERIOD BEGINNING MAY 17, 2006 (DATE OF INCORPORATION) THROUGH MARCH 31, 2007

	Common Stock	Retained Earnings	Total Stockholder's Equity
Balance, May 17, 2006	$ -	$ -	$ -
Capital contributions	20,000	–	20,000
Net loss	–	(2,098)	(2,098)
Balance, March 31, 2007	$ 20,000	$ (2,098)	$ 17,902

The Notes to Financial Statements are an intergral part of these statements.

STATEMENT OF CASH FLOWS
PERIOD BEGINNING MAY 17, 2006 (DATE OF INCORPORATION) THROUGH MARCH 31, 2007

Cash flows from operating activities		
Net loss	$	(2,098)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts		15,000
Provision for returns		5,000
Depreciation and amortization		1,127
Cash provided (used) by changes in:		
Accounts receivable		(512,509)
Inventory		(42,932)
Other current assets		(20,394)
Payable to Adlabs Films Ltd		912,793
Accounts payable and accrued expenses		63,810
Deferred revenue		49,750
Security deposits		(2,500)
Net cash provided by operating activities		467,047
Cash flows from investing activities		
Purchases of property and equipment		(4,302)
Net cash used by investing activities		(4,302)
Cash flows from financing activities		
Issuance of common stock		20,000
Net cash provided by financing activities		20,000
Net increase in cash and cash equivalents		482,745
Cash and cash equivalents		
Beginning of year		–
End of year	$	482,745

The Notes to Financial Statements are an intergral part of these statements.

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Adlabs Films USA, Inc. (the "Company") was incorporated under the laws of the state of New Jersey on May 17, 2006, and commenced operations on the same day. The Company is engaged primarily in the business of the distribution of movies and the sale of related DVD products obtained under a sub-license from its parent company, Adlabs Films Ltd (the "Parent"). The Company's products are distributed through a network of independent agents and exhibitors.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and non-interest bearing bank accounts.

Revenue Recognition

The Company generates revenues from the distribution of films and the sale of DVDs.

The Company recognizes revenue pursuant to the American Institute of Certified Public Accountants Statement of Position Number 00-2 (SOP 00-2), *Accounting by Producers or Distributors of Films*. SOP 00-2 states that revenue from the sale or licensing arrangement of a film should be recognized only when the following conditions have been met: 1) persuasive evidence of a sale exists; 2) the film is complete and has been delivered or is available for immediate and unconditional delivery; 3) the licensing period has begun and the customer can begin to exploit, exhibit, or sell the film; 4) the fee is fixed or determinable; and 5) collection of the fee is reasonably assured.

Royalties

Revenue from the licensing of films is recognized upon meeting all of the recognition requirements of SOP 00-2. The Company collects refundable and non-refundable advance payments for some of its films. Refundable advances are recorded as deferred revenue, until such time that the revenue recognition criteria are met. Non-refundable advances (guaranteed minimum payments) generally meet the recognition criteria, and are recognized into revenue when received.

Sale of digital video disks (''DVDs'')

Revenue is recognized as products are shipped and the risk and rights of ownership have passed to the customer provided all the criteria under SOP 00-2 are met. The Company, under certain conditions, permits its customers to return or exchange products. The provision for sales returns is recorded concurrently with revenue recognition.

Receivables and Credit Policies

Accounts receivable are due under normal trade terms. The Company does not charge interest on unpaid balances. Customer account balances with invoices dated over 90 days are considered over due. Credit is granted to substantially all customers.

The carrying amount of the accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management has determined that an allowance for doubtful accounts of $15,000 is appropriate at March 31, 2007.

Inventory Valuation

Inventory, which consists of DVDs for resale, is valued at the lower of cost or market value, with cost being determined using the FIFO (first in, first out) method.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is provided using the straightline method for financial reporting purposes at rates based on the following estimated useful lives.

	Years
Office and Computer Equipment	3 - 10
Furniture	5 - 7

For federal income tax purposes, depreciation is computed using the modified accelerated cost recovery system. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation expense charged to operations, amounted to $1,127 for the year ended March 31, 2007.

Advertising Costs

Advertising and promotional costs, not reimbursed by the Parent, are expensed during the periods in which the service is rendered. Total advertising and promotional expense amounted to $75,792 for the period ended March 31, 2007.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. SFAS No. 109 requires recognition of deferred tax liabilities and assets for the expected future consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates. There are no deferred tax liabilities or assets reported at March 31, 2007.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Concentrations of Credit Risk

For the period ended March 31, 2007, the Company had sales to three customers who accounted for approximately 26% of the total sales for that year. These three customers represented approximately 36% of the net trade receivables at March 31, 2007.

The Company periodically maintains cash balances in excess of the FDIC insurance limits in its financial institutions. The Company has had no losses related to these financial institutions.

3. Accounts Receivable

Accounts receivable consisted of the following at March 31, 2007:

Trade receivables	$	512,509
Less: Allowance for doubtful accounts		(15,000)
Less: Allowance for estimated sales returns		(5,000)
	$	492,509

4. Related Party Transactions

The Company obtains all of its film licensing, film prints and DVDs from its Parent company pursuant to specific movie related memorandums of understanding ("M.O.U."). The M.O.U. specifies how the Parent will be compensated for the licensing agreements and further indicates that the Parent will reimburse the Company for certain fees paid or accrued in relation to the specific movie. As such, expenditures that are to be reimbursed by the Parent are presented net of the payable to the Parent, and are not included in operating expenses. Fees paid or accrued to the Parent during the period ended March 31, 2007 for royalties, cost of prints, and DVDs amounted to approximately $3,734,000. Reimbursable expenses incurred on behalf of the Parent amounted to approximately $567,000 for the short year ended March 31, 2007. The net payable due to the Parent company at March 31, 2007 was $912,793.

5. Income Taxes

As explained in the significant accounting policies in Note 1, the Company has not recorded any deferred tax liabilities or assets as of March 31, 2007, because they have provided a valuation allowance equal to the calculated deferred tax asset. The Company has provided $6,000 for accrued federal and state income taxes.

Provision for doubtful account	$	15,000
Provision or returns		5,000
		20,000
	x	24%
		4,800
Deferred tax asset valuation allowance		(4,800)
	$	—

SCHEDULE OF COSTS OF DVDS AND OPERATING EXPENSES
PERIOD BEGINNING MAY 17, 2006 (DATE OF INCORPORATION) THROUGH MARCH 31, 2007

Cost of DVDs		
Beginning DVD inventory	$	–
Purchases of DVDs		454,626
Less: ending DVD inventory		(42,932)
Total costs of DVDs	$	411,694
General and administrative expenses		
Professional fees	$	73,621
Publicity and promotion		40,942
Advertisements		34,850
Outside services		30,038
Postage and delivery		26,133
Bad debt		15,000
Rent		24,641
Payroll		22,800
Telephone		15,024
Automobile		11,882
Travel and entertainment		10,585
Miscellaneous		8,755
Office expenses		2,898
Supplies		2,710
Payroll taxes		2,507
Business promotion		1,892
Depreciation		1,127
Total general and administrative expenses	$	325,405

THIS PAGE IS INTENTIONALLY KEPT BLANK

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), Mumsbai 400050 on Thursday, 25th October, 2007 at 3.00 p.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 20th Annual General Meeting of the Company to be held on Thursday, the 25th October, 2007 at 3.00 p.m. or at any adjournment thereof.

Signed this ________ day of ________ 2007. 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.

FINANCIAL HIGHLIGHTS

BRIEFS ON INCOME

For Year Ending	30-June-2007(15) Rs. mn	31-Mar-2006(12) Rs mn	31-Mar-2005(12) Rs mn	31-Mar-2004(12) Rs mn	31-Mar-2003(12) Rs mn	31-Mar-2002(12) Rs mn	31-Mar-2001(12) Rs mn
Sales	3,200.85	1,054.63	858.56	753.43	740.72	569.12	463.93
Other Income	737.68	49.90	16.99	35.63	39.82	40.74	27.41
PBDIT	2,015.60	484.00	393.24	336.37	321.60	208.38	180.80
PBDT	1,971.43	475.13	377.41	322.90	311.13	198.64	178.48
PBT	1,041.55	386.36	322.86	278.08	268.62	160.78	169.64
Tax	188.20	123.30	116.17	101.66	102.09	57.40	46.22
Profit after tax(PAT)	853.35	263.06	206.69	176.42	166.53	103.38	123.41
Dividend-Equity	50%	45%	40%	50%	40%	25%	21%
No. of Equity Shares	39,800,750	39,800,750	21,500,750	21,500,750	21,500,750	21,500,750	21,500,750
EPS (Basic) Rs.	20.95	8.33	9.61	8.21	7.75	4.81	5.74
EPS (Diluted) Rs.	17.65	8.02	9.61	8.21	7.75	4.81	5.74

BRIEFS ON SOURCES AND APPLICATION OF FUNDS

As on	30-Jun-07	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01
Assets	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**
Gross Block	3,022.30	1,079.88	853.49	800.62	719.09	698.62	530.99
Net Block	1,786.04	781.30	639.03	634.31	597.60	619.58	489.47
Capital WIP	1,613.41	2,279.90	61.81	11.33	20.06	9.31	32.65
Investments	816.53	4,424.07	130.22	133.41	0.50	–	–
Inventory	16.15	13.03	9.35	6.12	7.17	8.31	13.14
Receivables	603.87	447.57	362.58	320.42	284.69	234.36	138.45
Other Current Assets	6,406.96	1,849.73	831.52	564.12	552.83	463.50	540.98
Misc. Expenditure	–	–	0.59	11.53	21.63	32.40	42.74
Total	**11,242.96**	**9,795.61**	**2,035.12**	**1,681.24**	**1,484.49**	**1367.45**	**1257.42**
Liabilities	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**	**Rs mn**
Equity Share Capital	199.00	199.00	107.50	107.50	107.50	107.50	107.50
Reserves	2,912.86	3,186.78	1,065.53	940.93	825.29	707.27	646.23
Total Debt	5,834.17	4,651.05	241.46	143.05	116.09	150.50	74.08
Deferred Tax Liability	128.62	70.41	78.28	68.57	52.37	35.37	–
Creditors and Acceptances	662.90	187.96	182.90	156.41	164.72	219.43	257.17
Other current liab/provisions	1,505.41	1,500.40	359.44	264.78	218.51	147.38	172.44
Balance Sheet Total	**11,242.96**	**9,795.61**	**2,035.12**	**1,681.24**	**1,484.49**	**1367.45**	**1257.42**

Printed by : WPPL 4031 7777